STATE OF NORTH CAROLINA

BEFORE THE
SECRETARY OF REVENUE

COUNTY OF WAKE

IN THE MATTER OF:

The Petition of [redacted] for an alternative method of apportionment formula for corporate income and franchise tax purposes for the tax years ending December 31, 2025, December 31, 2026, and December 31, 2027.

ADMINISTRATIVE DECISION NUMBER 2026-01

This matter was heard before Assistant Secretary of Revenue, Anthony Edwards, on February 13, 2026 in a virtual conference via Microsoft Teams upon a petition filed on October 14, 2025 by [redacted] on behalf of [redacted] ("Company") concerning the apportionment of Company's corporate income and franchise tax reported on returns for tax years 2025, 2026 and 2027, respectively ("Request Years") pursuant to N.C. Gen. Stat. §§ 105-122(c1)(2) and 105-130.4(t1).

The Assistant Secretary of Revenue presided over the conference with Brian Puckett, Director of the Corporate Tax Division, participating. [redacted] and [redacted] of [redacted] attended the conference on behalf of Company.

The petitioner, [redacted] is a limited liability company taxed as a C-Corporation for federal tax purposes. Company is wholly owned by [redacted] ([redacted] or "Parent") after being acquired in [redacted]. Company files as part of a consolidated group for federal income tax purposes and files separate company corporate income and franchise tax returns for State of North Carolina purposes.

Company is a [redacted]. Parent is Company's primary customer. Company manufactures products entirely out of their [redacted] facilities. As part of the manufacturing process, Company procures raw materials, owns those materials, and assumes the risk of loss during production. When the manufacturing process is complete and [redacted] are in their final packaged form, the title to the finished goods passes from Company to Parent or other third parties who purchase product at the customer's designated location of delivery.

Regarding the sales made to Parent, the transfer of title occurs upon completion of the manufacturing and packaging processes at the [redacted] facility. At that point, Parent becomes the owner of the inventory and Company records an intercompany sale. The finished goods are initially received by Parent in [redacted] (at Company's loading dock or warehouse) and stored at this location for an undetermined amount of time until a final customer order is obtained. Generally, product is located at this facility for a short period of time depending on timing of customer orders.

After taking title, Parent arranges delivery of the products to third-party customers (distributors, retailers, or end consumers). The goods are typically stored only briefly in Company's [redacted] warehouse. Parent has full visibility into the identity and location of the end customers and coordinates shipments accordingly. The end purchasers of products are located around the world, within and without the State of [redacted]. Parent utilizes Company facilities and, at times, Company's logistics support (e.g., trucking/logistics services) to deliver goods to their final destinations.

In the petition, Company requests that the Department grant relief from the standard apportionment formula for corporate income and franchise tax purposes in Company's circumstances and authorize an alternative apportionment methodology, under G.S. §§ 105-122(c1)(2) and 105-130.4(t1), for Request Years. Company asks for permission to source its receipts from sales of tangible personal property based on the location where the ultimate purchaser receives the product (i.e., the end customer's location) instead of the location of the intercompany transfer.

Under this proposed method, Company's receipts from intercompany sales to the Parent would be sourced in proportion to the states of Parent's final customers. Company's direct third-party sales would continue to be sourced under the normal rules (destination-based). The net effect is that Company's North Carolina sales factor will reflect only the portion of its sales received by third-party purchasers in the state of North Carolina.

After a review of the petition and consideration of testimony and supporting documentation provided by Company during and after the conference, the Secretary of Revenue rendered his decision and entered the following order:

> IT IS HEREBY ORDERED BY THE SECRETARY OF REVENUE that because the petitioner is not legally or otherwise restricted from modifying its tax structure to mitigate the harm which it claims, the written request to employ an alternate method of apportionment for the purpose of determining its North Carolina corporate income and franchise tax for the referenced Request Years is denied.

Made and entered into this the 2nd day of July 2026.

Signature

[redacted]

Anthony Edwards
Assistant Secretary, Tax Administration
North Carolina Department of Revenue