

Allocation of Credits by Pass-through Entities

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

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

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

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

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

Example. An S corporation provides worker training to six employees that work at an establishment in a Tier 5 county in North Carolina during tax year 2004. The S corporation meets all of the eligibility requirements for the tax credit for worker training. The S corporation has three shareholders. Shareholder 1 is a North

Carolina resident and owns 50% of the corporation. Shareholder 2 is a nonresident who owns 20% of the corporation. This shareholder is not part of the composite return that is filed by the S corporation. Shareholder 3 is also a nonresident, owns 30% of the corporation, and is part of the composite return. The S corporation elects to apply the tax credit against income tax.

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

Line 1.	Number of employees trained during 2004 for Tier 1 locations	N/A
Line 2.	Maximum credit for employees at Tier 1 locations (multiply line 1 by \$1000)	N/A
Line 3.	Wages paid employees at Tier 1 location during training	N/A
Line 4.	Enter lesser of line 2 or line 3	N/A
Line 5.	Number of employees trained during 2004 for Tier 2, 3, 4, or 5 locations	6
Line 6.	Maximum credit for 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 Eligible Credit Amount to the Shareholders

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

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

Form NC-478D, Part 4, Line 9 - Credit for 2004 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.