

## **X. Qualified Subchapter S Subsidiaries**

### **1. Preliminary Statement**

The Federal Small Business Job Protection Act of 1996 allows S corporations to own qualified S corporation subsidiaries, (QSSS). The parent must elect qualified S corporation treatment for its 100% owned subsidiary. For federal tax purposes, a QSSS is not treated as a separate corporation, but rather all the subsidiary's assets, liabilities, and items of income, deductions and credits are treated as those of the S corporation parent. (IRC Section 1361(b)(3)(A)). North Carolina follows the federal treatment for income tax purposes and recognizes all the income and expense items as belonging to the parent corporation. (Reference: North Carolina Technical Advice Memorandum dated August 1, 1997, Qualified Subchapter S Subsidiaries, (CTAM 97-13))

### **2. Parent S Corporation Nexus**

All of the subsidiary's activities will be attributed to the parent for purposes of determining whether the parent is doing business in North Carolina.

### **3. Apportionment Factors**

The S corporation must aggregate and include the subsidiary's items of income, loss, and deductions before determining the parent's apportionable or allocable income. The S corporation parent must also include the subsidiary's property, payroll and sales in determining the parent's apportionment factors.

### **4. Franchise Tax Returns**

Each QSSS doing business in this State and each parent S corporation doing business in this State must file a separate franchise tax return for each taxable period based on their own separate attributes. The assets, liabilities, income, deductions or credits of the parent and the qualified S corporation are not combined for this purpose. A franchise tax return must be filed even if the resulting liability is the minimum franchise tax.

### **5. Shareholders**

Shareholders in an S corporation parent with a QSSS doing business in this State must report income attributable to this State in accordance with Part 1A of Article 4 of Chapter 105 of the General Statutes.