



Instructions for 2006 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 for the NC-478 series 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 a 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. **Note.** Form NC-478I is designed to report a taxpayer's activity throughout the state.

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 2006.

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*)
- 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 (*Form NC-478, Line 12*)
- Contributions to Development Zone Projects (*Form NC-478, Line 12*)

Other Credits

- Investing in Renewable Energy Property (*Form NC-478G*)
- Low-Income Housing (*Form NC-478H*)
- Article 3F Research and Development (*Form NC-478I*)
- Investing in Non-Hazardous Dry-Cleaning Equipment (*Form NC-478, Line 10*)
- Renewable Fuel Facility (*Form NC-478, Line 11*)
- Use of North Carolina Ports (*Form NC-478, Line 12*)
- Renewable Energy Equipment Facility (*Form NC-478, Line 12*)
- Manufacturing Cigarettes for Export (*Form NC-478, Line 12*)
- Manufacturing Cigarettes for Export While Increasing Employment (*Form NC-478, Line 12*)

All of the tax credits listed above are available to individuals, partnerships, estates, trusts, and corporations except the tax credit for manufacturing cigarettes for export and the tax credit for manufacturing cigarettes for export while increasing employment, which are available only to corporations. Insurance companies with a gross premiums tax liability can claim any of the Article 3A credits.

Eligibility Requirements for Article 3A Credits

In general, a taxpayer must satisfy all of the following general eligibility requirements to qualify for any of the Article 3A credits:

- 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

Important. Taxpayers do not have to satisfy a wage standard test with respect to the worker training credit and the credit for substantial investment in other property. The wage standard test also does not apply to any credit in a tier one or tier two area or a development zone.

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:

NC-478 Instructions Page 2

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 is a company's 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 principal product or service is determined based on the NAICS guidelines for determining industry classification. 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 is a company's primary business activity at an establishment 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.dornc.com, and click on "business/corporate income and franchise tax/ corporate income tax/ Guidelines for Article 3A Tax Credits."

Special Eligibility Rule for Research and Development. For purposes of determining eligibility for the credit for research and development in Article 3A, the following special rules apply:

1. If the primary activity of an establishment of the taxpayer in this State is computer services, the taxpayer's qualified research expenditures in this State are considered to be computer services.
2. For all other taxpayers, the taxpayer's qualified research expenditures in this State are considered to be used in the primary business of the taxpayer.

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.dornc.com, and click on "business/corporate income and franchise/ corporate income/General Tax Credits."

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. Both Form NC-478 and any applicable Form NC-478 series form must be filed for any taxable year in which the taxpayer is eligible to claim a credit or an installment of a credit against the taxpayer's tax liability for that year. This requirement applies even if the taxpayer's tax liability for that year is not large enough for the taxpayer to benefit from the credit. If a taxpayer engages in activities that qualify for the credit for creating jobs, the credit for investing in machinery and equipment, or the credit for investing in central office or aircraft facility property, the taxpayer must complete Part 1 of

Form NC-478A, Form NC-478B, or Form NC-478E and file the form with the taxpayer's return for the taxable year in which the taxpayer engages in the activity, even though the first installment of the credit will not be claimed until the following year. (See the applicable Form NC-478A through NC-478I for more detailed instructions.)

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. **Important. 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 or an agrarian growth zone, 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, in a development zone, or in an agrarian growth 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.

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 or an agrarian growth 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 an Article 3A credit or an installment of an Article 3A credit against your tax liability for 2006, 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. The following example illustrates this requirement:

A calendar year taxpayer creates 10 new qualifying jobs in 2006. The taxpayer files a timely extension on March 15, 2007, which extends the due date of the tax return to October 15, 2007. Applying the six month statute of limitations, the taxpayer has until April 15, 2008 to file the NC-478A and report the 2006 credit for claiming jobs. If the taxpayer had not filed a timely extension by March 15, 2007, the NC-478A would have had to be filed by September 15, 2007.

Overdue Tax Debts. A taxpayer is ineligible for an Article 3A tax credit if the taxpayer has an overdue tax debt at the time the taxpayer claims an installment or carryforward of a credit. An "overdue tax debt" is defined as "any part of a tax debt that remains unpaid 90 days or more after the notice of final assessment was mailed to the taxpayer." The term does not include a tax debt for which the taxpayer has entered into a valid installment agreement with the Department.

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 14 of these instructions for an example of the computation of these tax credits for pass-through entities.)

Short-period returns. If a taxpayer is required to file more than one tax return during a year, each return constitutes a year for purposes of taking an installment of a credit or any unused portion of a credit.

Form NC-478 - Summary of Tax Credit Limited to 50% of Tax

Part 1. Tax Credits Subject to 50% of Tax Limitation. After completing the applicable parts on the NC-478 series forms, enter the "Credit Amount to Take in Tax Year 2006" from each form on the appropriate line in Part 1 of Form NC-478. Add Lines 1 through 12 and enter the total on Line 13. **This is the total amount of tax credits available in 2006 subject to the 50% of tax limitation.**

Note. If claiming a credit for use of North Carolina ports, complete and attach Form NC-414. If claiming a credit for constructing a renewable energy equipment facility, manufacturing cigarettes for export, manufacturing cigarettes for export while increasing employment, investing in substantial real property, or contributing to a development zone project, complete and attach a separate schedule showing how you calculated the credit. Also, fill in the applicable circle on Line 12.

Individuals, partnerships, and trusts or estates enter the credits only in the income column because franchise tax is not required for these types of entities. **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 each credit against franchise or income tax except for the credit for use of North Carolina ports, the credit for manufacturing cigarettes for export, manufacturing cigarettes for export while increasing employment, or the credit for a renewable energy equipment facility. Those four credits 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 and carryforwards 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** may claim the credits against the gross premiums tax by entering the total amount of credit in the Franchise column.

Part 2. Computation of 50% Limit. Complete Part 2 to determine if the total credits calculated in Part 1 must be reduced because the total credits available in 2006 exceed 50% of the tax due in 2006 less other credits not subject to the 50% of tax limit.

Line 14 - Individuals enter the amount of tax due from Form D-400, Line 14. **Partnerships** add the amounts on Form D-403, Part 3, Line 18 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 15 - Individuals enter the amount from Form D-400TC, Line 32. **Corporations** enter the amount from Form CD-425, Part 2, Line 6, in the Franchise column, and the amount from Form CD-425, Part 3, Line 23, in the Income column. **Partnerships** enter the amount from Form D-403TC, Line 8. **Trusts and estates** enter the amount from Form D-407TC, Line 9.

Line 18 - Enter the lesser of Part 1, Line 13, or Part 2, Line 17.

Part 3. Amount of Each Credit Taken in 2006. If the amount of available credits on Part 1, Line 13 is less than the amount on Part 2, Line 17, then the total amount of eligible tax credits available in 2006 does not exceed 50% of the 2006 tax liability. Enter on Part 3, Line 19 through 30 the same amounts entered on Part 1, Lines 1 through 12.

If the amount of available credits on Part 1, Line 13, is greater than the amount on Part 2, Line 17, then the total amount of eligible tax credits available in 2006 exceeds 50% of the 2006 tax liability. The amount of eligible tax credits from Part 1, Line 13, must be reduced to equal the amount on Part 2, Line 18. A taxpayer may choose how to allocate the allowable amount of credit (Line 18) among the credits for which it is eligible (Lines 1 through 12) by completing Lines 19 through 30. 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 31 - Add Lines 19 through 30 and enter the total. This amount can not exceed the amount on Part 2, Line 18. **This is the total amount of tax credits actually taken in 2006.**

Individuals enter the amount of tax credits on Form D-400TC, Part 4, Line 33. **Partnerships** enter the amount of tax credits on Form D-403TC, Part 2, Line 11. **Trusts and estates** enter the amount of tax credits on Form D-407TC, Part 2, Line 12. **Corporations** enter the total amount of tax credits applied against franchise tax on Form CD-425, Part 2, Line 10, and the total amount of tax credits applied against income tax on Form CD-425, Part 4, Line 27. **Insurance companies** claim the amount of tax credits on the gross premiums tax return.

Part 4. Cost of Property Placed in Service During 2006. If you claimed a tax credit for investing in renewable energy property on Part 1, Line 7, enter on Line 32 the cost of renewable energy property placed in service during 2006 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 33 the cost of non-hazardous dry-cleaning equipment placed in service during 2006 for which the credit is allowed. If you claimed a tax credit for constructing renewable fuel facilities on Part 1, Line 11, enter on Line 34 the cost of renewable fuel facility property placed in service during 2006 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 25, 28, or 29.

Partnerships enter only the portion of the cost of renewable energy property, non-hazardous dry-cleaning equipment, or renewable fuel facilities that is allocable to the nonresident partners on whose behalf the managing partner pays the tax. **Trusts and estates**

NC-478 Instructions Page 4

enter only the portion of the cost of renewable energy property, non-hazardous dry-cleaning equipment, or renewable fuel facilities that is allocated to the fiduciary. **S corporations** enter the total cost of renewable energy property, non-hazardous dry-cleaning equipment, or renewable fuel facilities 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, non-hazardous dry-cleaning equipment, or renewable fuel facilities that is allocable to the nonresident shareholders on whose behalf a composite return is filed.

Form NC-478A - Creating New Jobs

The credit for creating new jobs is based upon the enterprise tier of the area in which new jobs are located and is taken in four equal installments beginning in the tax year following the year in which the jobs are created. Any unused portion of the credit may be carried forward for five succeeding years.

The following instructions for completing Part 1 through Part 5 of Form NC-478A apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 5.

Part 1. Business Information. *(The information requested in Part 1 is for a single establishment at which jobs were created during tax year 2006. If jobs were created at more than one establishment, complete a separate Form NC-478A for each establishment.)*

To be eligible for the credit for creating new jobs, a taxpayer must be one of the eligible business types listed on page 1. In addition, taxpayers must meet all of the following conditions:

1. Meet the general eligibility requirements described on page 1.
2. Have five or more full-time employees.
3. Hire an additional full-time employee during the year to fill a position located in this State.

Name, Address, and County of Establishment at which Credit is Generated. Enter the name, address, county, and NAICS Code for each establishment in which jobs are created. If the establishment is located in a tier three, four, or five area and not in a development zone or an agrarian growth zone, a wage standard test must also be satisfied. The wage standard test for creating new jobs is a two-part test. The first test requires the combined average weekly wage of the jobs for which the credit is claimed to meet the wage standard. The second test requires the combined average weekly wage of all jobs at the location with respect to which a credit is claimed to meet the wage standard. For more information about the wage standard test, see the **“Guidelines for Article 3A Tax Credits”** available from the Department’s website.

Tier, Zone, and Health Insurance Information. The amount of credit allowed for creating new jobs is based upon the enterprise tier of the area in which new positions are located. The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce’s website, www.nccommerce.com, and click on “financial incentives/North Carolina County Tier Designations.”

Within each tier, there may be designated “development zones” or “agrarian growth zones.” Development zones and agrarian growth zones recognize defined areas of economic need within a tier. The credit for creating jobs is increased by \$4,000 per job for jobs created in development zones and agrarian growth zones. (See Part 2, Line 3.)

Taxpayers must provide health insurance for the jobs for which the jobs credit is claimed. The insurance must be provided at the time the jobs are created and must be maintained to claim an installment or carryforward of the credit. Taxpayers must provide with the tax return a certification that health insurance is provided. This applies to the return on which a taxpayer qualifies for the credit, claims an installment of the credit, or utilizes a carryforward of the credit.

Part 2. Computation of Credit Amount for Jobs Created in 2006. *(The information requested in Part 2 is for a single establishment at which jobs were created during tax year 2006. If jobs were created at more than one establishment in 2006, complete a separate Form NC-478A for each establishment.)*

Line 1. Enter the total number of additional full-time employees in North Carolina in 2006. A taxpayer creates a new full-time job if the taxpayer has an additional full-time employee in North Carolina at the end of the current tax year compared to the end of previous tax year. A full-time job is a position that requires at least 1,600 hours of work per year and is intended to be held by one employee during the entire year. **(Note.** *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 filed for tax year 2006.)*

Line 2. Enter the number of positions included in Line 1 that are located at this establishment. A job is located at an establishment if more than fifty percent of the employee’s duties are performed at the establishment.

Line 3. If this establishment is in a development zone or agrarian growth zone, enter the applicable credit amount from the following table:

Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
\$16,500	\$8,000	\$7,000	\$5,000	\$4,500

Line 4. If this establishment is **NOT** in a development zone or agrarian growth zone, enter the applicable credit amount from the following table:

Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
\$12,500	\$4,000	\$3,000	\$1,000	\$500

Line 5. Multiply Line 2 by Line 3 or Line 4, whichever is applicable. **This is the amount of credit for creating jobs at this establishment in 2006.** The total credit amount for creating jobs in 2006 for **ALL** establishments must also be entered in the Credit History Table. (See Part 5, 2006 Column, Credit Amount.)

Line 6. Divide Line 5 by the number 4. This is the amount of each installment for this establishment to be taken starting in tax year 2007.

Part 3. Information on Additional Full-Time Employees. *(The information requested in Part 3 is for a single establishment at which jobs were created during tax year 2006. If jobs were created at more than one establishment, complete a separate Form NC-478A for each establishment.)*

Enter the name of each new employee, SSN, hire date, and number of hours worked during tax year 2006. If additional space is needed, attach additional pages using the format provided.

Part 4. Computation of Amount To Be Taken in 2006. *(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478A filed.)*

- Line 7.** Enter the 2005 installment amount.
(From 2005 Form NC-478A, Part 2, Line 6.)
- Line 8.** Enter the 2004 installment amount.
(From 2004 Form NC-478A, Part 2, Line 6.)
- Line 9.** Enter the 2003 installment amount.
(From 2003 Form NC-478A, Part 2, Line 6.)
- Line 10.** Enter the 2002 installment amount.
(From 2002 Form NC-478A, Part 2, Line 6.)
- Line 11.** Enter the portion of installment amounts not taken for tax years 1997 through 2004.
- Line 12.** Add Lines 7 through 11. **This is the amount of credit to take in 2006 for creating jobs.** (Carry amount to Form NC-478, Line 1.)

Part 5. Jobs Credit History Table. (The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last Form NC-478A filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)

Highest Number of Full-time Employees in North Carolina During Year In the 2006 column, enter the highest number of full-time employees in North Carolina during tax year 2006. In the 2002 through 2005 columns, enter the number of full-time employees in North Carolina for each year as previously reported on Form NC-478A.

Credit Amount In the 2006 column, enter the credit amount for all jobs created in tax year 2006. (Add Part 2, Line 5 for all establishments.) In the 2002 through 2005 columns, enter the credit amount as calculated on the prior years' Form NC-478A.

Installments In the 2002 through 2005 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during that tax year plus any unused portion of a prior year's installment taken in that tax year. (For more information on the Credit History Table, see the detailed example on page 15.)

Carryforwards Taken If any portion of a prior year's installment is taken in tax year 2006, enter the amount in the applicable column. (**Important.** Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2006 a portion of a prior year's installment is utilized.)

Carryforwards To Take In Future If the current year's installment is not fully utilized in tax year 2006, enter the amount not taken as a carryforward to take in the future. (**Important.** Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2006 a portion of a current year's installment can not be utilized due to the 50% of tax limitation.)

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. The credit for creating jobs expires if a taxpayer fails to meet the general eligibility requirements described on page 1, or if, in one of the four years in which an installment accrues, the number

of full-time employees falls below the number of full-time employees required to maintain the credit. (For a detailed example on how to calculate the amount of expired installment, see the "Guidelines for Article 3A Tax Credits" available from the Department's website.)

Pass-through Entities. S corporations claiming the credit for creating new jobs 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.

Form NC-478B- Investing in Machinery & Equipment

The credit for investing in machinery and equipment is taken in seven equal installments beginning in the tax year following the year in which the machinery and equipment is placed in service. Any unused portion of the credit may be carried forward for five succeeding years.

The following instructions for completing Part 1 through Part 5 of Form NC-478B apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 5.

Part 1. Business Information. (The information requested in Part 1 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during 2006. If you invested in machinery and equipment at more than one establishment in 2006, complete a separate Form NC-478B for each establishment.)

To be eligible for the credit for investing in machinery and equipment, a taxpayer must be one of the eligible business types listed on page 1. In addition, taxpayers must meet all of the following conditions:

1. Meet the general eligibility requirements described on page 1.
2. Purchase or lease eligible machinery and equipment.
3. Place the eligible machinery and equipment in service during the 2006 tax year.

Name, Address, and County of Establishment at which Credit is Generated. Enter the name, address, county, and NAICS Code for each establishment in which an investment of machinery and equipment is made. If the establishment is located in a tier three, four, or five area and not in a development zone or agrarian growth zone, a wage standard test must also be satisfied. The wage standard test for investing in machinery and equipment requires the combined average weekly wage of all jobs at the location with respect to which the credit is claimed to meet the wage standard. For more information about the wage standard test, see the

“Guidelines for Article 3A Tax Credits” available from the Department’s website.

Tier, Zone, and Health Insurance Information. The amount of credit allowed for investing in machinery and equipment is based upon the enterprise tier of the area in which machinery and equipment is placed in service. The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce’s website, www.nccommerce.com, and click on “financial incentives/North Carolina County Tier Designations.”

Within each tier, there may be designated “development zones” or “agrarian growth zones.” Development zones and agrarian growth zones recognize defined areas of economic need within a tier. For purposes of computing the credit for machinery and equipment, development zones and agrarian growth zones are considered tier one areas.

Taxpayers must provide health insurance for all full-time positions at the location with respect to which the credit is claimed. The insurance must be provided to the employees at the time the machinery and equipment is purchased or leased and placed in service and must be maintained to claim an installment or carryforward of the credit. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location.

Part 2. Computation of Credit Amount for Investing in Machinery and Equipment in 2006. *(The information requested in Part 2 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during tax year 2006. If you invested in machinery and equipment at more than one establishment in 2006, complete a separate Form NC-478B for each establishment.)*

- Line 1.** Enter the cost of eligible machinery and equipment purchased or leased and placed in service in North Carolina during the 2006 tax year. Machinery and equipment are eligible if they are capitalized for tax purposes under the Internal Revenue Code and not leased to another party. *(Note. Property expensed under Section 179 of the Internal Revenue Code, real property, and rolling stock are not eligible.)* The cost of machinery and equipment is determined pursuant to the regulations of Section 1012 of the Internal Revenue Code. The cost of leased property is valued at eight times the net annual rental rate.
- Line 2.** Enter the cost of all machinery and equipment in service in North Carolina on the last day of the tax year. *(Note. Also, enter this amount in the 2006 column of Part 3.)*
- Line 3.** Enter the cost of all machinery and equipment in service in North Carolina on the last day of the base year. The base year is that year, of the three immediately preceding taxable years, in which the most eligible machinery and equipment was in service in this State.
- Line 4.** Subtract Line 3 from Line 2, but not less than zero.
- Line 5.** Enter the lesser of Line 1 or Line 4. This is the maximum eligible investment amount for investing in machinery and equipment in North Carolina for tax year 2006.
- Line 6.** If you invested in machinery and equipment at more than one establishment during tax year 2006, enter the amount of Line 5 attributable to this establishment.

Line 7. Enter the applicable threshold from the following table based on the enterprise tier of this establishment:

Tier 1, Agrarian Growth, or Development Zone	Tier 2	Tier 3	Tier 4	Tier 5
\$-0-	\$100,000	\$200,000	\$1,000,000	\$2,000,000

Line 8. Subtract Line 7 from Line 6, but not less than zero. If the calculated amount is zero or less, stop. **You are not eligible for the credit for investing in machinery and equipment for 2006.** If the calculated amount is greater than zero, enter the amount on Line 8.

Line 9. Multiply Line 8 by the applicable credit percentage from the following table based on the enterprise tier of this establishment:

Tier 1, Agrarian Growth, or Development Zone	Tier 2	Tier 3	Tier 4	Tier 5
7%	7%	6%	5%	4%

This is the amount of credit for investing in machinery and equipment at this establishment in 2006. The total credit amount for investing in machinery and equipment in 2006 for **ALL** establishments must also be entered in the Credit History Table. *(See Part 5, 2006 Column, Credit Amount.)*

Line 10. Divide Line 9 by the number 7. This is the eligible installment amount for this establishment to be taken starting in tax year 2007.

Part 3. Machinery and Equipment in Service in North Carolina on the Last Day of the Tax Year. *(The information requested for Part 3 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed.)*

Enter the total cost of all eligible machinery and equipment in service in North Carolina on the last day of the tax year for each year requested. This information should be used to determine the base year on Part 2, Line 3.

Part 4. Computation of Amount To Be Taken in 2006. *(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed.)*

- Line 11.** Enter the 2005 installment amount. *(From 2005 Form NC-478B, Part 2, Line 10.)*
- Line 12.** Enter the 2004 installment amount. *(From 2004 Form NC-478B, Part 2, Line 10.)*
- Line 13.** Enter the 2003 installment amount. *(From 2003 Form NC-478B, Part 2, Line 10.)*
- Line 14.** Enter the 2002 installment amount. *(From 2002 Form NC-478B, Part 2, Line 10.)*
- Line 15.** Enter the 2001 installment amount. *(From 2001 Form CD-478B, Part 1, Line 9.)*
- Line 16.** Enter the 2000 installment amount. *(From 2000 Form CD-478B, Part 1, Line 9.)*
- Line 17.** Enter the 1999 installment amount. *(From 1999 Form CD-478B, Part 1, Line 9.)*
- Line 18.** Enter the portion of installment amounts not taken for tax years 1996 through 2004.
- Line 19.** Add Lines 11 through 18. **This is the amount of**

credit to take in 2006 for investing in machinery and equipment. (Carry amount to Form NC-478, Line 2.)

Part 5. Machinery and Equipment Credit History Table.

(The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)

Credit Amount In the 2006 column, enter the total credit amount for investing in machinery and equipment in tax year 2006. (Add Part 2, Line 9 for all establishments.) In the 1999 through 2005 columns, enter the total credit amount as calculated on the prior years' Form NC-478B.

Installments In the 1999 through 2005 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during that tax year plus any unused portion of a prior year's installment taken in that tax year. (For more information on the Credit History Table, see the detailed example on page 15.)

Carryforwards Taken If any portion of a prior year's installment is taken in tax year 2006, enter the amount in the applicable column. (**Important.** Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2006 a portion of a prior year's installment is utilized.)

Carryforwards To Take In Future If the current year's installment is not fully utilized in tax year 2006, enter the amount not taken as a carryforward to take in the future. (**Important.** Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2006 a portion of a current year's installment can not be utilized due to the 50% of tax limitation.)

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. The credit for investing in machinery and equipment expires if a taxpayer fails to meet the general eligibility requirements described on page 1. Generally, installments expire if the machinery and equipment are disposed of, taken out of service, or moved out of North Carolina prior to the end of the seven-year period in which the credit is claimed. (For a detailed example on how to calculate the amount of expired installment, see the "Guidelines for Article 3A Tax Credits" available from the Department's website.)

Pass-through Entities. S corporations claiming the credit for investing in machinery and equipment 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 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 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 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 10 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount allocated to the fiduciary.

Form NC-478C- Research and Development

The credit for research and development in Article 3A expired for taxable years beginning on or after January 1, 2006. If you qualified for the Article 3A research and development credit prior to January 1, 2006, you can continue to take carryforwards of prior years' credits by entering the amount on Form NC-478, Line 3a.

Form NC-478D- Worker Training

The credit for worker training is not taken in installments, however, any unused portion of the credit may be carried forward for five succeeding years.

The following instructions for completing Part 1 through Part 3 of Form NC-478D apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 4.

Part 1. Business Information. (The information requested in Part 1 is for a single establishment at which employees were trained in North Carolina during tax year 2006. If you trained workers at more than one establishment in 2006, complete a separate Form NC-478D for each establishment.)

To be eligible for the credit for worker training, a taxpayer must be one of the eligible business types listed on page 1. In addition, taxpayers must meet all of the following conditions:

1. Meet the general eligibility requirements described on page 1.
2. Provide worker training for five or more eligible employees during tax year 2006.

Name, Address, and County of Establishment at which Credit is Generated. Enter the name, address, county, and NAICS Code for each establishment at which workers are trained in tax year 2006.

Tier, Zone, and Health Insurance Information. The amount of credit allowed for worker training is based upon the enterprise tier where the positions are located. Enterprise tiers are designated by the Secretary of Commerce. The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce's website, www.nccommerce.com, and click on "financial incentives/North Carolina County Tier Designations."

Within each tier, there may be designated "development zones" or "agrarian growth zones." Development zones and agrarian growth zones recognize defined areas of economic need within a tier. For purposes of computing the credit for worker training, development zones and agrarian growth zones are considered Tier 1 areas.

Taxpayers must provide health insurance for the jobs for which a worker training credit is claimed. The insurance must be maintained to claim a carryforward of the credit. Taxpayers must provide with the tax return a certification that health insurance is provided. This applies to the return on which a taxpayer qualifies for the credit or utilizes a carryforward of the credit.

Part 2. Computation of Credit for Worker Training Provided in 2006.

(The information requested in Part 2 is for a single establishment at which employees were trained in North Carolina during tax year 2006. If you trained workers at more than one establishment in 2006, complete a separate Form NC-478D for each establishment.)

- Line 1.** Enter the total number of eligible employees trained in North Carolina during tax year 2006 in Tier 1, an agrarian growth zone, or in a development zone location. **(Note.** For purposes of this credit, an eligible employee is defined as an employee who is in a full-time position classified as non-exempt under the Fair Labor Standards Act and who meets one or more of the following conditions: (1) the employee occupies a job for which the taxpayer is eligible to claim an installment of the credit for creating jobs, and (2) the employee is being trained to operate machinery and equipment for which the taxpayer is eligible to claim an installment of the credit for investing in machinery and equipment. A job is considered located in an area if more than 50% of the employee's duties are performed in the area.)
- Line 2.** Multiply Line 1 by \$1000. This is the maximum credit for eligible employees trained at Tier 1, an agrarian growth zone, or in a development zone location.
- Line 3.** Enter the amount of wages paid to eligible employees at Tier 1, an agrarian growth zone, or in a development zone location during training. **(Note.** The maximum amount of wages per employee trained is \$1,000. Also, wages paid to an employee performing his or her job while being trained are not eligible for the credit. Example: Employee A receives wages of \$2,000 and Employee B receives wages of \$500 during training. Enter \$1,500 on Line 3.)
- Line 4.** Enter the lesser amount of Line 2 or Line 3. **This is the amount of credit for worker training at Tier 1, an agrarian growth zone, or in a development zone location at a single establishment in 2006.**
- Line 5.** Enter the total number of eligible employees trained in North Carolina during tax year 2006 in Tier 2, 3, 4, or 5 locations. *(For a definition of "eligible employees," see Part 2, Line 1.)*
- Line 6.** Multiply Line 5 by \$500. This is the maximum credit for eligible employees trained at Tier 2, 3, 4, or 5 locations.
- Line 7.** Enter the amount of wages paid to eligible employees at Tier 2, 3, 4, or 5 locations during training. **(Note.** The maximum amount of wages per employee trained is \$500. Also, wages paid to an employee performing his or her job while being trained are not eligible for the credit. Example: Employee A receives wages of \$2,000 and Employee B receives wages of \$500 during training. Enter \$1,000 on Line 3.)
- Line 8.** Enter the lesser amount of Line 6 or Line 7. **This is the amount of credit for worker training at Tier 2, 3, 4, or 5 locations at a single establishment in 2006.**

Part 3. Information on Employees Trained. *(The information requested in Part 3 is for a single establishment at which employees were trained in 2006. If employees were trained at more than one establishment, complete a separate Form NC-478D for each establishment.)*

Enter the name of each employee trained, SSN, hire date, and

number of hours worked during 2006. If additional space is needed, attach additional pages using the format provided.

Part 4. Computation of Amount To Be Taken in 2006. *(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478D filed.)*

- Line 9.** Enter the 2006 credit amount for worker training. *(From Part 2, Line 4, or Part 2, Line 8.)*
- Line 10.** Enter the portion of credit not taken for tax years 2000 through 2005.
- Line 11.** Add Lines 9 and 10. **This is the amount of credit to take in 2006 for worker training.** *(Carry amount to Form NC-478, Line 4.)*

Pass-through entities. 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.

Form 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 property is placed in service. Any unused portion of the credit may be carried forward for five succeeding years.

The following instructions for completing Part 1 through Part 5 of Form NC-478E apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 6.

Part 1. Business Information. *(The information requested in Part 1 is for a single establishment at which central office or aircraft facility property was purchased or leased and placed in service in North Carolina during 2006. If you invested in more than one central office or aircraft facility property in tax year 2006, complete a separate Form NC-478E for each location.)*

To be eligible for the credit for investing in central office or aircraft facility property, a taxpayer must be one of the eligible business types listed on page 1. In addition, taxpayers must meet all of the following conditions:

1. Meet the general eligibility requirements described on page 1.
2. Purchase or lease real property in North Carolina.
3. Begin to use the property as a central office or an aircraft facility during tax year 2006.

Name, Address, and County of Establishment at which Credit is Generated. Enter the name, address and county for each establishment in which an investment of central office or aircraft facility property is made.

Business, Tier, and Zone Information. Enter the NAICS code for each establishment. If the establishment is located in a tier three, four, or five area and not in a development zone or agrarian growth zone, a wage standard test must also be satisfied. The wage standard test for investing in central office or aircraft facility property requires the combined average weekly wage of all jobs at the location with respect to which a credit is claimed to meet the wage standard. For more information about the wage standard test, see the “**Guidelines for Article 3A Tax Credits**” available from the Department’s website.

Taxpayers must provide health insurance for all full-time positions at the central office or aircraft facility location. The insurance must be provided to the employees at the time the central office or aircraft facility property is purchased or leased and placed in service, and must be maintained every year an installment of the credit or a carryforward of the credit is claimed. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the central office or aircraft facility location.

Part 2. Computation of Credit Amount for Investing in Central Office or Aircraft Facility Property at this Establishment. *(The information requested in Part 2, Lines 1 through 5, is a cumulative total for all central or aircraft facility property in service in North Carolina and will be the same number on all NC-478Es filed. The information requested in Part 2, Lines 6 through 9, is for a single establishment at which central office or aircraft facility property was purchased or leased and placed in service in North Carolina during 2006. If you invested in more than one central office or aircraft facility property in tax year 2006, complete a separate Form NC-478E for each location.)*

- Line 1.** Enter the cost of central office or aircraft facility property purchased or leased and placed in service in North Carolina during tax year 2006. **(Note.** *If you own the property, cost is determined pursuant to the regulations of Section 1012 of the Internal Revenue Code. If you lease the property, cost is considered to be the amount of the lease payments over a seven-year period, plus any expenditures made to improve the property before the property is used as a central office or aircraft facility if the expenditures are not reimbursed or credited by a lessor.*)
- Line 2.** Enter the cost of all central office or aircraft facility property used in North Carolina on the last day of 2006. **(Note.** *The cost of all central office and aircraft facility property used in North Carolina on the last day of 2006 must also be entered in the 2006 column of Part 4.*)
- Line 3.** Enter the cost of all central office or aircraft facility property used in North Carolina on the last day of the base year. The base year is that year, of the three immediately preceding taxable years, in which the most central office or aircraft facility property is in service in North Carolina.
- Line 4.** Subtract Line 3 from Line 2, but not less than zero.
- Line 5.** Enter the lesser of Line 1 or Line 4. This is the maximum eligible investment amount for investing in central office or aircraft facility property in North Carolina for tax year 2006.
- Line 6.** Enter the amount of Line 5 attributed to this establishment.

Line 7. Multiply Line 6 by 7%.

Line 8. Enter the percentage of square feet of property used as central office or aircraft facility property.

Line 9. Multiply Line 7 by Line 8. **This is the amount of credit for investing in central office or aircraft facility property at this establishment in 2006.**

Part 3. Computation of Credit Amount for Investing in Central Office or Aircraft Facility Property Statewide. *(The information requested in Part 3 is a cumulative total for all separate NC-478Es and should be entered only once on the last NC-478E filed.)*

Line 10. Add the amount on Part 2, Line 9 for each establishment in tax year 2006.

Line 11. The maximum credit for investing in central office or aircraft facility property in N.C. in tax year 2006 is \$500,000.

Line 12. Enter the lesser of Line 10 or Line 11. **This is the amount of credit for investing in central office or aircraft facility property in North Carolina in 2006.** Enter the total credit amount for investing in central office or aircraft facility property in 2006 for **ALL** establishments in the Credit History Table. *(See Part 6, 2006 Column, Credit Amount.)*

Line 13. Divide Line 12 by the number 7. This is the installment amount for investing in central office or aircraft facility property to be taken starting in tax year 2007.

Part 4. Central Office or Aircraft Facility Property in Service in North Carolina on Last Day of Tax Year. *(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478E filed.)*

Enter the total cost of all property in service in North Carolina on the last day of each tax year for each year requested. This information is used to determine the base year on Part 2, Line 3.

Part 5. Computation of Amount To Be Taken in 2006. *(The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last Form NC-478E filed.)*

Line 14. Enter the 2005 installment amount.
(From 2005 Form NC-478E, Part 3, Line 13.)

Line 15. Enter the 2004 installment amount.
(From 2004 Form NC-478E, Part 3, Line 13.)

Line 16. Enter the 2003 installment amount.
(From 2003 Form NC-478E, Part 3, Line 13.)

Line 17. Enter the 2002 installment amount.
(From 2002 Form NC-478E, Part 3, Line 15.)

Line 18. Enter the 2001 installment amount.
(From 2001 Form NC-478E, Part 1, Line 13.)

Line 19. Enter the 2000 installment amount.
(From 2000 Form CD-478E, Part 1, Line 11.)

Line 20. Enter the 1999 installment amount.
(From 1999 Form CD-478E, Part 1, Line 11.)

Line 21. Enter the portion of installment amounts not taken for tax years 1997 through 2004.

Line 22. Add Lines 14 through 21. **This is the amount of credit to take in 2006 for investing in central office or aircraft facility property.** *(Carry amount to Form NC-478, Line 5.)*

Part 6. Central Office or Aircraft Facility Property Credit History Table. *(The information requested for Part 6 is a cumulative total for all establishments and should be entered only once on the last Form NC-478E filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)*

Office Employees in NC at Year-end In the 2006 column, enter the number of office employees in North Carolina at the end of 2006. In the 1999 through 2005 columns, enter the number of office employees in N.C. for each year as previously reported on Form NC-478E.

Credit Amount In the 2006 column, enter the total credit amount for investing in central office or aircraft facility property in tax year 2006. *(From Part 3, Line 12.)* In the 1999 through 2005 columns, enter the total credit amount as calculated on the prior years' Form NC-478E.

Installments In the 1999 through 2005 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during that tax year plus any unused portion of a prior year's installment taken in that tax year. *(For more information on the Credit History Table, see the detailed example on page 15.)*

Carryforwards Taken If any portion of a prior year's installment is taken in tax year 2006, enter the amount in the applicable column. ***(Important. Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2006 a portion of a prior year's installment is utilized.)***

Carryforwards To Take In Future If the current year's installment is not fully utilized in tax year 2006, enter the amount not taken as a carryforward to take in the future. ***(Important. Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2006 a portion of a current year's installment can not be utilized due to the 50% of tax limitation.)***

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. Generally, a credit for investing in central office or aircraft facility property expires if a taxpayer fails to meet the general eligibility requirements described on page 1, or if, the central office or aircraft facility property is disposed of, taken out of service, or moved out of North Carolina prior to the end of the seven-year period in which the credit is claimed. *(For a detailed example on how to calculate the amount of expired installment, see the "Guidelines for Article 3A Tax Credits" available from the Department's website.)*

Pass-through entities. S corporations claiming the credit against income tax complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 3, Line 13 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 13 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 13 among the fiduciary and the beneficiaries. Complete Parts 5 and 6 by including only the amount that is allocated to the fiduciary.

Form 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. If you placed business property in service prior to January 1, 2002, you can continue to take carryforwards of prior years' installments by entering the amount on Form NC-478, Line 6.

Form NC-478G - Investing in Renewable Energy Property

The credit for investing in renewable energy property serving a single-family dwelling is not taken in installments but is taken in the tax year the renewable energy property is placed in service. For all other property, the credit is taken in five equal installments beginning with the tax year the property is placed in service. Any unused portion of either credit may be carried forward for five succeeding years. **Important. You can not claim the credit for investing in renewable energy property if you claimed any other credit allowed in Chapter 105 of the North Carolina revenue laws with respect to the same property.**

The following instructions for completing Part 1 through Part 4 of Form NC-478G apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 5.

Part 1. Business Information. *(The information requested in Part 1 is for a single establishment at which renewable energy property is constructed, purchased, or leased and placed in service in North Carolina during tax year 2006. If you invested in renewable energy property at more than one establishment in 2006, complete a separate Form NC-478G for each establishment.)*

Type of Renewable Energy Property. Fill in all applicable circles related to the type of renewable energy property constructed, purchased, or leased and placed in service at this establishment during 2006.

Type of Residence or Purpose Served. Fill in the applicable circle related to the type of residence or purpose served at the property constructed, purchased, or leased and placed in service at this establishment in 2006.

Address and County Where Property is Placed in Service. Enter the address and county in which an investment in renewable energy property was made during tax year 2006.

Part 2. Computation of Credit Amount for Investing in Property Serving Single-Family Dwelling in 2006. *(The information requested in Part 2 is for a single establishment at which renewable energy property is constructed, purchased, or leased and placed in service in North Carolina during 2006. If you invested in renewable energy property at more than one establishment in 2006, complete a separate Form NC-478G for each establishment.)*

Line 1. Enter the cost of renewable energy property constructed, purchased, or leased and placed in service in North Carolina in 2006 for one single-family dwelling. (**Note.** *The cost of renewable energy property must also be entered on Form NC-478, Part 4, Line 32.*)

Line 2. Multiply Line 1 by 35%.

Line 3. Enter the maximum credit for the applicable type of renewable energy property constructed, purchased, or leased and placed in service in 2006 for one single-family dwelling. For residential property, the maximum credit for each type of property is:

- \$1,400 for solar energy equipment for domestic water heating
- \$3,500 for solar energy equipment for active or passive heating or combined domestic water heating and space heating
- \$10,500 for any other renewable energy property

Line 4. Enter the lesser of Line 2 or Line 3. **This is the amount of credit for investing in single-family renewable energy property in North Carolina in 2006.**

Part 3. Computation of Credit Amount for Investing in Property Serving a Nonresidential Purpose or a Multi-Family Building in 2006. *(The information requested in Part 3 is for a single establishment at which renewable energy property is constructed, purchased, or leased and placed in service in North Carolina during 2006. If you invested in renewable energy property at more than one establishment in 2006, complete a separate Form NC-478G for each establishment.)*

Line 5. Enter the cost of renewable energy property constructed, purchased, or leased and placed in service in North Carolina in 2006 for a nonresidential purpose or a multi-family building. (**Note.** *The cost of renewable energy property must also be entered on Form NC-478, Part 4, Line 32.*)

Line 6. Multiply Line 5 by 35%.

Line 7. Enter the maximum credit for the applicable type of renewable energy property constructed, purchased, or leased and placed in service in 2006 for nonresidential purposes or a multi-family building. For nonresidential property, the maximum credit for each type of property is \$2,500,000. For residential property, the maximum credit per dwelling unit is:

- \$1,400 for solar energy equipment for domestic water heating
- \$3,500 for solar energy equipment for active or passive heating or combined domestic water heating and space heating
- \$10,500 for any other renewable energy property

Line 8. Enter the lesser of Line 6 or Line 7. **This is the amount of credit for investing in nonresidential or multi-family renewable energy property in North Carolina in 2006.** The total credit amount for investing in nonresidential or multi-family renewable energy property in 2006 for **ALL** establishments must also be entered in the Credit History Table. *(See Part 5, 2006 Column, Credit Amount.)*

Line 9. Divide Line 8 by the number 5. This is the eligible installment amount for this establishment to be taken starting in tax year 2006.

Part 4. Computation of Amount To Be Taken in 2006. *(The information requested for Part 4 is a cumulative total for all*

establishments and should be entered only once on the last Form NC-478G filed.)

Line 10. Enter the amount of credit for investing in single-family renewable property for 2006. *(From Part 2, Line 4.)*

Line 11. Enter the 2006 installment amount for investing in nonresidential or multi-family renewable energy property. *(From Part 3, Line 9.)*

Line 12. Enter the 2005 installment amount for investing in nonresidential or multi-family renewable energy property. *(From 2005 Form NC-478G, Part 3, Line 9.)*

Line 13. Enter the 2004 installment amount for investing in nonresidential or multi-family renewable energy property. *(From 2004 Form NC-478G, Part 3, Line 9.)*

Line 14. Enter the 2003 installment amount for investing in nonresidential or multi-family renewable energy property. *(From 2003 Form NC-478G, Part 3, Line 9.)*

Line 15. Enter the 2002 installment amount for investing in nonresidential or multi-family renewable energy property. *(From 2002 Form NC-478G, Part 3, Line 9.)*

Line 16. Enter the portion of credit or installments not taken for tax years 2000 through 2005.

Line 17. Add Lines 10 through 16. **This is the amount of credit to take in 2006 for renewable energy property.** *(Carry amount to Form NC-478, Line 7.)*

Part 5. Nonresidential or Multi-Family Renewable Energy Property Credit History Table. *(The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last Form NC-478G filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)*

Credit Amount In the 2006 column, enter the total credit amount for investing in nonresidential or multi-family renewable energy property in 2006. *(From Part 3, Line 8.)* In the 2002 through 2005 columns, enter the total credit amount as calculated on the prior years' Form NC-478G.

Installments In the 2002 through 2006 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during the tax year plus any unused portion of a prior year's carryforward taken in that tax year. *(For more information on the Credit History Table, see the detailed example on page 15.)*

Carryforwards Taken If any portion of a prior year's installment is taken in 2006, enter the amount in the applicable column. (**Important.** *Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2006 a portion of a prior years' installment is utilized.*)

Carryforwards To Take In Future If the current year's installment is not fully utilized in tax year 2006, enter the amount not taken as a carryforward to take in the future. (**Important.** *Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2006 a portion of a*

current year's installment can not be utilized due to the 50% of tax limitation.)

Expired Installments

If an installment expires, enter the amount of expired credit in the applicable column. Generally, a credit for investing in renewable energy property expires if the property is disposed of, taken out of service, or moved out of North Carolina prior to the end of the five-year period in which the credit is claimed. *(For a detailed example on how to calculate the amount of expired installment, see the "Guidelines for Article 3A Tax Credits" available from the Department's website.)*

Pass-through entities. 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 16, 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 16, 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.

Form NC-478H- Low Income Housing

The credit for low-income housing **awarded a federal credit allocation before January 1, 2003** is taken in five equal installments beginning with the first taxable year in which the federal credit is taken. The federal credit is the total allowed during the 10-year federal credit period plus the disallowed first year credit allowed in the 11th year. The total federal credit is calculated based on the qualified basis as of the end of the first year of the credit period and is not recalculated to reflect subsequent increases in the basis. Any unused portion of the credit may be carried forward for five succeeding years. **Important.** The credit for low-income housing **awarded a federal credit allocation on or after January 1, 2003** is considerably different from the credit for low-income housing awarded a federal credit allocation before January 1, 2003. *(For detailed information on the credit effective for allocations awarded after January 1, 2003, see the "2003 - 2004 Technical Bulletins" available from the Department's website.)*

The following instructions for completing Part 1 and Part 2 of Form NC-478H apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 4.

Part 1. Business Information. *(The information requested in Part 1 is for each location at which low-income housing that qualifies for the federal credit was placed in service in North Carolina during 2006. If you invested in property at more than one location in 2006, complete a separate Form NC-478H for each location.)*

Street Address and County of Building. Enter the street address and county where the property is located for which a potential credit is claimed.

Tier and Status Information. Fill in all applicable circles related to the location's tier and status. To be eligible for the credit, a taxpayer must not only qualify for a federal credit but must also meet any of the following conditions:

1. The property must be located in a Tier 1 or Tier 2 area.
2. The property must be located in a Tier 3 or 4 area and 40% of its residential units must be both rent-restricted and occupied by individuals whose income is 50% or less of the area's median gross income.
3. The property must be located in a Tier 5 area and 40% of its residential units must be both rent-restricted and occupied by individuals whose income is 35% or less of the area's median gross income.

Part 2. Computation of Credit Amount for Low-Income Housing Awarded a Federal Credit Allocation Before January 1, 2003 for which Federal Credits are First Claimed in 2006. *(The information requested in Part 2 is for each location at which low-income housing that qualifies for a federal credit was placed in service in North Carolina during 2006. If you invested in property at more than one location in 2006, complete a separate Form NC-478H for each location.)*

- Line 1.** Enter the maximum housing credit dollar amount allowable from Federal Form 8609, Line 1b. *(Also attach Federal Forms 8609, 8609-Schedule A, 8586, and if recapture, Form 8611.)*
- Line 2.** Multiply Line 1 by the number 10. This is the maximum amount of federal credit allowed for investing in low-income housing at a single location in 2006.
- Line 3.** Enter the applicable percentage for this location from the following table:

Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
75%	75%	25%	25%	25%

- Line 4.** Multiply Line 2 by Line 3.
- Line 5.** Divide Line 4 by the number 5.
- Line 6.** Enter the amount of the first year modified percentage under Section 42(f)(2)(A) of the Internal Revenue Code.
- Line 7.** Multiply Line 5 by Line 6. This is the 1st installment for investing in low-income housing at this location starting in tax year 2006.
- Line 8.** Enter the amount from Line 5. This is the 2nd, 3rd, 4th and 5th year installment amount for investing in low-income housing at this location starting in tax year 2006.
- Line 9.** Subtract Line 7 from Line 5. This is the 6th installment for investing in low-income housing at this location starting in tax year 2011.
- Line 10.** Enter the amount from Line 4. **This is the amount of credit for investing in low-income housing in N.C. in 2006.** Enter the total credit amount for investing in low-income housing in 2006 for **ALL** locations in the Credit History Table. *(See Part 4, 2006 Column, Credit Amount.)*

Part 3. Computation of Amount To Be Taken in 2006. *(The information requested for Part 3 is a cumulative total for all locations and should be entered only once on the last Form NC-478H filed.)*

- Line 11.** Enter the 2006 installment amount. *(From Part 2, Line 7)*
- Line 12.** Enter the 2005 installment amount.
(From 2005 Form NC-478H, Part 2, Line 7)
- Line 13.** Enter the 2004 installment amount.
(From 2004 Form NC-478H, Part 2, Line 8)
- Line 14.** Enter the 2003 installment amount.
(From 2003 Form NC-478H, Part 2, Line 8)
- Line 15.** Enter the 2002 installment amount.
(From 2002 Form NC-478H, Part 2, Line 8)
- Line 16.** Enter the 2001 installment amount.
(From 2001 Form NC-478H, Part 1, Line 9)
- Line 17.** Enter the portion of installment amounts not taken for tax years 2000 through 2005.
- Line 18.** Add Lines 11 through 17. **This is the amount of credit to take in 2006 for investing in low-income housing.**
(Carry amount to Form NC-478, Line 8.)

Part 4. Housing Credit History Table. *(The information requested for Part 4 is a cumulative total for all locations and should be entered only once on the last Form NC-478H filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)*

- Credit Amount** In the 2006 column, enter the total credit amount for investing in low-income housing in tax year 2006. *(Add Part 2, Line 10 from all locations.)* In the 2001 through 2005 columns, enter the total credit amount as calculated on the prior year's Form NC-478H.
- Installments** In the 2001 through 2006 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year's installment utilized during the tax year plus any unused portion of a prior year's carryforward taken in that tax year. *(For more information on the Credit History Table, see the detailed example on page 15.)*
- Carryforwards Taken** If any portion of a prior year's installment is taken in tax year 2006, enter the amount in the applicable column. ***(Important. Carryforwards taken do not include the amount of current year's installment taken. Carryforwards taken should only be entered if in 2006 a portion of a prior years' installment is utilized.)***
- Carryforwards To Take In Future** If an installment is not fully utilized in tax year 2005, enter the amount not taken as a carryforward to take in the future. ***(Important. Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2005 a portion of a current year's installment can not be utilized due to the 50% of tax limitation.)***
- Expired Installments** If an installment expires, enter the amount of expired credit in the applicable column. Generally, a credit for investing in low-income housing expires or is forfeited if the taxpayer becomes ineligible for the federal credit. If the taxpayer is required to recapture all or part of the federal credit claimed, it becomes liable for all past taxes avoided as a result of the credit plus accrued interest.

Pass-through entities. 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 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 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 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 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.

Form NC-478I- Research and Development

The credit for research and development in Article 3F provides a credit for qualified North Carolina research and development expenses and is available to all taxpayers regardless of business type. Taxpayers claiming the research and development credit in Article 3F must meet the following general eligibility requirements found in Article 3A:

- Meet the wage standard
- Provide health insurance for employees
- Have a good environmental record
- Have a good Occupational Safety and Health Act (OSHA) record

The credit for research and development in Article 3F consist of two parts: (1) a credit for North Carolina university research expenses and (2) a credit for qualified North Carolina research expenses other than university research expenses. The credit for qualified North Carolina research expenses is further divided into three categories: (1) small business, (2) low-tier research, and (3) other research expenses.

The following instructions for completing Part 1 through Part 5 of Form NC-478I apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other

NC-478 Instructions Page 14

pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 5. The R & D credit is not taken in installments; however, any unused portion of the credit may be carried forward for fifteen succeeding years.

Part 1. Business Information. *(The information requested in Part 1 is for a single establishment at which qualified research and development expenses occurred in North Carolina during tax year 2006. If you had qualified research expenses at more than one establishment in 2006, complete a separate Form NC-478I for each establishment.)*

Type of Research Expenses. Fill in all applicable circles related to the type of R & D expenses incurred in North Carolina.

Tier Information. Fill in all applicable circles related to the tiers of all locations where R & D expenses were incurred in North Carolina. *(The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce's website, www.nccommerce.com, and click on "financial incentives/North Carolina County Tier Designations.")*

Name, Address and County at which Credit is Generated. Enter the name, address, and county of each location where R & D expenses were incurred in North Carolina.

Other Business Information. Taxpayers must provide health insurance for all full-time positions at each location where R & D expenses were incurred in North Carolina. The insurance must be provided to the employees at the time the research and development expenses were incurred and must be maintained every year an installment of the credit or a carryforward of the credit is claimed. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location where the research and development occurred.

Part 2. Computation of Credit for North Carolina University R & D Expenses. *(The information requested on Part 2, Lines 1 and 2, is the cumulative total of all qualified research and development expenses during tax year 2006 and will be the same on all NC-478Is filed. Note. If you complete Part 2, do not complete Parts 3 or 4 of Form NC-478I for the same qualified expenses.)*

Line 1. Enter the total amount of North Carolina university R & D expenses.

Line 2. Multiply Line 1 by 15.0%. **This is the amount of credit for North Carolina university R & D expenses.**

Part 3. Computation of Credit for Qualified North Carolina Small Business R & D Expenses Incurred. *(The information requested on Part 3, Lines 3 and 4, is the cumulative total of all qualified research and development expenses during tax year 2006 and will be the same on all NC-478Is filed. Note. If you complete Part 3, do not complete Parts 2 or 4 of Form NC-478I for the same qualified expenses.)*

Line 3. Enter the total amount of North Carolina small business R & D expenses.

Line 4. Multiply Line 3 by 3.0%. **This is the amount of credit for North Carolina small business R & D expenses.**

Part 4. Computation of Credit for Qualified North Carolina Low-Tier and Other R & D Expenses. *(The information requested on Part 4, Lines 5 through 9, is the cumulative total of all qualified research and development expenses during tax year 2006 and will be the same on all NC-478Is filed. Note. If you complete Part 4, do not complete Parts 2 or 3 of Form NC-478I for the same qualified expenses.)*

Line 5. Enter the total amount of North Carolina R & D expenses that are not university or small business research expenses.

Line 6. Enter the portion of Line 5 incurred in Tiers 1, 2, or 3.

Line 7. Multiply Line 6 by 3.0%. **This is the amount of credit for qualified North Carolina low-tier R & D expenses.**

Line 8. Subtract Line 6 from Line 5. This is the total amount of qualified North Carolina other R & D expenses.

Line 9. Multiply Line 8 by the following percentages and add the amounts:

- Multiply the first \$50 million by 1.0%
- Multiply the amount over \$50 million but no more than \$200 million by 2.0%
- Multiply the amount over \$200 million by 3.0%

This is the amount of credit for qualified North Carolina other R & D expenses in 2006.

Part 5. Computation of Credit To Be Taken in 2006. *(The information requested on Part 5, Lines 10 through 13, is the cumulative total of all qualified research and development expenses during tax year 2006 and will be the same on all NC-478Is filed.)*

Line 10. Enter the credit for North Carolina University R & D expenses. *(From Part 2, Line 2)*

Line 11. Enter the credit for qualified North Carolina R & D expenses. *(Enter the amount from Part 3, Line 4 OR the sum of Part 4, Lines 7 and 9.)*

Line 12. Enter the amount of carryforward for portion of credit not taken for tax years 2004 or 2005.

Line 13. Add Lines 10 through 12. **This is the amount of credit to take in 2006 for R & D.** *(Carry amount to Form NC-478, Line 3b.)*

Pass-through Entities. S corporations claiming the credit against income tax complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the shareholders. Complete Part 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. **Partnerships** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the partners. Complete Part 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. **Trusts and estates** complete Parts 1 through 4 as one taxpayer, then allocate the amount from Part 2, Line 2, Part 3, Line 4, and the sum of Part 4, Lines 7 and 9 among the fiduciary and the beneficiaries. Complete Part 5 by including only the amount allocated to the fiduciary.

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 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 2006. 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 Credit Amount for Worker Training for the Entity (From NC-478D, Part 2)

Line 1. Number of eligible employees trained during 2006 for Tier 1, an agrarian growth zone, or a development zone location	N/A
Line 2. Maximum credit for employees at Tier 1, an agrarian growth zone, or a development zone location (multiply line 1 by \$1000)	N/A
Line 3. Wages paid employees at Tier 1, an agrarian growth zone, or a development zone location during training	N/A
Line 4. Enter lesser of line 2 or line 3	N/A
Line 5. Number of eligible employees trained during 2006 for Tier 2, 3, 4, or 5 locations	6
Line 6. Maximum credit for eligible employees at Tier 2, 3, 4, or 5 locations (multiply line 5 by \$500)	\$3,000
Line 7. Wages paid employees at Tier 2, 3, 4, or 5 locations during training	\$ 750
Line 8. Enter lesser of line 6 or line 7	\$ 750

Step 2. Allocating the Credit Amount to the Shareholders

Shareholder	1	2	3
Credit Amount of S-corporation	\$ 750	\$ 750	\$ 750
Percentage Ownership	50%	20%	30%
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 2006 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 Example

The purpose of the Credit History Table is to provide a means for taxpayers to track both the 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 2006 is completed.

1999 Column. In 1999, ABC Corporation was eligible to claim \$7000 of M & E credit. Taxpayer entered \$7000 in the "Credit Amount" box. Based upon the credit amount, each installment available to ABC Corporation for tax years 2000 through 2006 is \$1000 (\$7000 ÷ 7 years). For tax years 2000 through 2003, ABC Corporation's income tax liability was sufficient to claim 100% of the available installment amount. Taxpayer entered \$1000 in the 1999 column for installments 1, 2, 3, and 4.

In 2004, ABC Corporation was limited to \$980 of its available M & E installment and had \$20 of installment to carry forward to 2005. Taxpayer entered in the 1999 column \$980 for the 5th installment and \$20 in the "Carryforwards to Take in Future" box.

In 2005, ABC Corporation was limited to \$52 of its available M & E installments and carryforwards. Taxpayer used the \$20 carryforward from the 1999 5th installment and \$32 of the 6th installment. Taxpayer entered in the 1999 column \$52 for the 6th installment, \$20 in the "Carryforwards Taken" box, and \$968 in the "Carryforwards to Take in Future" box. The carryforward is calculated as follows:

\$1000 (1999 6th installment available) + \$20 (1999 5th installment carryforward available) - \$52 (amount of credit actually taken in 2005) = \$968.

In 2006, ABC Corporation's income liability was sufficient to claim \$1,700 of available M & E installments plus carryforwards. Taxpayer used the \$968 carryforward from the 1999 6th installment, \$250 from the 2004 1st installment (see the 2004 column below), and \$482 from the 1999 7th installment. Taxpayer entered in the 1999 column \$1450 for the 7th installment, \$968 in the "Carryforwards Taken" box, and \$518 in the "Carryforwards to Take in Future" box.

2004 Column. In 2004, ABC Corporation was eligible to claim \$8750 of M & E credit. Taxpayer entered \$8750 in the "Credit Amount" box. Based upon the credit amount, each installment available to ABC Corporation for tax years 2005 through 2011 is \$1250 (\$8750 ÷ 7). However, in 2005 ABC Corporation partially disposed of machinery and equipment used to qualify for the M & E credit in 2004, thereby reducing the amount of each future installment available to \$250.

In 2005, ABC Corporation did not have sufficient income tax to take the 1st installment of the 2004 M&E Credit. Taxpayer entered in the 2004 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 machinery and equipment used to qualify for the 2004 M & E credit, the "Expired Installments" box will increase by \$1000 each year.

In 2006, ABC Corporation was limited to \$250 of its available M & E installment and carryforwards (see the 1999 column above). Taxpayer used \$250 of the carryforward from the 2004 1st installment.

Taxpayer entered in the 2004 column \$250 for the 2nd installment, \$250 in the "Carryforwards Taken" box, \$250 in the "Carryforwards to Take in Future" box, and \$2000 in the "Expired Installments" box.

2006 Column. In 2006, ABC Corporation was eligible to claim \$35,000 of M&E credit. Taxpayer entered \$35,000 in the 2006 "Credit Amount" box. No installments of this credit are available to ABC corporation until tax year 2007.

Credit History Table Example

Part 5. M & E Credit History Table									
Tax Year	1999	2000	2001	2002	2003	2004	2005	2006	
Credit Amount	7000					8750		35000	
Installments	1st	Franchise	<i>Taken in 2000</i>	<i>Taken in 2001</i>	<i>Taken in 2002</i>	<i>Taken in 2003</i>	<i>Taken in 2004</i>	<i>Taken in 2005</i>	<i>Taken in 2006</i>
		Income	1000					0	
	2nd	Franchise	<i>Taken in 2001</i>	<i>Taken in 2002</i>	<i>Taken in 2003</i>	<i>Taken in 2004</i>	<i>Taken in 2005</i>	<i>Taken in 2006</i>	<i>Taken in 2007</i>
		Income	1000					250	
	3rd	Franchise	<i>Taken in 2002</i>	<i>Taken in 2003</i>	<i>Taken in 2004</i>	<i>Taken in 2005</i>	<i>Taken in 2006</i>	<i>Taken in 2007</i>	<i>Taken in 2008</i>
		Income	1000						
	4th	Franchise	<i>Taken in 2003</i>	<i>Taken in 2004</i>	<i>Taken in 2005</i>	<i>Taken in 2006</i>	<i>Taken in 2007</i>	<i>Taken in 2008</i>	<i>Taken in 2009</i>
		Income	1000						
	5th	Franchise	<i>Taken in 2004</i>	<i>Taken in 2005</i>	<i>Taken in 2006</i>	<i>Taken in 2007</i>	<i>Taken in 2008</i>	<i>Taken in 2009</i>	<i>Taken in 2010</i>
		Income	980						
	6th	Franchise	<i>Taken in 2005</i>	<i>Taken in 2006</i>	<i>Taken in 2007</i>	<i>Taken in 2008</i>	<i>Taken in 2009</i>	<i>Taken in 2010</i>	<i>Taken in 2011</i>
		Income	52						
	7th	Franchise	<i>Taken in 2006</i>	<i>Taken in 2007</i>	<i>Taken in 2008</i>	<i>Taken in 2009</i>	<i>Taken in 2010</i>	<i>Taken in 2011</i>	<i>Taken in 2012</i>
		Income	1450						
	Carryforwards Taken	968					250		
	Carryforwards to Take in Future	518					250		
	Expired Installments						2000		

