



# TAXES

Overall, North Carolina's moderate state and local business taxes are lower than neighboring states. According to an Ernst & Young report, North Carolina has one of the nation's lowest effective business tax rates.

North Carolina affords businesses substantial savings in mandatory expenses, including workers' compensation and unemployment insurance. Its employers enjoy some of the lowest workers' compensation costs in the nation as well as an average unemployment cost well below the national average.

This overview presents some of the most common state and local taxes in North Carolina, but it is not an exhaustive list or an official interpretation of the law. Businesses are encouraged to secure the counsel of a competent tax professional regarding their individual situations.



*With one of the lowest effective business tax rates in the country, North Carolina's tax advantages are substantial.*

# TAXES SUMMARY CHART

Tax	Rate
Personal Income Tax: A direct tax which is levied on the income of private individuals.	Graduated rates of 6.0%, 7% and 7.75% based on filing status and NC taxable income of the taxpayer. Individuals who meet certain income requirements will pay a surtax of 2% - 3%.
Corporate Income Tax: A tax on the profits of corporations.	6.9 % of corporate income allocable to the state - A surcharge of 3% on the North Carolina income tax is added before deducting any tax credits or payments
Franchise Tax: A tax on corporations for the privilege of doing business in North Carolina.	\$1.50 per \$1,000 of the largest base: either (a) capital stock, surplus and undivided profits (b) 55% of appraised value of property in the state subject to local taxation (c) book value of real and tangible personal property in the state less any outstanding debt that was created to acquire or improve real property in the state
Excise Tax: A tax paid when purchases are made on a specific good, such as gasoline. The tax is often included in the price of the product.	Gasoline: \$0.299 per gal.; Cigarette: \$0.30 per pack Electricity: 2.6% (July 1, 2007)
Inventory Tax: A tax levied on items held for resale. In a manufacturing business, raw materials, work in progress, working supplies, and finished goods are all inventory.	None
Sales and Use Tax: A tax on general retail sales and on purchases made outside of NC for the storage, use or consumption in NC.	5.75% state and 2% county  The combined general state and county tax rate is 7.75% in all counties except Mecklenburg County which has an additional 0.5% sales tax; while Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson & Surry have an additional 0.25% sales tax.
Property Tax: A tax on real estate and tangible personal property, including all machinery and equipment. The tax is levied by local governments.	Actual ratios vary from county to county
Unemployment Insurance (UI): A program run jointly by federal and state governments that provides money benefits for a specified time -usually 26 weeks - after being laid from a job. The amount of an unemployment check will be less than former pay. UI covers most employees, provided that they worked at least six months during the year prior to losing the job and earned the minimum amount of money required under the program's regulations.	NC minimum Tax Rate: 0.00% New Employer Tax Rate: (first 2 years) 1.2% NC Maximum Tax Rate: 6.84% Taxable Wage Base (per employee): \$18,600
Worker's Compensation: A program that provides replacement income and medical expenses to employees who are injured or become ill due to their jobs.	To be paid at 66 2/3 percent of the average weekly wage, not to exceed *\$730 per week  * The maximum weekly benefit is adjusted annually.



## TAXES - CORPORATE INCOME TAX

North Carolina's corporate income tax is 6.9 percent of the portion of net income allocable to the state.

### **Apportionment: Double-Weighted Sales Formula**

If a corporation in North Carolina does business in North Carolina and in one or more other states, North Carolina taxes a fraction of the corporation's income based on the amount of sales, payroll and property it maintains within North Carolina. In the double-weighted sales factor calculation, the payroll factor, the property factor and twice the sales factor are added, and then divided by four. In computing the property factor, owned property is valued at original cost and leased property is valued at eight times the annual rental rate. Thus, a business in North Carolina that makes significant sales outside the state would be taxed at a lesser level than a comparable business that is located elsewhere but makes significant sales within North Carolina.

A corporation doing business in more than one state computes that 80 percent of its payroll, 80 percent of its property, and 20 percent of its sales are in North Carolina.

### **The three-factor formula calculation:**

Each factor is added and this sum is divided by three.

$$80\% + 80\% + 20\% = 180\% / 3 = 60\%$$

### **The double-weighted sales factor calculation:**

The payroll factor, the property factor, and twice the sales factor are added and divided by four.

$$80\% + 80\% + 20\% + 20\% = 200\% / 4 = 50\%$$

A company with similar operations would save \$6,900 for each million dollars of net tax-able income:

$$\$1,000,000 \text{ NTI} \times 60\% \text{ (three-factor formula)} \times 6.9\% \text{ NC corpo-rate tax rate} = \$41,400$$

$$\$1,000,000 \text{ NTI} \times 50\% \text{ (Double-weighted sales factor)} \times 6.9\% = \$34,500$$

$$\$41,400 \text{ (three-factor formula)}$$

$$- \$34,500 \text{ (double-weighted sales factor)}$$

$$\$6,900 \text{ savings}$$

Other combinations of ratios have the potential to result in even greater savings.

### **Other Business Types**

For several other types of businesses, such as construction contractors, securities dealers, and loan companies or corporations that receive more than 50 percent of ordinary gross income from intangible property, apportionment is based only on the sales factor.

# TAXES - CORPORATE INCOME TAX

## Appeals to Statutory Apportionment

If a corporation believes the statutory apportionment formula results in allocating to North Carolina a greater portion of its net income than is reasonably attributable to business or earnings within the state, it may petition the Tax Review Board for authorization to use a method of allocation that will more accurately reflect the income attributable to this state. Petition may be made prior to commencement of operations in the state based on contemplated business, and must be made no later than 90 days after the regular or extended due date of the tax return.

Since decisions of the board are under authority of specific statutory power, they have the weight of law. In addition to permanent orders, this body also issues limited orders to deal with formula difficulties arising during the start-up period of new plants and businesses.

## Income Taxes for S Corporations

S corporations are not subject to the corporate income tax. Each shareholder's pro rate share of S corporation income attributable to North Carolina is taxed under individual income tax. A shareholder who is a resident of the state also takes into account his share of S corporations subject to individual income tax adjustments. An S corporation incorporated or doing business in North Carolina is required to file an information return with the N.C. Department of Revenue.

## Corporate Surcharge

Corporations subject to corporate income tax must pay an income tax surcharge of 3 percent on its North Carolina income tax due before deducting any tax credits or payments.

S corporations filing composite income tax returns on behalf of shareholders who live outside North Carolina must calculate the amount of North Carolina income tax due separately for each nonresident shareholder. That calculation must include the amount of individual income surtax based on the Surtax Percentage Table for individuals with a filing status of single.

Note: there is no penalty (interest) for underpayment of estimated tax if the underpayment is because of the surtax.

*Corporate income taxes may be structured according to the type of corporation. Classifying businesses appropriately could lead to significant tax benefits.*

## Special Tax Provisions for Limited Liability Companies

A limited liability company is subject to taxation as a partnership if it is classified as a partnership for federal income tax purposes or as a corporation if it is classified as a corporation for federal income tax purposes. An LLC classified as a corporation is subject to franchise tax. However, it is the intent of the law that the franchise tax applies equally to assets held by corporations and assets held by corporate-affiliated LLCs. An LLC's assets are attributed to a controlling corporation if the corporation or affiliated group of corporations owned 50 percent or more of the LLC's assets. The percentage was reduced from 70 percent to 50 percent effective January 1, 2005, to avoid the possibility of corporations reducing their franchise tax by transferring assets to their LLC.





## TAXES - CORPORATE FRANCHISE TAX

Franchise tax is levied on business corporations, including those electing federal S corporation status, at the rate of \$1.50 per \$1,000 of the largest of three alternate bases:

- The amount of the capital stock, surplus and undivided profits apportionable to the state
- 55 percent of the appraised value of property in the state subject to local taxation
- The book value of real and tangible personal property in the state less any outstanding debt that was created to acquire or improve real property in the state

Only corporations that do business in one or more states in addition to North Carolina are permitted to apportion capital as described under #1 above. The minimum franchise tax is \$35.



*Franchise taxes are variable for businesses in North Carolina and are levied on the basis of one of several determinations of worth or value.*



# TAXES - PROPERTY TAX

In North Carolina, the principal source of local revenue is a property tax on real estate and tangible personal property, including all machinery and equipment. The state does not levy a tax on such property.

## Property Tax Assessment

There is only one property tax assessment in each county. The value determined by the county assessor constitutes the base for all levies, including those of cities and towns on property located within the municipality. Property is assessed at 100 percent of its appraised value. Although appraised value is intended to illustrate “full value,” this standard is not always achieved for real property because it is required to be revalued only once every eight years. Property appraised at full value at the time of appraisal may appreciate until appraised value is only 50 to 60 percent of true value by the end of the eight-year period. Actual ratios vary from county to county. Household tangible personal property in the personal residence of the owner is exempt from property taxation.

New manufacturing machinery generally is appraised at cost and is depreciated annually until it reaches a minimum value, frequently 25 percent of cost. The annual depreciation varies but a common figure is 10 percent per year. Most counties have adopted the “trending” procedure to value machinery and equipment. Under this procedure the machinery is valued at its replacement cost each year and then depreciated according to its age and expected life.

Property taxes are based on assessments as of January 1, are due September 1, but may be paid at par as late as January 5 of the following year.

## County Tax Rates

County	Tax Rate	County	Tax Rate
Alamance	.5200	Johnston	.7800
Alexander	.6050	Jones	.7000
Alleghany	.4300	Lee	.7500
Anson	.8940	Lenoir	.8000
Ashe	.4250	Lincoln	.5700
Avery	.3900	McDowell	.2640
Beaufort	.6000	Macon	.5100
Bertie	.7800	Madison	.6700
Bladen	.7400	Martin	.5500
Brunswick	.3050	Mecklenburg	.8387
Buncombe	.5250	Mitchell	.4400
Burke	.5200	Montgomery	.6200
Cabarrus	.6300	Moore	.4650
Caldwell	.6599	Nash	.6700
Camden	.5900	New Hanover	.4525
Carteret	.2300	Northampton	.7800
Caswell	.6290	Onslow	.5900
Catawba	.5350	Orange	.8580
Chatham	.6022	Pamlico	.6525
Cherokee	.3850	Pasquotank	.5850
Chowan	.6850	Pender	.6500
Clay	.4300	Perquimans	.4100
Cleveland	.7200	Person	.7000
Columbus	.8150	Pitt	.6650
Craven	.6200	Polk	.5200
Cumberland	.7660	Randolph	.5550
Currituck	.3200	Richmond	.8100
Dare	.2600	Robeson	.8000
Davidson	.5400	Rockingham	.7150
Davie	.6200	Rowan	.5950
Duplin	.6900	Rutherford	.5300
Durham	.7081	Sampson	.8450
Edgecombe	.8600	Scotland	1.0200
Forsyth	.6740	Stanly	.6700
Franklin	.8725	Stokes	.6000
Gaston	.8350	Surry	.5820
Gates	.6400	Swain	.3300
Graham	.5800	Transylvania	.3949
Granville	.8250	Tyrell	.6700
Greene	.7560	Union	.6650
Guilford	.7374	Vance	.7820
Halifax	.6800	Wake	.5340
Harnett	.7250	Warren	.6000
Haywood	.5140	Washington	.7900
Henderson	.4620	Watauga	.3130
Hertford	.9100	Wayne	.7640
Hoke	.7000	Wilkes	.5700
Hyde	.5200	Wilson	.7300
Iredell	.4450	Yadkin	.7400
Jackson	.2800	Yancey	.4500

Notes: All property subject to taxation must be assessed at 100% of appraised value.

R: Revised Latest revaluation was effective January 1 of year shown.

\*All counties must revalue real property at least every 8 years, but may elect to revalue more frequently.

Source: N.C. Department of Revenue, Tax Research Division August 2009

# TAXES - PROPERTY TAX

## Property Tax Exemptions & Exclusions

There are a few exemptions and exclusions of interest to manufacturers and retail/wholesale establishments.

Excluded from property taxation are:

- Manufacturers' inventories (raw materials, goods in process, finished goods, materials or supplies consumed in processing, crops, and other agricultural or horticultural products held for sale)
- Contractors' inventories (goods held by contractors to be furnished in the course of building, installing, repairing, or improving real property)
- Inventories of retail and wholesale merchants (tangible personal property held for sale and not manufactured, processed, or produced by the merchant)
- A portion of improvements on brownfields properties during the five-year period beginning when the improvements are made with the exclusion declining each of the five years

Exempt from property taxation:

- Computer software, not including embedded software and capitalized software purchased or licensed from an unrelated entity
- Property imported from a foreign country and stored at the seaport terminal while awaiting further shipment (during the first year of storage)
- "Bill and hold" goods manufactured in North Carolina and held by the manufacturer for shipment to a nonresident customer
- Motor vehicle chassis belonging to nonresidents which enter the state temporarily to have a body mounted
- Personal property used exclusively for the prevention or reduction of dust in textile plants

## Special Environmental Considerations

Property used to reduce air or water pollution receives special treatment under North Carolina tax laws if the Board of Environmental Management or local air pollution control program certifies the property complies with the requirements of the board. Such real and tangible personal property is exempt from taxation under the property tax laws and is subject to the preferential 1 percent state sales tax rate as "accessory" to manufacturing machinery. Further, the cost may be excluded from the three alternate bases discussed under "Corporate Franchise Tax" in computing the franchise tax and may be amortized over 60 months for corporation income tax purposes. Equipment or facilities installed for the purpose of recycling solid waste or resource recovery from solid waste receives the same treatment under the tax laws as that given to pollution abatement equipment.





# TAXES - SALES AND USE TAX

In North Carolina, the state levies a general retail sales and use tax of 5.75 percent. A majority of counties levy a 2 percent local sales and use tax on items taxed by the state at its general rate. As a result, the combined general state and county tax rate is 7.75 percent in a majority of counties except Mecklenburg County, which has a rate of 8.25 percent due to a 0.5 percent public transit tax and Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson and Surry Counties which have a rate of 8.0 percent.

## Sales and Use Tax

Items	State tax rate	Local tax rate
Most tangible goods, room and cottage rentals, laundry and dry cleaning services, mixed beverages	5.75%	2%*
Telecommunications services, spirituous liquor, cable and satellite television	7%	Exempt
Sales of aircraft, boats	3%	Exempt
Electricity for general use	3%	Exempt
Electricity for qualifying manufacturing industries and plants	0.8%**	Exempt
Purchases of selected goods by manufacturers	Exempt	Exempt
Motor vehicles, prescription drugs, other medical equipment, gasoline, many business purchases	Exempt	Exempt
Food for home preparation	Exempt	2%

\*Mecklenburg County has an additional .5% sales tax; Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson & Surry have an additional .25% sales tax

\*\*Effective July 1, 2010, sales of electricity to manufacturers for qualifying purposes will be exempt from sales and use tax.

## Excise Taxes

### Mill Machinery

Mill machinery is exempt from sales and use tax and subject to a one percent privilege or excise tax with an \$80 per article cap.

### Major Data Center Equipment

Also exempt from sales and use tax, purchases of Major Data Center Equipment are subject to an excise tax at a rate of one percent, with a cap of \$80 per piece of equipment. A minimum capital investment of \$150 million must be invested within five years for a facility located in a Tier 1 county. A minimum investment of \$300 million must be invested within five years for a facility located in a Tier 2 or Tier 3 county.

This provision sunsets in 2012.

### R&D Purchases

A one percent excise tax is imposed on certain equipment purchased by physical engineering and life science research and development companies.

The tax applies to equipment (including attachments and repair parts) that is capitalized by the company for federal income tax purposes and is used in research and development of tangible personal property.



## TAXES - PERSONAL INCOME TAX

North Carolina has a graduated rate schedule, with rates of 6 percent, 7 percent and 7.75 percent based on the filing status and North Carolina taxable income of the taxpayer. Starting in 2009, individuals who meet certain income requirements will pay a surtax on the amount of tax they owe before any withholding, payments or credits.

North Carolina taxable income is the same as the figure calculated for federal income tax purposes with certain adjustments.

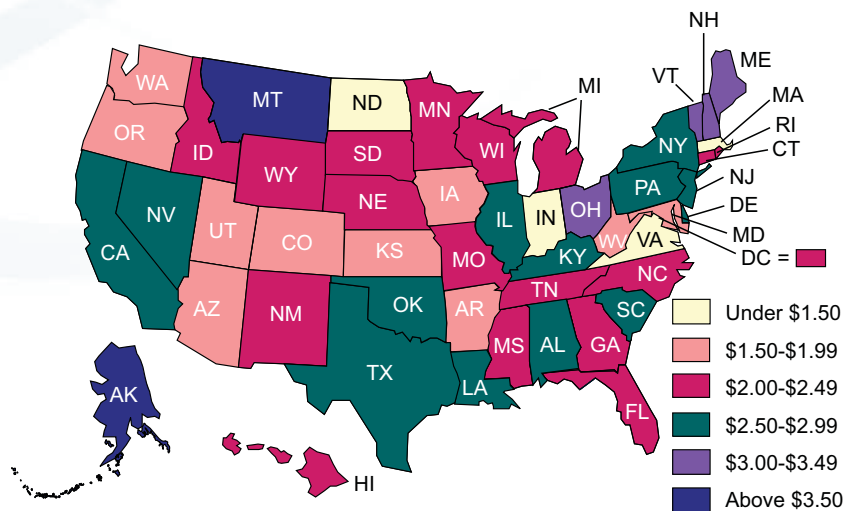
Single Individuals Taxable Income	Rate	Surtax
0-\$12,750	6%	0%
Over \$12,750 to \$60,000	7%	0%
Over \$60,000 to \$150,000	7.75%	2%
Over \$150,000	7.75%	3%
Married Individuals Filing Jointly and Surviving Spouses Taxable Income	Rate	Surtax
0 to \$21,500	6%	0%
Over \$21,250 to \$100,000	7%	0%
Over \$100,000 to \$250,000	7.75%	2%
Over \$250,000	7.75%	3%
Head of Household Taxable Income	Rate	Surtax
0 to \$17,000	6%	0%
Over \$17,000 to \$80,000	7%	0%
Over \$80,000 to \$200,000	7.75%	2%
Over \$200,000	7.75%	3%
Married Individuals Filing Separately Taxable Income	Rate	Surtax
0 to \$10,625	6%	0%
Over \$10,625 to \$50,000	7%	0%
Over \$50,000 to \$125,000	7.75%	2%
Over \$125,000	7.75%	3%



# TAXES - WORKERS' COMPENSATION

North Carolina employers enjoy some of the lowest workers' compensation costs in the nation thanks to a workers' compensation program that is well-managed and features reasonable, fiscally responsible policies. The state's program protects firms from extravagant expenses and unjust benefit claims while equitably serving injured employees with rightful claims. Several key features of the program can contribute to substantial labor cost savings:

- Self-insurance is permitted.
- Insurance rates are lower than the standard industry rates for qualifying firms.
- A clear-cut, on-the-job accident is a condition for benefit compensation.
- Free accident-prevention workshops designed for each product manufactured.



## 2008 Workers Compensation Index Rate and Ranking

State	Index Rate	Rank	State	Index Rate	Rank	State	Index Rate	Rank
Alabama	2.90	9th	Kentucky	2.96	8th	North Dakota	1.08	51st
Alaska	3.97	1st	Louisiana	2.76	12th	Ohio	3.32	3rd
Arizona	1.67	45th	Maine	3.04	6th	Oklahoma	2.89	10th
Arkansas	1.61	47th	Maryland	1.72	44th	Oregon	1.88	39th
California	2.72	14th	Massachusetts	1.39	49th	Pennsylvania	2.68	15th
Colorado	1.76	43rd	Michigan	2.15	32nd	Rhode Island	2.26	26th
Connecticut	2.46	20th	Minnesota	2.33	24th	South Carolina	2.74	13th
Delaware	2.96	8th	Mississippi	2.33	24th	South Dakota	2.08	36th
DC	2.16	29th	Missouri	2.20	28th	Tennessee	2.44	21st
Florida	2.20	28th	Montana	3.50	2nd	Texas	2.61	17th
Georgia	2.29	25th	Nebraska	2.15	32nd	Utah	1.63	46th
Hawaii	2.08	36th	Nevada	2.58	18th	Vermont	3.14	4th
Idaho	2.12	34th	New Hampshire	3.06	5th	Virginia	1.43	48th
Illinois	2.79	11th	New Jersey	2.66	16th	Washington	1.98	38th
Indiana	1.23	50th	New Mexico	2.15	32nd	West Virginia	1.86	41st
Iowa	1.86	41st	New York	2.55	19th	Wisconsin	2.12	34th
Kansas	1.77	42nd	<b>North Carolina</b>	<b>2.43</b>	<b>22nd</b>	Wyoming	2.06	37th

Source: State of Oregon, Department of Consumer & Business Services (10/08)  
(Although some states may appear to have the same index rate, the ranking is based on calculations prior to rounding to two decimal places.)



# TAXES - UNEMPLOYMENT INSURANCE

North Carolina consistently has among the lowest average unemployment rates in the nation, and its average unemployment cost of \$249.77 is well below the national average of \$278.06, based on data released by the U.S. Department of Labor for the third quarter of 2006. This environment of job stability is reflected in the low tax rates assigned to businesses contributing to the unemployment insurance trust fund through payroll taxes.

Business entities are subject to a payroll tax – also known as an employment tax – under the N.C. Employment Security Law if they either:

- Have one or more employees for 20 different weeks during a calendar year in North Carolina OR
- Pay \$1,500 in wages in any calendar quarter in North Carolina.

The tax is payable quarterly and applies to wage payments of up to \$18,600 per employee per year in 2008.

## New Businesses

Entities commencing business in North Carolina during the year 2008 are subject to an employment security tax of 1.2 percent of applicable wages during the first two years. Those employers who avoid laying off workers and maintain a positive “experience rating” can decrease their tax rates to a minimum of zero percent. An experience rating takes into account payroll, tax paid, timeliness of payments and unemployment insurance benefits charged against an employer’s account to determine a business’ annual tax rate.

## Existing Businesses

Entities that have one or more operating facilities in North Carolina that choose to expand or establish a new North Carolina facility in the same corporate division as an existing North Carolina operation may select the company’s existing unemployment insurance tax rate or may select the standard 1.2 percent rate that applies to new businesses.

*New businesses maintaining a positive experience rating in the first two years of operation can decrease their tax rates to a minimum of zero percent.*

## Unemployment Insurance Program for 2008

- North Carolina Minimum Tax Rate: 0.00%
- New Employer Tax Rate (first 2 years): 1.2%
- North Carolina Maximum Tax Rate: 6.84%
- Taxable Wage Base (per employee): \$18,600



# TAXES - UNEMPLOYMENT INSURANCE

## 2009 First Quarter Unemployment Insurance Average Costs

State	Revenues (000)	Cvrd Emp. (000)	Avg. Cost	State	Revenues (000)	Cvrd Emp. (000)	Avg. Cost
Alabama	\$223,002	1,883	\$118.42	Montana	\$77,461	427	\$181.41
Alaska	\$128,682	315	\$408.51	Nebraska	\$104,502	911	\$114.71
Arizona	\$277,772	2,480	\$112.00	Nevada	\$350,574	1,236	\$283.64
Arkansas	\$264,115	1,140	\$231.68	New Hampshire	\$52,151	623	\$83.71
California	\$4,784,628	15,205	\$314.70	New Jersey	\$1,936,346	3,836	\$504.78
Colorado	\$398,773	2,279	\$174.98	New Mexico	\$84,065	795	\$105.74
Connecticut	\$570,503	1,658	\$344.09	New York	\$2,313,519	8,416	\$274.89
Delaware	\$84,972	417	\$203.77	<b>North Carolina</b>	<b>\$909,155</b>	<b>3,963</b>	<b>\$229.41</b>
District of Columbia	\$117,634	494	\$238.13	North Dakota	\$49,509	342	\$144.76
Florida	\$827,238	7,378	\$112.12	Ohio	\$1,804,423	5,185	\$348.01
Georgia	\$504,233	3,928	\$128.37	Oklahoma	\$150,043	1,497	\$100.23
Hawaii	\$56,939	581	\$98.00	Oregon	\$772,771	1,692	\$456.72
Idaho	\$95,708	654	\$146.34	Pennsylvania	\$2,131,181	5,553	\$383.79
Illinois	\$1,885,731	5,771	\$326.76	Rhode Island	\$184,260	460	\$400.57
Indiana	\$537,403	2,838	\$189.36	South Carolina	\$277,097	1,837	\$150.84
Iowa	\$370,324	1,477	\$250.73	South Dakota	\$26,095	391	\$66.74
Kansas	\$222,286	1,335	\$166.51	Tennessee	\$406,033	2,660	\$152.64
Kentucky	\$395,905	1,736	\$228.06	Texas	\$923,383	10,238	\$90.19
Louisiana	\$167,808	1,847	\$90.85	Utah	\$128,357	1,189	\$107.95
Maine	\$96,549	600	\$160.92	Vermont	\$64,426	294	\$219.14
Maryland	\$372,938	2,399	\$155.46	Virginia	\$325,214	3,509	\$92.68
Massachusetts	\$1,495,517	3,198	\$467.64	Washington	\$1,091,666	2,938	\$371.57
Michigan	\$1,563,094	4,011	\$389.70	West Virginia	\$142,915	691	\$206.82
Minnesota	\$825,120	2,658	\$310.43	Wisconsin	\$656,447	2,748	\$238.88
Mississippi	\$107,756	1,097	\$98.23	Wyoming	\$55,355	285	\$194.23
Missouri	\$604,888	2,646	\$228.60	United States	\$31,453,396	132,756	\$236.93

Source: US Department of Labor Statistics



North Carolina's unemployment insurance costs per worker is below the national average and far below some of the highest states.