

# Instructions for 1999 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 your tax less the sum of all other tax credits that you claim. Forms NC-478A through NC-478F are used to calculate the specific credits without regard to the 50% limitation. Form NC-478 is used to total the specific credits, to determine if the 50% limitation applies, and, if so, to allocate the limited total credit among the specific credits.

## 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:

- Creating Jobs (Form NC-478A)
- Investing in Machinery and Equipment (Form NC-478B)
- Research and Development (Form NC-478C)
- Worker Training (Form NC-478D)
- Investing in Central Administrative Office Property (Form NC-478E)
- Investing in Business Property (Form NC-478F)
- Use of North Carolina Ports (Form NC-478, Line 7)
- Manufacturing Cigarettes for Export (Form NC-478, Line 7)

Each of the above tax credits are available to individuals, partnerships, estates, trusts, and corporations except the tax credit for manufacturing cigarettes for export, which is available only to corporations. For tax year 1999, insurance companies may claim the credit for research and development and the credit for investing in central administrative office property against their gross premiums tax. Beginning with tax year 2000, insurance companies can claim any of the credits listed above except for the credit for use of North Carolina ports and the credit for manufacturing cigarettes for export.

These forms are to be used by each individual, partnership, corporation (domestic or foreign), estate, trust, and insurance company that claims a tax credit that is subject to the 50% of tax limitation. Form NC-478 and the applicable form for any specific credit must be stapled to the front page of your tax return if you are eligible to claim a tax credit, regardless of whether your tax liability is great enough for you to claim a tax credit in the current period. Corporations staple these forms behind CD-479, Annual Report Form. Certification received from the Secretary of Commerce must also be attached if you are claiming the credit for creating jobs, investing in machinery and equipment, research and development, worker training, or investing in central administrative office property. Failure to attach these forms to your tax return may result in the disallowance of these tax credits.

**Pass-through entities.** A pass-through entity must provide sufficient information about the tax credits to its owners or beneficiaries to allow the owner or beneficiary to complete the Form NC-478 series. The information shall 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.

## Specific Instructions

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

**Part 1.** After completing the applicable Forms NC-478A through NC-478F, enter the totals from those forms on the appropriate lines in Part 1 of Form NC-478. If you are claiming the credit for use of North Carolina ports or the credit for manufacturing cigarettes for export, complete and attach a separate schedule to show how you calculated that credit and enter the name and amount of the credit on Line 7. Add Lines 1 through 7 and enter the total on line 8. This is the total amount of tax credits subject to the 50% of tax limitation. *Individuals, partnerships, trusts and estates* enter the credits only in the Income column because those taxpayers do not owe franchise tax. *Corporations* may elect for each credit other than the credit for use of North Carolina ports or the credit for manufacturing cigarettes for export whether to claim the credit against franchise or income tax. The credit for use of North Carolina ports or the credit for manufacturing cigarettes for export

may only be claimed against income tax. The election is made at the time the first installment of a credit is claimed and is binding for all future installments of that credit. *S corporations* enter the total amount of credit if the credit is being applied against franchise tax; however, if the credit is being applied against income tax, enter only the portion of each credit that is allocable to nonresident shareholders on whose behalf a composite return is filed. *Insurance companies* claim the credits against their gross premiums tax by completing the Franchise column. *Partnerships* enter only the portion of each credit that is allocable to its nonresident partners on whose behalf the managing partner of the partnership pays tax. *Trusts and estates* enter only the portion of the credit that is allocated to the fiduciary.

**Part 2.** Complete Part 2 to determine if the total credits reported in Part 1 must be reduced because the total credits exceed 50% of your tax less other credits.

**Line 9 -** *Individuals* enter the amount of tax from Form D-400, Line 13. *Partnerships* add the amounts on Form D-403, Part 3, Line 17 for each nonresident partner and enter the total here. *Trusts and estates* enter the amount of tax due from Form D-407, Line 8. *Corporations* enter the amount of franchise tax from Form CD-405, Schedule A, Line 5, in the Franchise column, and the amount of income tax due from Form CD-405, Schedule F, Line 13, 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 F, Line 13, in the Income column. *Insurance companies* enter the total amount of gross premiums tax.

**Line 10 -** *Individuals* add the amounts on Form D-400TC, Lines 27 and 39, and enter the total here. *Corporations* enter the total amount of tax credits not subject to the 50% of tax limit from Form CD-425, Line 6, in the Franchise or Income column, whichever is elected. *S corporations* enter the total amount of franchise tax credits not subject to the 50% of tax limit from Form CD-425, Line 6, in the Franchise column; however, enter only the amount of income tax credits not subject to the 50% of tax limit allocated to nonresidents on whose behalf a composite return is filed in the Income column. *Partnerships* enter the amount from Form D-403TC, Line 5. *Trusts and estates* enter the amount from Form D-407TC, Line 6.

**Line 13 -** Enter the lesser of Line 8 or Line 12. If Line 8 exceeds Line 12, complete Part 3; otherwise, enter the amount of Line 13 on Line 21.

**Part 3.** If Line 8 exceeds Line 12, your total credits in Part 1 exceeded 50% of your tax less other credits and must be reduced to the amount on Line 13. You may choose how to allocate the allowable amount of credit (Line 13) among the credits for which you are eligible (Lines 1 through 7) by completing Lines 14 through 20. If the amount of eligible credit in Part 1 exceeds the amount of allocated credit in Part 3, you may be eligible to carry forward the excess amount and claim it next year.

**Line 21 -** Add lines 14 through 20 and enter the total. This amount must equal the amount on Part 2, Line 13. *Individuals* enter this amount on Form D-400TC, Part 4, Line 30. *Partnerships* enter this amount on Form D-403TC, Part 2, Line 8. *Trusts and estates* enter this amount on Form D-407TC, Part 2, Line 9. *Corporations* enter the total amount of tax credits from the Franchise and Income columns on Form CD-425, Part 3, Line 7. *Insurance companies* claim this amount on the appropriate line on the gross premiums tax return.

**Part 4.** If you claimed a tax credit for investing in business property on Line 6, enter the cost of business property placed in service during the current year for which the credit is allowed. Enter that amount even if you were required to allocate credits in Part 3 and elected to enter \$0 on Line 19. *Partnerships* enter only the portion of the cost of business property that is allocable to its nonresident partners on whose behalf the managing partner of the partnership pays tax. *Trusts and estates* enter only the portion of the cost of business property that is allocated to the fiduciary. *S corporations* enter the total cost of business property 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 business property that is allocable to its nonresident shareholders on whose behalf a composite return is filed.

**NC-478A - Tax Credit for Creating New Jobs**

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

*Individuals, C corporations, and S corporations claiming this credit against franchise tax*, complete NC-478A and enter the amount from Part 4, Line 6 on Form NC-478, Line 1. *S corporations claiming the credit against income tax*, complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 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 4, Line 5, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 among the partners. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 4, Line 5, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount allocated to the fiduciary.

**NC-478B - Tax Credit for Investing in Machinery and Equipment**

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

*Individuals, C corporations, and S corporations claiming this credit against franchise tax*, complete NC-478B and enter the amount from Part 3, Line 5 on Form NC-478, Line 2. If machinery and equipment was placed in service over a two year period, reduce the amount on Part 1, Line 6 by the amount entered on Line 9 of the 1998 Form CD-478B. *S corporations claiming the credit against income tax*, complete Parts 1 and 4 as one taxpayer, then allocate the amount from Part 1, Line 9 among the shareholders. Complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 4, 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 4 as one taxpayer, then allocate the amount from Part 1, Line 9 among the partners. Complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 3, Line 4, 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 4 as one taxpayer, then allocate the amount from Part 1, Line 9 among the fiduciary and the beneficiaries. Complete Parts 2 and 3 by including only the amount allocated to the fiduciary.

**NC-478C - Tax Credit for Research and Development**

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

*Individuals, C corporations, S corporations claiming this credit against franchise tax, and insurance companies* complete NC-478C and enter the amount from Part 3, Line 4 on Form NC-478, Line 3. *S corporations claiming the credit against income tax* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 or Part 2, Line 6 among the shareholders. Complete Part 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 2, 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 1, Line 7 or Part 2, Line 6 among the partners. Complete Part 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 3, Line 2, 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 1, Line 7 or Part 2, Line 6 among the fiduciary and the beneficiaries. Complete Part 3 by including only the amount allocated to the fiduciary.

**NC-478D - Tax Credit for Worker Training**

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

*Individuals, C corporations, and S corporations claiming this credit against franchise tax*, complete NC-478D and enter the amount from Part 2, Line 3 on Form NC-478, Line 4. *S corporations claiming the credit against income tax*, complete Parts 1 and 3 as one taxpayer. Add Part 1, Lines 4 and 8, and allocate the total amount among the shareholders. Complete Part 2 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 2, Line 2, 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 Part 1, Lines 1 and 5, and Part 3 as one taxpayer. Part 1, Lines 2 through 4 and Lines 6 through 8, must be completed on a partner-by-partner basis. (**Note:** The maximum credit (\$1,000 for line 2 and \$500 for line 6) applies to each partner.) For those lines, add the amounts calculated for each partner and enter the total on this form. Complete Part 2 by including the amounts calculated for those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 2, Line 2, 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 3 as one taxpayer, add Part 1, Lines 4 and 8, then allocate the total among the fiduciary and the beneficiaries. Complete Part 2 by including only the amount allocated to the fiduciary.

**NC-478E - Tax Credit for Investing in Central Administrative Office Property**

The credit for investing in central administrative office property is taken in seven equal installments beginning in the tax year following the year in which the taxpayer begins to use the property as a central administrative office.

*Individuals, C corporations, S corporations claiming this credit against franchise tax, and insurance companies* complete NC-478E and enter the amount from Part 3, Line 4 on Form NC-478, Line 5. *S corporations claiming the credit against income tax*, complete Parts 1 and 4 as one taxpayer, then allocate the amount from Part 1, Line 11 among the shareholders. Complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 3, 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 Part 4 as one taxpayer. Complete Part 1 on a partner-by-partner basis. (**Note:** The maximum credit (\$500,000) applies to each partner.) For each line, add the amounts calculated for each partner and enter the total on this form. Complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 3, Line 3, 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 4 as one taxpayer, then allocate the amount from Part 1, Line 11 among the fiduciary and the beneficiaries. Complete Parts 2 and 3 by including only the amount that is allocated to the fiduciary.

**NC-478F - Tax Credit for Investing in Business Property**

The credit for investing in business property is taken in five equal installments beginning in the tax year in which the property is placed in service.

*Individuals, C corporations, and S corporations claiming this credit against franchise tax*, complete NC-478F and enter the amount from Part 3, Line 6 on Form NC-478, Line 6. *S corporations claiming the credit against income tax*, complete Part 1 as one taxpayer, then allocate the amount from Line 5 among the shareholders. Complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 5, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 1 on a partner-by-partner basis. (**Note:** The maximum credit (\$4,500) applies to each partner.) For each line, add the amounts calculated for each partner and enter the total on this form. Complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner of the partnership pays the tax. On Part 3, Line 5, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Part 1 as one taxpayer, then allocate the amount from Part 1, Line 5 among the fiduciary and the beneficiaries. Complete Parts 2 and 3 by including only the amount that is allocated to the fiduciary.