



# Instructions for 2002 Form NC-478 Series

## Purpose of Form NC-478 Series

Use the Form NC-478 series to calculate and report tax credits that are limited to 50% of tax less the sum of all other tax credits claimed. Forms NC-478A through NC-478H are used to calculate the specific credits available without regard to the 50% limitation and are designed to report a taxpayer's activity at a single establishment. If a taxpayer engages in an activity that qualifies for an Article 3A credit at more than one establishment, a separate form must be filed for each establishment. For additional information regarding the calculation of tax credits for multiple establishments, see the specific instructions for each credit.

Form NC-478 is used to summarize all available credits subject to the 50% of tax limitation, to calculate the 50% limitation, and to allocate the available credit amount among the specific credits to be taken in 2002.

## General Instructions

Listed below are the tax credits that are subject to the 50% of tax limitation and the NC-478 series form on which the credit is claimed:

### Article 3A Credits

- Creating New Jobs (*Form NC-478A*)
- Investing in Machinery and Equipment (*Form NC-478B*)
- Research and Development (*Form NC-478C*)
- Worker Training (*Form NC-478D*)
- Investing in Central Office or Aircraft Facility Property (*Form NC-478E*)
- Technology Commercialization (*Form NC-478, Line 9*)
- Substantial Investment in Other Real Property (*First installment may not be claimed until 2003*)
- Contributions to Development Zone Projects (*Form NC-478, Line 11*)

### Other Credits

- Investing in Business Property (*Form NC-478F*)
- Investing in Renewable Energy Property (*Form NC-478G*)
- Low-Income Housing (*Form NC-478H*)
- Investing in Non-Hazardous Dry-Cleaning Equipment (*Form NC-478, Line 10*)
- Use of North Carolina Ports (*Form NC-478, Line 11*)
- Renewable Energy Equipment Facility (*Form NC-478, Line 11*)
- Manufacturing Cigarettes for Export (*Form NC-478, Line 11*)

## Eligibility Requirements for Article 3A Credits

A taxpayer must satisfy all general eligibility requirements in order to qualify for any of the Article 3A credits except for the credit for contributions to development zone projects. The general eligibility requirements are as follows:

- Be an eligible business type as described below
- Meet the wage standard specified for each credit
- Provide health insurance for employees as specified for the credit
- Have a good environmental record
- Have a good Occupational Safety and Health Act (OSHA) record

**Eligible Business Types.** A taxpayer must meet one of the following descriptions in order to be eligible for an Article 3A credit:

**Central Office or Aircraft Facility.** The taxpayer operates a central office or aircraft facility that creates at least 40 new jobs and the jobs, investment, and activity with respect to which the credit is claimed are used in that office or facility. Generally, 40 new jobs are created if the taxpayer hires at least 40 additional full-time employees to fill new positions at the office within 12 months after the taxpayer first uses the property as a central office or aircraft facility. If a taxpayer uses temporary space, however, for

the central office or aircraft facility functions during completion of the central office or aircraft facility property, the jobs must be created during the period starting 24 months before and ending 12 months after the completion of the property.

**Air Courier Services or Data Processing.** The primary business of the taxpayer is one of the following and the jobs, investment, and activity with respect to which a credit is claimed are used in that business:

1. Air courier services
2. Data processing

**Manufacturing, Warehousing, or Wholesale Trade.** The primary business of the taxpayer is one of the following and the jobs, investment, and activity with respect to which a credit is claimed are used in any of the listed businesses:

1. Manufacturing
2. Warehousing
3. Wholesale trade

**Computer Services or Electronic Mail Order House.** The primary business of the taxpayer or the primary activity of an establishment of the taxpayer is one of the following and the jobs, investment, and activity with respect to which a credit is claimed are used in that business:

1. Computer services
2. An electronic mail order house that creates at least 250 new jobs and is located in an enterprise tier one, tier two, or tier three area.

**Customer Service Center.** The taxpayer operates a customer service center and meets all of the following conditions:

1. The taxpayer's primary business is a telecommunications or financial services company as defined by NAICS
2. The primary activity of an establishment of the taxpayer is a customer service center located in an enterprise tier one, tier two, or tier three area
3. The jobs, investment, and activity with respect to which a credit is claimed are used in the operation of the customer service center.

**Warehousing at Establishment.** The primary activity of an establishment of the taxpayer is warehousing and the taxpayer meets both of the following conditions:

1. The warehousing establishment is located in an enterprise tier one, tier two, or tier three area and serves 25 or more establishments of the taxpayer in at least five different counties in one or more states
2. The jobs, investment, and activity with respect to which a credit is claimed are used in the warehousing establishment.

**How to Determine Primary Business.** The determination of whether an activity of a company is its primary business is based on the principal product or group of products the taxpayer produces or distributes or the principal services the taxpayer provides. The relative share of production costs and capital investment reflects the principal product or service. The activities at all the taxpayer's establishments are considered in determining the taxpayer's primary business.

**How to Determine Primary Business at an Establishment.** The determination of whether an activity at an establishment is its primary business activity is based on the proper classification of the establishment under the NAICS Code. If more than one activity is conducted at the same establishment, the primary activity of the establishment is determined based on the same factors used in determining the taxpayer's primary business.

**How to Determine What Jobs, Investment, and Activity Qualify for Credits.** All the eligible business types require jobs, investments, and activities to be used in a specified aspect of the taxpayer's business. To satisfy this requirement, that aspect must be the primary activity of the taxpayer at the establishment where the credits are claimed.

For more information about general eligibility requirements and specific requirements about each Article 3A credit, go to the Department's website, [www.dor.state.nc.us](http://www.dor.state.nc.us), and click on "business/ corporate income and franchise/ corporate income/ Guidelines for Article 3A Tax Credits."

**Eligibility Requirements for Other Credits.** For more information about the eligibility requirements for credits other than the Article 3A credits, go to the Department's website, [www.dor.state.nc.us](http://www.dor.state.nc.us), and click on "business/ corporate income and franchise/ corporate income/ General Tax Credits."

All of the tax credits listed on page 1 are available to individuals, partnerships, estates, trusts, and corporations except the tax credit for manufacturing cigarettes for export, which is available only to corporations. Insurance companies with a gross premiums tax liability can claim any of the credits listed on page 1 except the credit for investing in business property, the credit for investing in renewable energy property, the credit for investing in non-hazardous dry-cleaning equipment, the credit for use of North Carolina ports, the credit for construction of a renewable energy equipment facility, and the credit for manufacturing cigarettes for export.

## When to File

The NC-478 forms consist of Form NC-478 and the applicable NC-478 letter series form for the credit. If no letter series form applies to the credit, file a schedule setting out the required information. You must file these forms with the tax return for the year in which you are eligible to claim a credit or an installment of a credit against your tax liability. You must file the NC-478 forms with the tax return for the year in which you engage in an activity that qualifies for a credit. Place the NC-478 forms or alternative schedules at the front of the tax return, behind the CD-V payment voucher, NC-478V payment voucher, and the CD-479 Annual Report Form. Failure to include a form or required document with your tax return may result in the disallowance of these tax credits.

**Fee and Application.** A taxpayer that engages in an activity that qualifies for an Article 3A credit, other than the credit for contributions to a development zone project, must pay a \$500 fee for each Article 3A credit it intends to claim if the activity that qualifies for the credit occurred at an establishment in a tier 3, 4, or 5 area. The maximum fee is \$1,500 per year. The fee does not apply to an activity occurring at an establishment that is in a tier 1 or 2 area or in a development zone. If the activity is conducted by a pass-through entity, the pass-through entity, not its owners to which the credit is allocated, is subject to the fee. Prior to January 1, 2003, the fee was paid to the Department of Commerce. The Department of Commerce provided the taxpayer with either a certification or a copy of the filed application marked "Paid." A copy of the certification or marked application must be included with Form NC-478 and any applicable NC-478 series form.

If the taxpayer engages in an activity on or after January 1, 2002, that qualifies for an Article 3A credit, other than the credit for contributions to a development zone project, but has not paid the fee to the Department of Commerce, the taxpayer must pay the fee to the Department of Revenue when filing the tax return for the taxable year in which the taxpayer engages in the activity that qualifies for the credit. The fee is due at the same time the tax return is due and the credit will not be allowed until the fee is paid. **Use Form NC-478V, available from the Department's website, to report the fee that is due. Include a separate check for the total fee due, payable in U.S. currency, with the completed voucher.**

A taxpayer making contributions to a development zone project is not required to pay the fee to be eligible to claim the credit. However, the taxpayer must apply to the Secretary of Revenue for the credit. The application must be filed on or before April 15 of the year following the calendar year in which the contribution was made. The credit is claimed for the tax year in which the application is due. The total amount of credits for contributions by all taxpayers in a calendar year is limited to \$4,000,000. This limit is allocated among those taxpayers that file a timely application. The Department of Revenue will notify each taxpayer by the end of the year in which the applications are filed of the amount of credit the taxpayer may claim. A copy of the notification from the Department must be attached to the return in the year the credit is claimed.

**Deadline for filing.** To claim a credit or an installment of a credit against your tax liability for 2002, you must file both NC-478 and the applicable NC-478 series form **within 6 months after the due date for filing the tax return**, including any extensions of that date.

**Pass-through entities.** A pass-through entity must provide sufficient information about the tax credits to its owners or beneficiaries to allow them to complete the Form NC-478 series. The information must be provided on, or as an attachment to, the NC K-1 provided to the owner or beneficiary. An owner or beneficiary should add the credits passed through by a pass-through entity to any credits the owner or beneficiary qualifies for directly when completing the Form NC-478 series.

**See page 5 of these instructions for an example of the computation of these tax credits for pass-through entities.**

## Specific Instructions

### **NC-478 - Summary of Tax Credits Limited to 50% of Tax**

**Part 1.** After completing the applicable Forms NC-478A through NC-478H, enter the totals from those forms on the appropriate lines in Part 1 of Form NC-478. If claiming credit for technology commercialization, investing in non-hazardous dry-cleaning equipment, use of North Carolina ports, manufacturing cigarettes for export, contributing to a development zone project, or constructing a renewable energy equipment facility, complete and attach a separate schedule showing how you calculated the credit and fill in the applicable circle on Line 11. Add Lines 1 through 11 and enter the total on Line 12. **This is the total amount of tax credits available subject to the 50% of tax limitation.**

**Individuals, partnerships, and trusts or estates** enter the credits only in the income column because they do not owe franchise tax.

**Partnerships** enter only the portion of each credit that is allocable to their nonresident partners on whose behalf the managing partner pays the tax.

**All corporations** may elect to claim the credit against franchise or income tax except for the credit for use of North Carolina ports, the credit for manufacturing cigarettes for export, or the credit for a renewable energy equipment facility. The credit for use of North Carolina ports, the credit for manufacturing cigarettes for export, and the credit for renewable energy equipment facility may only be claimed against income tax. The credit for technology commercialization may be divided between franchise and income tax. The election of which tax a credit will be claimed against or what percentage of the credit for technology commercialization will be applied against each tax is made at the time the first installment is claimed and is binding for all future installments of that credit.

**S corporations** enter the total amount of credit being applied against franchise tax. However, S corporations enter in the income column only the portion of each credit that is allocable to the nonresident shareholders on whose behalf a composite return is filed.

**Insurance companies** claim the credits against their gross premiums tax by completing the Franchise column.

**Part 2.** Complete Part 2 to determine if the total credits calculated in Part 1 must be reduced because the total credits available exceed 50% of the tax due less other credits not subject to the 50% limit.

**Line 13 - Individuals** enter the amount of tax due from Form D-400, Line 13. **Partnerships** add the amounts on Form D-403, Part 3, Line 17 for each nonresident partner and enter the total here. **Trusts and estates** enter the amount of tax due from Form D-407, Line 8. **C corporations** enter the amount of franchise tax due from Form CD-405, Schedule A, Line 5, in the Franchise column, and the amount of income tax due from Form CD-405, Schedule B, Line 26, in the Income column. **S corporations** enter the amount of franchise tax due from Form CD-401S, Schedule A, Line 5, in the Franchise column and the amount of income tax due for nonresident shareholders filing composite from Form CD-401S, Schedule B, Line 21, in the Income column. **Insurance companies** enter the total amount of gross premiums tax.

**Line 14 - Individuals** enter the amount from Form D-400TC, Line 26. **Corporations** enter the total amount of franchise tax credits not subject to the 50% of tax limit from Form CD-425, Part 1, Line 4, in the Franchise column, and the total amount of income tax credits not subject to the 50% of tax limit from Form CD-425, Part 3, Line 17, in the Income column. **Partnerships** enter the amount from Form D-403TC, Line 5. **Trusts and estates** enter the amount from Form D-407TC, Line 6.

**Line 17 -** Enter the lesser of Line 12 or Line 16.

**Part 3.** If Line 12 is less than Line 16, the total credits in Part 1 do not exceed 50% of the tax liability; therefore, enter the amount of available credits from Part 1, Lines 1 through 11, on Part 3, Lines 18 through 28. If Line 12 exceeds Line 16, the total credits available in Part 1 exceed 50% of the tax liability and must be reduced to the amount on Line 17. A taxpayer may choose how to allocate the allowable amount of credit (Line 17) among the credits for which it is eligible (Lines 1 through 11) by completing Lines 18 through 28. If the amount of eligible credit in Part 1 exceeds the amount of allocated credit in Part 3, a taxpayer may be eligible to carry forward the excess amount to the next year.

**Line 29 -** Add Lines 18 through 28 and enter the total. This amount must equal the amount on Part 2, Line 17. **Individuals** enter the amount of tax credits on Form D-400TC, Part 4, Line 29. **Partnerships** enter the amount of tax credits on Form D-403TC, Part 2, Line 8. **Trusts and estates** enter the amount of tax credits on Form D-407TC, Part 2, Line 9. **Corporations** enter the total amount of tax credits applied against franchise tax on Form CD-425, Part 2, Line 8, and the total amount of tax credits applied against income tax on Form CD-425, Part 4, Line 21. **Insurance companies** claim the amount of tax credits on Line 16 on the gross premiums tax return.

**Part 4.** If you claimed a tax credit for investing in renewable energy property on Part 1, Line 7, enter on Line 30 the cost of renewable energy property placed in service during 2002 for which the credit is allowed. If you claimed a tax credit for investing in non-hazardous dry-cleaning equipment on Part 1, Line 10, enter on Line 31 the cost of non-hazardous dry-cleaning equipment placed in service during 2002 for which the credit is allowed. Enter the amounts even if you were required to allocate credits in Part 3 and elected to enter \$0 on Lines 24 or 27. **Partnerships** enter only the portion of the cost of renewable

energy property or non-hazardous dry-cleaning equipment that is allocable to the nonresident partners on whose behalf the managing partner pays the tax. **Trusts and estates** enter only the portion of the cost of renewable energy property or non-hazardous dry-cleaning equipment that is allocated to the fiduciary. **S corporations** enter the total cost of renewable energy property or non-hazardous dry-cleaning equipment if the credit is being applied against franchise tax. If the credit is being applied against income tax, enter only the portion of the cost of renewable energy property or non-hazardous dry-cleaning equipment that is allocable to the nonresident shareholders on whose behalf a composite return is filed.

### **NC-478A - Creating New Jobs**

The credit for creating new jobs is taken in four equal installments beginning in the tax year following the year in which the job is created.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478A and enter the amount from Part 4, Line 12 on Form NC-478, Line 1. **S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 6 among the shareholders. Complete Parts 4 and 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 11, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 6 among the partners. Complete Parts 4 and 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 11, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 6 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount allocated to the fiduciary.

**Creating new jobs at more than one establishment.** Complete a separate NC-478A for each establishment at which new jobs are created. The information requested on Part 1, Part 2, Lines 2-6, and Part 3 is for that establishment only. The information requested on Part 2, Line 1 is the total number of additional full-time employees in North Carolina during the tax year and will be the same number on all NC-478As. The information requested for Parts 4 and 5 is a cumulative total for all separate NC-478As and should be entered only once on the last NC-478A filed.

### **NC-478B - Investing in Machinery and Equipment**

The credit for investing in machinery and equipment is taken in seven equal installments beginning in the tax year following the year the machinery and equipment is placed in service.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478B and enter the amount from Part 4, Line 18 on Form NC-478, Line 2. If machinery and equipment was placed in service over a two-year period, reduce the amount on Part 2, Line 7, by the amount entered on Part 1, Line 5 of the 2001 Form NC-478B. **S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the shareholders. Complete Parts 4 and 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 17, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from

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Part 2, Line 10 among the partners. Complete Parts 4 and 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 17, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount allocated to the fiduciary.

**Investing in machinery and equipment at more than one establishment.** Complete a separate NC-478B for each establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during the tax year. The information requested in Part 1, and Part 2, Lines 6-10 is for that establishment only. The information requested on Part 2, Lines 1-5 is a cumulative total of all machinery and equipment in service in North Carolina and will be the same number on all NC-478Bs. The information requested in Parts 3, 4, and 5 is a cumulative total for all separate NC-478Bs and should be entered only once on the last NC-478B filed.

#### **NC-478C - Research and Development**

The credit for research and development is claimed in the tax year the research and development expenses are incurred.

**Individuals, S corporations claiming this credit against franchise tax, C corporations, and insurance companies** complete NC-478C and enter the amount from Part 4, Line 19 on Form NC-478, Line 3. **S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the shareholders. Complete Part 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 18, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the partners. Complete Part 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 18, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 8 or Part 3, Line 15 among the fiduciary and the beneficiaries. Complete Part 4 by including only the amount allocated to the fiduciary.

**Performing research and development at more than one establishment.** Complete a separate NC-478C for each establishment at which research and development that qualifies for the federal credit was performed during the tax year. The information requested in Part 1, Part 2, Lines 7 and 8, and Part 3, Lines 14 and 15 is for that establishment only. The information requested on Part 2, Lines 1-6, and Part 3, Lines 9-13 is a cumulative total of all qualified research and development expenses during the tax year and will be the same on all NC-478Cs. The apportionment percentage used to compute Part 2, Line 7, and Part 3, Line 14 is equal to the qualifying research expenditures at the establishment divided by the total qualifying expenditures at all establishments in North Carolina. The information requested in Part 4 is a cumulative total for all separate NC-478Cs and should be entered only once on the last NC-478C filed.

#### **NC-478D - Worker Training**

The credit for worker training is claimed in the tax year the workers are trained.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478D and enter the amount from Part 4, Line 11 on Form NC-478, Line 4. **S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer. Allocate the total amounts from Part 2, Line 4 or Line 8 among the shareholders. Complete Part 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 10, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer. Allocate the total amount from Part 2, Line 4 or Line 8 among the partners. Complete Part 4 by including the amounts calculated for those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 10, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer. Allocate the total amount from Part 2, Line 4 or Line 8 among the fiduciary and the beneficiaries. Complete Part 4 by including only the amount allocated to the fiduciary.

**Training workers at more than one establishment.** Complete a separate NC-478D for each establishment at which employees were trained during the tax year. The information requested in Part 1, Part 2, and Part 3 is for that establishment only. The information requested in Part 4 is a cumulative total for all separate NC-478Ds and should be entered only once on the last NC-478D filed.

#### **NC-478E - Investing in Central Office or Aircraft Facility Property**

The credit for investing in central office or aircraft facility property is taken in seven equal installments beginning in the tax year following the year in which the taxpayer begins to use the property as a central administrative office or aircraft facility. The maximum lifetime credit for investing in central office or aircraft facility property is \$500,000.

**Individuals, S corporations claiming this credit against franchise tax, C corporations, and insurance companies** complete NC-478E and enter the amount from Part 5, Line 22 on Form NC-478, Line 5. **S corporations claiming the credit against income tax** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 3, Line 15 among the shareholders. Complete Parts 5 and 6 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 5, Line 21, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 3, Line 15 among the partners. Complete Parts 5 and 6 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 5, Line 21, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 3, Line 15 among the fiduciary and the beneficiaries. Complete Parts 5 and 6 by including only the amount that is allocated to the fiduciary.

**Investing in central office or aircraft facility property at more than one establishment.** Complete a separate NC-478E for each establishment at which central office or aircraft facility property was purchased or leased and placed in service in North Carolina during the tax year. The information requested in Part 1 and Part 2, Lines 6-9 is for that establishment only. The information requested in Part 2, Lines 1-5 is a cumulative total of all central office or aircraft facility property in service in North Carolina and will be the same number on all NC-478Es. The information requested in Parts 3 through 6 is a cumulative total for all separate NC-478Es and should be entered only once on the last NC-478E filed.

**NC-478F - Investing in Business Property**

The credit for investing in business property expired for business property placed in service on or after January 1, 2002. Taxpayers who placed business property in service prior to January 1, 2002, may continue to take the remaining installments and carryforwards of prior years' credits by completing Parts 2 and 3.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478F and enter the amount from Part 2, Line 6 on Form NC-478, Line 6. **S corporations claiming the credit against income tax** complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 2, Line 5, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 2, Line 5, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 2 and 3 by including only the amount that is allocated to the fiduciary.

**NC-478G - Investing in Renewable Energy Property**

The credit for investing in renewable energy property is claimed in the tax year the renewable energy property is constructed, purchased, or leased and placed in service if the property serves a single-family dwelling. If the property does not serve a single-family dwelling, the credit is taken in five equal installments beginning in the year the property is placed in service.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478G and enter the amount from Part 4, Line 15 on Form NC-478, Line 7. **S corporations claiming the credit against income tax** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 4 or Part 3, Line 9 among the shareholders. Complete Parts 4 and 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 14, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 4 or Part 3, Line 9 among the partners. Complete Parts 4 and 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 14, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 4 or Part 3, Line 9 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount that is allocated to the fiduciary.

**Investing in renewable energy property at more than one establishment.** Complete a separate NC-478G for each establishment at which renewable energy property was constructed, purchased, or leased and placed in service in North Carolina during the tax year. The information provided for Parts 1 through 3 is for that establishment only. The information provided for Parts 4 and 5 is a cumulative total for all separate NC-478Gs and should be entered only once on the last NC-478G filed.

**NC-478H - Low-Income Housing**

**Important.** The credit provisions described below apply to low-income housing awarded a federal tax credit allocation before January 1, 2003. The credit provisions for low-income housing awarded a federal tax credit allocation on or after January 1, 2003

are significantly different. For more information concerning the new credit provisions, check the Department's website, [www.dor.state.nc.us](http://www.dor.state.nc.us), and click on **2002 Tax Law Changes**.

The credit for low-income housing is taken in equal installments over the five years beginning in the first taxable year in which a federal income tax credit for low-income housing is claimed. Any reduction in the amount of the first installment as a result of the federal reduction required under IRC section 42(f)(2)(A) must be carried forward and must be taken as the 6th installment amount. See Part 2, Lines 5 through 7 and Line 9.

**Hurricane-affected counties.** The following counties were designated as counties affected by the 1999 hurricanes by the Federal Emergency Management Agency and qualify for the 75% credit: Beaufort, Bertie, Bladen, Brunswick, Carteret, Columbus, Craven, Dare, Duplin, Edgecombe, Green, Halifax, Hertford, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pasquotank, Pender, Pitt, Washington, Wayne, and Wilson counties.

**Individuals, S corporations claiming this credit against franchise tax, and C corporations** complete NC-478H and enter the amount from Part 3, Line 15 on Form NC-478, Line 8. **S corporations claiming the credit against income tax** complete Parts 1 and 2 as one taxpayer, then allocate the amounts from Part 2, Lines 7, 8, and 9 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 14, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 2, Lines 7, 8, and 9 among the partners. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 14, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 2, Lines 7, 8, and 9 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount that is allocated to the fiduciary.

**Allocation of credit by a pass-through entity.** A pass-through entity may allocate the credit among any of its owners in its discretion as long as the owner's adjusted basis in the pass-through entity at the end of the taxable year in which the federal credit is first claimed is at least forty percent of the amount of credit allocated to that owner. A pass-through entity and its owners must include with their tax returns for every taxable year in which an allocated credit is claimed a statement of the allocation made by the pass-through entity and the allocation that would have been required under the general method of allocating credits based on percentage ownership.

**Forfeiture for change in ownership.** An owner of a pass-through entity that has qualified for the tax credit for low-income housing forfeits a portion of the credit if the owner disposes of more than one-third of its interest in the pass-through entity within five years from the date the federal credit is first claimed. Forfeiture is not required if the change in ownership results from either the death of the owner or a merger, consolidation, or similar transaction requiring approval of the pass-through entity's owners and the pass-through entity does not receive cash or tangible property in the merger, consolidation, or other similar transaction. For detailed information on how to determine the amount of credit forfeited, please refer to the *Franchise Tax and Corporate Income Tax Rules and Bulletins*.

**Investing in low-income housing at more than one location.** Complete a separate NC-478H for each location at which low-income housing that qualifies for the federal credit was placed in service in North Carolina during the tax year. The information provided for Parts 1 and 2 is for that location only. The information provided for Parts 3 and 4 is a cumulative total for all separate NC-478Hs and should be entered only once on the last NC-478H filed.

## Allocation of Credits by Pass-through Entities

A pass-through entity must take extra steps in calculating and allocating the tax credits among its shareholders, partners, or beneficiaries.

**S corporations.** If the credit is being claimed against franchise tax, no allocation is required. Complete the applicable tax credit form and enter the amount eligible to be taken in the current year on Form NC-478. If the credit is being taken against income tax, complete the applicable tax credit form to determine the eligible credit to be allocated among the shareholders. The portion of the eligible credit allocated to nonresident shareholders on whose behalf a composite return is being filed is calculated and carried to Form NC-478. The portion of the eligible credit allocated to resident shareholders or nonresident shareholders who are not part of a composite return will not be reflected on the S-corporation's Form NC-478.

**Partnerships.** Complete the applicable tax credit form to determine the eligible credit to be allocated among the partners. The portion of the eligible credit allocated to nonresident partners on whose behalf the partnership pays tax is calculated and carried to Form NC-478. The portion of the eligible credit allocated to resident partners or nonresident partners on whose behalf the partnership does not pay tax will not be reflected on Form NC-478.

**Trusts and estates.** Complete the applicable tax credit form to determine the eligible credit to be allocated among the trust or estate and its beneficiaries. The portion of the eligible credit allocated to the trust or estate is calculated and carried to Form NC-478. The portion of the eligible credit allocated to the trust's or estate's beneficiaries will not be reflected on Form NC-478.

The example below shows how the tax credit for worker training is calculated, allocated, and reported on NC-478 and NC-478D by an S corporation. The example also applies to partnerships, trusts, and estates.

**Example.** An S corporation provides worker training to six employees that work at an establishment in a Tier 5 county in North Carolina during tax year 2002. The S corporation meets all of the eligibility requirements for the tax credit for worker training. The S corporation has three shareholders. Shareholder 1 is a North Carolina resident and owns 50% of the corporation. Shareholder 2 is a nonresident who owns 20% of the corporation. This shareholder is not part of the composite return that is filed by the S corporation. Shareholder 3 is also a nonresident, owns 30% of the corporation, and is part of the composite return. The S corporation elects to apply the tax credit against income tax.

### Step 1. Calculating the Eligible Credit Amount for Worker Training for the Entity (From NC-478D, Part 2)

|                                                                                                        |         |
|--------------------------------------------------------------------------------------------------------|---------|
| <b>Line 1.</b> Number of employees trained during 2002 for Tier 1 locations                            | N/A     |
| <b>Line 2.</b> Maximum credit for employees at Tier 1 locations (multiply line 1 by \$1000)            | N/A     |
| <b>Line 3.</b> Wages paid employees at Tier 1 location during training                                 | N/A     |
| <b>Line 4.</b> Enter lesser of line 2 or line 3                                                        | N/A     |
| <b>Line 5.</b> Number of employees trained during 2002 for Tier 2, 3, 4, or 5 locations                | 6       |
| <b>Line 6.</b> Maximum credit for employees at Tier 2, 3, 4, or 5 locations (multiply line 5 by \$500) | \$3,000 |
| <b>Line 7.</b> Wages paid employees at Tier 2, 3, 4, or 5 locations during training                    | \$ 750  |
| <b>Line 8.</b> Enter lesser of line 6 or line 7                                                        | \$ 750  |

### Step 2. Allocating the Eligible Credit Amount to the Shareholders

| Shareholder                             | 1      | 2      | 3      |
|-----------------------------------------|--------|--------|--------|
| Eligible Credit Amount of S-corporation | \$ 750 | \$ 750 | \$ 750 |
| Percentage Ownership                    | 50%    | 20%    | 30%    |
| Eligible Credit Amount Allocated        | \$ 375 | \$ 150 | \$ 225 |
| Non-composite Credit Amount             | \$ 375 | \$ 150 | \$ 0   |
| Composite Credit Amount                 | \$ 0   | \$ 0   | \$ 225 |

### Step 3. Completing Part 4 of Form NC-478D and Line 4 of Form NC-478 for the Entity

|                                                         |        |
|---------------------------------------------------------|--------|
| Form NC-478D, Part 4, Line 9 - Credit for 2002 Training | \$ 225 |
| Form NC-478, Part 1, Line 4 - Worker Training           | \$ 225 |

Note: The S corporation must also complete Form NC-478D, Part 3, to provide information on the workers that were trained. Shareholders 1 and 2 must complete Form NC-478D, Part 4, and Form NC-478 separately to claim the credit that is passed through to the individual shareholders.

## Credit History Table

The purpose of the Credit History Table is to provide a means for taxpayers to track both the eligible credit amount available for each tax year and the actual credit taken as an installment. By using the Credit History Table, taxpayers can verify that the amount of credit taken for each installment does not exceed the amount of credit actually available to the taxpayer. The table also provides a means for tracking any unused portion of an installment that can be carried to future years or has expired.

The example below shows how the M & E Credit History Table for the 2002 is completed.

**1997 Column.** In 1997, ABC Corporation was eligible to claim \$7000 of M & E credit. Taxpayer entered \$7000 in the "Eligible Credit Amount" box. Based upon the eligible credit amount, each installment available to ABC Corporation for tax years 1998 through 2004 is \$1000 ( $\$7000 \div 7$  years). For tax years 1998 through 2000, ABC Corporation's income tax liability was sufficient to claim 100% of the available installment amount. Taxpayer entered \$1000 in the 1997 column for installments 1, 2, and 3.

In 2001, ABC Corporation was limited to \$980 of its available M&E installment and had \$20 of installment to carry forward to 2002. Taxpayer entered in the 1997 column \$980 for the 4th installment and \$20 in the "Carryforwards to Take in Future" box.

In 2002, ABC Corporation was limited to \$52 of its available M&E installments and carryforwards. Taxpayer used the \$20 carryforward from the 1997 4th installment and \$32 of the 5th installment. Taxpayer entered in the 1997 column \$52 for the 5th installment, \$20 in the "Carryforwards Taken" box, and \$968 in the "Carryforwards to Take in Future" box. The carryforward is calculated as follows:

$\$1000$  (1997 5th installment available) +  $20$  (1997 4th installment carryforward available) -  $52$  (amount of credit actually taken in 2002) =  $\$968$

**2001 Column.** In 2001, ABC Corporation was eligible to claim \$8750 of M & E credit. Taxpayer entered \$8750 in the "Eligible Credit Amount" box. Based upon the eligible credit amount, each installment available to ABC Corporation for tax years 2002 through 2007 is \$1250 ( $\$8750 \div 7$ ). However, in 2002 ABC Corporation partially disposed of machinery and equipment used to qualify for the M&E credit in 2001, thereby reducing the amount of each future installment available to \$250.

In 2002, ABC Corporation did not have sufficient income tax to be eligible to take the 1st installment of the 2001 M&E Credit. Taxpayer entered in the 2001 column, \$0 for the 1st installment, \$250 in the "Carryforwards to Take in the Future" box, and \$1000 in the "Expired Installments" box. If the taxpayer does not dispose of additional of the machinery and equipment used to qualify for the 2001 M & E credit, the "Expired Installments" box will increase by \$1000 each year.

**2002 Column.** In 2002, ABC Corporation was eligible to claim \$35,000 of M&E credit. Taxpayer entered \$35,000 in the 2002 "Eligible Credit Amount" box. No installments of this credit are available to ABC corporation until tax year 2003.

Part 5. M & E Credit History Table

| Tax Year                               | 1996      | 1997          | 1998          | 1999          | 2000          | 2001          | 2002          |
|----------------------------------------|-----------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Eligible Credit Amount</b>          |           | 7000          |               |               |               | 8750          | 35000         |
| <b>1st</b>                             | Franchise | Taken in 1997 | Taken in 1998 | Taken in 1999 | Taken in 2000 | Taken in 2001 | Taken in 2002 |
|                                        | Income    |               | 1000          |               |               |               | 0             |
| <b>2nd</b>                             | Franchise | Taken in 1998 | Taken in 1999 | Taken in 2000 | Taken in 2001 | Taken in 2002 | Taken in 2003 |
|                                        | Income    |               | 1000          |               |               |               | Taken in 2004 |
| <b>3rd</b>                             | Franchise | Taken in 1999 | Taken in 2000 | Taken in 2001 | Taken in 2002 | Taken in 2003 | Taken in 2004 |
|                                        | Income    |               | 1000          |               |               |               | Taken in 2005 |
| <b>4th</b>                             | Franchise | Taken in 2000 | Taken in 2001 | Taken in 2002 | Taken in 2003 | Taken in 2004 | Taken in 2005 |
|                                        | Income    |               | 980           |               |               |               | Taken in 2006 |
| <b>5th</b>                             | Franchise | Taken in 2001 | Taken in 2002 | Taken in 2003 | Taken in 2004 | Taken in 2005 | Taken in 2006 |
|                                        | Income    |               | 52            |               |               |               | Taken in 2007 |
| <b>6th</b>                             | Franchise | Taken in 2002 | Taken in 2003 | Taken in 2004 | Taken in 2005 | Taken in 2006 | Taken in 2007 |
|                                        | Income    |               |               |               |               |               |               |
| <b>Carryforwards Taken</b>             |           | 20            |               |               |               |               |               |
| <b>Carryforwards to Take in Future</b> |           | 968           |               |               |               | 250           |               |
| <b>Expired Installments</b>            |           |               |               |               |               | 1000          |               |