

J. Deduction of Contributions (G.S. 105-130.9(1), (2) and (3))

1. Preliminary Statement

Subject to certain limitations, contributions or gifts made by a corporation within the income year to qualified donees are deductible in determining net income.

2. Charitable Contribution Defined

For purposes of this section charitable contributions are defined per section 170 (c) of the Internal Revenue Code.

3. Contributions Limited to 5% of Net Income (G.S. 105-130.9(1))

The deduction for contributions made to qualified organizations other than contributions made to the State of North Carolina, a municipality in North Carolina, or any of their institutions, instrumentalities, or agencies, and to qualified educational institutions located within North Carolina are limited to an amount not exceeding five percent (5%) of the corporation's net income as determined before the deductions for contributions. State law does not permit a corporation to carryover unused contributions to subsequent years.

4. Contributions Fully Deductible (G.S. 105-130.9(2))

Contributions or gifts made by a corporation to the State of North Carolina, a county in North Carolina, a municipality in North Carolina, or any of their institutions, instrumentalities, or agencies, and to qualified educational institutions located within North Carolina are fully deductible in arriving at net income or loss. "Educational institution" means only an educational institution that normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where the educational activities are carried on. This term, however, is deemed to include the institution's departments, schools and colleges as well as a group of educational institutions and an organization (corporation, trust, foundation, association or other entity) organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the sole benefit of an educational institution or group of such institutions.

Example: Corporation B deducted contributions of \$100 to a North Carolina county agency, \$50 to a college located in North Carolina and \$50 to other qualified donees in determining net income of \$1000 before deduction of a net economic loss of \$500. The allowable contributions deduction is computed as follows:

Net income	\$1,000
Add: Contributions	<u>200</u>
Net income before net economic loss deductions	\$1,200
Less: Net economic loss brought forward	<u>500</u>
Net income before contributions deduction	\$ 700
Less allowable contributions:	
Other qualified donees (not to exceed 5% of \$700)	35
College located in North Carolina	50
North Carolina county agency	<u>100</u>
	\$ 185
Net taxable income	\$ 515

5. Contributions by Corporations Allocating Net Income (G.S. 105-130.9(3))

A corporation which is required to apportion its total net income to North Carolina by using the allocation and apportionment methods in G.S. 105-130.4 must deduct from total net income allocable to North Carolina the contributions it made to North Carolina donees qualified in subdivisions (1) and (2) of G.S. 105-130.9.

However, the deduction for contributions made to North Carolina donees qualified in subdivision (1) of G.S. 105-130.9 is limited to 5% of total net income allocated to North Carolina as computed before this deduction. Furthermore, the contributions that qualify as a direct deduction from total net income allocated to North Carolina cannot be deducted in arriving at the corporation's total net income subject to apportionment.

Example: Corporation C's records show net income of \$114,000 before the deductions for a net economic loss and contributions. Contributions total \$6,200 and include \$200 to a North Carolina agency, \$2,000 to other North Carolina donees and \$4,000 to qualified donees located outside North Carolina.

The deduction for contributions is determined as follows:

Net income before contributions and net economic loss deduction	114,000
Less: Contributions to donees outside North Carolina	<u>4,000</u>
Total	\$110,000
Less: Total nonapportionable income	<u>10,000</u>
Total apportionable income	\$100,000
Apportionable to North Carolina —35%	\$ 35,000
Add: Nonapportionable income directly allocated to North Carolina	<u>1,000</u>
Total income allocated to North Carolina	\$ 36,000
Less: Allowable portion of net economic loss deduction	<u>6,000</u>
Total income allocated to N C before contributions to donees	\$ 30,000
Less: Contributions	
North Carolina donees (not to exceed 5% of \$30,000)	\$1,500
North Carolina county agency	<u>200</u>
	\$ 1,700
Net taxable income	\$ 28,300