

F. Allocation and Apportionment Procedures (G.S. 105-130.4)

1. Preliminary Statement

A corporation that is taxable both within and without North Carolina is required to allocate and apportion its entire net income or loss to North Carolina in accordance with the statutory formula under G.S. 105-130.4.

No corporation is allowed to use any alternative formula or method of reporting its income to North Carolina except upon written order of the Secretary of Revenue. Any return in which any formula or method other than as prescribed by statute is used without the permission of the Secretary is not a lawful return.

2. Alternate Apportionment Formula

If any corporation believes that the statutory allocation formula allocates a greater portion of its income than is reasonably attributable to business or earnings in this State, it may make a written request with the Secretary of Revenue for permission to use an allocation formula that it believes is a better method to allocate its income to North Carolina.

The written request must be made with the Secretary not later than ninety (90) days after the regular or extended due date of the tax return. Taxpayers should address all correspondence in connection with such petitions to the Secretary of Revenue.

If the request for an alternative method of apportionment is granted, the order can apply to no more than three years. If the request is denied, the Secretary's decision is final and is not subject to administrative or judicial review. A corporation authorized to use an alternative formula may apportion its capital stock base using the alternative method or the statutory method.

3. Statutory Procedures for Reporting Net Income or Loss to North Carolina

a. Determine Net Income Everywhere

The corporation should determine its net income or loss from its entire operations conducted everywhere during the income year in accordance with the instructions given in the subject, "Computation of Net Income." In computing such net income only contributions to donees outside North Carolina are deductible. Contributions to qualified North Carolina donees are deductible only from total income allocated to North Carolina, computed in Item h.

b. Determine Nonapportionable Income

The corporation should review its entire net income or loss as computed in Item a to determine whether any items of nonapportionable income, loss and expense qualify for direct allocation to North Carolina and other states pursuant to G.S. 105-130.4, subdivisions (d) through (h). Any expenses directly and/or indirectly related to an activity that produces nonapportionable income must be considered in the computation of nonapportionable income to be allocated. See Subject: "Attribution of Expenses to Nontaxable Income and to Nonapportionable Income and Property" in this section.

c. Determine Apportionable Income

The corporation determines its apportionable income or loss by deducting all nonapportionable income or loss directly allocable to North Carolina and other states (computed in Item b) from its entire net income or loss (computed in Item a).

d. Compute Apportionment Factors

The corporation is required to determine and compute the apportionment factor applicable to its principal business operations conducted everywhere during the income year. When the income from specific property constitutes nonapportionable income, the value of such property and items of nonapportionable income, loss, and expense directly allocable to North Carolina and other states must be excluded in computing the apportionment factors.

e. Apportion Income to North Carolina

The corporation determines the amount of its apportionable income or loss attributable to North Carolina by applying the factor computed in Item d to the total business income or loss as computed in Item c.

f. Determine Total Income Allocable to North Carolina

The corporation should review the total amount of nonapportionable income or loss as computed in Item b and list separately the amount of such income or loss directly allocable to North Carolina. This amount, added to the amount of apportionable income or loss apportioned to this State in Item e, represents the total amount of the corporation's entire net income or loss that is subject to North Carolina tax.

g. Percentage Depletion Deduction Before Net Economic Loss Deduction

The amount of percentage depletion over cost depletion on North Carolina property must be deducted before claiming any net economic loss carryover deduction.

h. Determine Total North Carolina Income Before Deductions for Contributions to North Carolina Donees

To determine total North Carolina income before the deduction for contributions to North Carolina donees, the corporation deducts the allowable portion of any net economic loss for a prior year or years from the total income determined as described in Item g.

i. Determine Total Net Taxable Income in North Carolina

Finally, the corporation arrives at its net taxable income in North Carolina by deducting contributions made to qualified North Carolina donees from the amount of total North Carolina income as computed in Item h.