

**NORTH CAROLINA  
CREDIT FOR INVESTING IN MACHINERY AND EQUIPMENT**

Under the William S. Lee Quality Jobs and Business Expansion Act

CALENDAR YEAR \_\_\_\_\_

OR FOR FISCAL YEAR BEGINNING \_\_\_\_\_, ENDING \_\_\_\_\_

<b>NAME:</b>	<b>EIN/SSN:</b>
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**This credit is effective for taxable years beginning on or after January 1, 1996, for investing in machinery and equipment on or after August 1, 1996, unless otherwise specified. The first installment is allowed in the first taxable year following the year the machinery and equipment is put into service.**

**CERTIFICATION RECEIVED FROM THE SECRETARY OF COMMERCE MUST BE ATTACHED TO THIS FORM.**

1. Did the taxpayer meet the eligibility requirements of the North Carolina Department of Commerce? Yes  No
2. Has the property for which the credit is being claimed been capitalized by the taxpayer for tax purposes under the Internal Revenue Code? Yes  No

**If the answer to questions (1) and/or (2) above is "No", stop here. Taxpayer is not eligible for Credit for Investing in Machinery and Equipment.**

3. Is the taxpayer claiming this credit under the provision relating to a "letter of commitment"? Yes  No
4. Type of business in which the taxpayer is engaged and in which the machinery and equipment with respect to which a credit is claimed are used:
  - Manufacturing or Processing ..... Effective for taxable years beginning on or after 1/1/96
  - Warehousing or Distribution ..... Effective for taxable years beginning on or after 1/1/96
  - Data Processing ..... Effective for taxable years beginning on or after 1/1/96
  - Air Courier Services ..... Effective for taxable years beginning on or after 1/1/98
  - Central Administrative Office ..... Effective for taxable years beginning on or after 1/1/97

**Tax Credit Computation**

5. Cost of machinery and equipment purchased (or leased effective for taxable years beginning 1/1/97 or later) and placed in service in North Carolina during the taxable year ..... 

5.	
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6. Cost of all taxpayer's machinery and equipment that is in service in North Carolina on the last day of the taxable year ..... 

6.	
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7. Cost of all taxpayer's machinery and equipment that was in service in North Carolina on the last day of the base year (The base year is that year, of the three years immediately preceding the year in which the machinery and equipment were placed in service in which the taxpayer had the most machinery and equipment in service in North Carolina.) ..... 

7.	
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8. Line 6 minus line 7 ..... 

8.	
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9. Lesser of line 5 or line 8. If line 8 is zero or less, enter zero. .... 

9.	
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Threshold (For Tier Designation, Contact North Carolina Department of Commerce)

Tier One	Tier Two	Tier Three	Tier Four	Tier Five
\$ -0-	\$ 100,000	\$ 200,000	\$ 500,000	\$ 1,000,000

10. ..... 

10.	
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11. Excess of eligible investment over applicable threshold (line 9 minus line 10) ..... 

11.	
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**If the answer to question (11) above is zero or less, stop here. Taxpayer is not eligible for Credit for Investing in Machinery and Equipment.**

12. Credit before installments (multiply line 11 by 7%) ..... 

12.	
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  13. Amount per installment (divide line 12 by 7 installments) ..... 

13.	
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- The credit on line 13 will be allowed in the first taxable year following the year the machinery and equipment is put into service and in each of the six succeeding taxable years.

**If the current taxable year is the first year in which a Credit for Investing in Machinery and Equipment has been generated, stop here.**

**Computation of Tax Credit Allowable to Offset Current Year Tax Liability.**

14. Annual Installments of credits from preceding year(s), net of expired credits ..... 

14.	
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15. Carryover of unused credits from previous year(s) ..... 

15.	
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16. Total Credit for Investing in Machinery and Equipment (Add lines 14 and 15)  
Enter the total on the Tax Credit Summary Sheet (Form CD-478), Line 6. .... 

16.	
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**Substantiation.** To claim a credit allowed by this Article [Article 3A], the taxpayer must provide any information required by the Secretary of Revenue. Every taxpayer claiming a credit under this Article shall maintain and make available for inspection by the Secretary of Revenue any records the Secretary considers necessary to determine and verify the amount of the credit to which the taxpayer is entitled. The burden of proving eligibility for the credit and the amount of the credit shall rest upon the taxpayer, and no credit shall be allowed to a taxpayer that fails to maintain adequate records or to make them available for inspection. (G.S. 105-129.7)

# General Instructions

## Credit for Investing in Machinery and Equipment

*(Effective for taxable years beginning January 1, 1996 or later, and applicable to property placed in service on or after August 1, 1996, unless otherwise noted.)*

### Eligibility

To be eligible for the credit, a taxpayer must:

- purchase (effective for taxable years beginning January 1, 1997 or later, a taxpayer must purchase or lease) machinery and equipment and place it in service in North Carolina during the taxable year. (G.S. 105-129.9).
- meet the eligibility requirements as recognized by the Department of Commerce; this includes meeting the wage standard, for the jobs at the location of the machinery and equipment, as determined by the Department of Commerce at the time the taxpayer applies for the credit (G.S. 105-129.4(b)),

### Purchase or Lease

In taxable years beginning on or after January 1, 1996, but before January 1, 1997, taxpayers who *purchased* machinery and equipment and put it into service on or after August 1, 1996 were allowed a credit, but taxpayers who *leased* such machinery and equipment were not allowed a credit. The 1997 amendment to G.S. 105-129.9 provided that the credit previously allowed to purchasers only would also be allowed to lessees. Machinery and equipment leased under a capitalized lease would generally qualify for the credit, but machinery and equipment leased under an operating lease generally would not qualify. Effective for taxable years beginning on or after January 1, 1999, in the case of a large investment (at least \$150,000,000) machinery and equipment that is not capitalized by the taxpayer is eligible if the taxpayer leases it from another party. (G. S. 105-129.9)

### Definition of Machinery and Equipment

Effective for taxable years beginning January 1, 1997 or later:

Machinery and equipment is:

engines, machinery, tools, and implements that are capitalized by the taxpayer for tax purposes under the Internal Revenue Code and are used or designed to be used in the business for which the credit is claimed. (G.S. 105-129.2(5))

Effective for taxable years beginning on or after January 1, 1999:

Machinery and equipment is:

engines, machinery, tools, and implements used or designed to be used in the business for which the credit is claimed. (G. S. 105-129.2(10)) Machinery and equipment leased under a capitalized lease would generally qualify for the credit, but machinery and equipment leased under an operating lease generally would not qualify. Effective for taxable years beginning on or after January 1, 1999, in the case of a large investment (at least \$150,000,000), machinery and equipment that is not capitalized by the taxpayer is eligible if the taxpayer leases it from another party. (G. S. 105-129.9)

### Type of Businesses

A taxpayer must engage in one of the following types of businesses and the machinery and equipment for which a credit is claimed must be used in that business:

#### Effective taxable years beginning on or after Jan. 1, 1998

- central administrative office that creates at least 40 new jobs
- data processing
- manufacturing or processing
- warehousing or distribution
- air courier services

#### Effective taxable years beginning on or after Jan. 1, 1999

- central administrative office that creates at least 40 new jobs
- data processing
- manufacturing
- warehousing or wholesale trade
- air courier services

### Computation of Credit

The credit is 7% of the eligible investment amount over the applicable threshold. The eligible investment amount is the lesser of:

- the cost (in accordance with section 1012 of the Internal Revenue Code) of the machinery and equipment, and
- the amount by which the cost of all of the taxpayer's machinery and equipment that is in service in North Carolina on the last day of the taxable year exceeds the cost of all of the taxpayer's machinery and equipment that was in service in North Carolina on the last day of the base year. (G.S. 105-129.9(a) and (b))

The base year is that year, of the three immediately preceding taxable years, in which the taxpayer had the most machinery and equipment in service in North Carolina. (G.S. 105-129.9(b))

If total North Carolina eligible investment is less than the total of eligible investments per tier due to a decrease(s) in investment in one or more tiers, then a proration of the total North Carolina eligible investment may be required to the tiers in which investment increased.

The threshold is based on the enterprise tier of the area where the machinery and equipment are placed in service during the taxable year. Thresholds for Tier One through Tier Five are: \$0, \$100,000, \$200,000, \$500,000, and \$1,000,000, respectively. If machinery and equipment is placed in service in more than one area during the taxable year, the threshold applies separately to the machinery and equipment placed in service in each area. If the taxpayer places eligible machinery and equipment in service in an area over the course of a two-year period, the applicable threshold for the second taxable year is reduced by the eligible investment amount for the previous taxable year. (G. S. 105-129.9(c)).

The allowable credit is divided equally over a seven year period following the year the property is placed in service. (G.S. 105-129.9(a))  
The credit is not allowed for property expensed under Section 179 of the Internal Revenue Code.

### Development Zones

A development zone is considered an enterprise tier one area. Development zones are in effect for taxable years beginning on or after January 1, 1999 (G. S. 105-129.3A)

### Change in Ownership of a Business

This does not create new eligibility, but a successor business may take any installment or carried-over portion of a credit which would have been allowed to the predecessor business. (G.S. 105-129.4(e))

### Movement to Higher Tier

If machinery and equipment for which a credit has been claimed is later moved to an area of a higher-numbered tier, or is moved from a development zone to an area that is not a development zone, the credit is recomputed as if the machinery and equipment had been placed originally in the area to which it was moved. (G.S. 105-129.9(d))

### Eligible to Non-Eligible

If machinery and equipment is sold or moved out of North Carolina, (or for taxable years beginning on/or after January 1, 1997, *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, the credit expires and a taxpayer may not take any remaining installment of the credit except for the portion of an installment that accrued in a previous year and had been carried forward. (G.S. 105-129.9(d))

### Letter of Commitment

Effective for taxable years beginning on or after January 1, 1998, a taxpayer may sign a letter of commitment with the Department of Commerce for a planned expansion to place specific machinery and equipment in service in an area within two years of the date the letter was signed and compute the credit for the enterprise tier and development zone designation for the year the letter was signed. If the area is redesignated to a higher-numbered enterprise tier, or has lost its development zone designation, the credit is allowed based on the area's enterprise tier and development zone designation for the year the letter was signed. (G.S. 105-129.9(e))

### Franchise or Income Election

A taxpayer must elect the tax against which a credit will be claimed when filing the return on which the first installment of the credit is claimed. The election is binding on the return on which the first installment is claimed as well as all carryforward years. Prior to the 1997 amendment to G.S. 105-129.5, the election had been required when the taxpayer *applied* for the credit. The amendment is **retroactive to taxable years beginning on or after January 1, 1996**. (G.S. 105-129.5)

### Cap on Credit

Total of all credits under Article 3A may not exceed 50% of the tax against which they are claimed for the taxable year, reduced by the sum of all other credits allowed against that tax, except tax payments made by or on behalf of the taxpayer. Credits may be carried forward for five succeeding years. Effective for taxable years beginning on or after January, 1, 1999, any unused portion of a credit with respect to a large investment (at least \$150,000,000) may be carried forward for twenty succeeding years. (G.S. 105-129.5)

### Certification

To claim the credit, the taxpayer must provide with the tax return the certification of the Secretary of Commerce. (G.S. 105-129.6)