

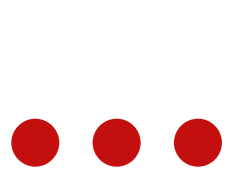
Corporate Tax Reduction as an Alternative to Economic Development Incentives

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Scope of the Project

- Calculate the revenue neutral corporate income tax and franchise tax rates that would offset the income tax and franchise tax lost as a result of the Bill Lee tax credits, JDIG and One North Carolina Fund incentives
- If corporate income tax and franchise tax rates are lowered and Lee credits abolished, who wins and who loses?



Incentives to be Examined

- Bill Lee Tax Credits
 - Bill Lee credits can be taken against NC income taxes (corporate and individual), franchise taxes or gross premiums taxes
 - Credits claimed may not exceed 50% of the tax against which they are taken
 - Unused credits may be carried forward (generally for five years)



Incentives to be Examined

- General Fund Appropriations
 - Job Development Incentive Grant (JDIG)
 - Amounts provided by the NC Dept of Commerce include actual disbursements made to company and to industrial development fund
 - One North Carolina Fund
 - Amounts provided by the NC Dept of Commerce include actual disbursements made (not amounts committed)



Incentives to be Examined

- Other tax “incentives” described in the State’s Economic Development Inventory such as special sales and use tax exemptions and special weighting of the corporate tax apportionment formula will not be examined



Analysis

- Tax years to be examined include 2002 – 2005 for the Bill Lee and One North Carolina Fund incentives and 2004-2005 for JDIG
- Detailed tax data for 2006 tax returns is not yet available from the Dept of Revenue



Analysis

- Using tax-return data provided by the NC Dept of Revenue, the Lee credits taken on tax returns for each tax year were broken down by entity type and whether the tax was claimed against the franchise tax or the income tax



2002 Lee Credits Taken Against:

C Corp franchise tax	\$27,847,571
S Corp franchise tax	<u>\$ 676,429</u>
Total franchise tax	\$28,524,000
C Corp income tax	\$35,290,789
Pass through and trust (individual income tax)	\$ 2,451,728
Individual income tax	\$ 5,297,763
Other	<u>\$ 158,526</u>
Total	<u>\$71,722,806</u>



2002 Lee Credits taken by C-corps:

939 C Corps claimed Lee credits against income tax, franchise tax or both

Top 10% claimed 67% of the credits

Top 25% claimed 85% of the credits



2003 Lee Credits Taken Against:

C Corp franchise tax	\$30,817,371
S Corp franchise tax	<u>\$ 1,979,778</u>
Total franchise tax	\$32,797,149
C Corp income tax	\$34,856,431
Pass through and trust (individual income tax)	\$ 2,912,613
Individual income tax	\$ 5,538,763
Other	<u>\$ 92,600</u>
 Total	 <u>\$76,197,556</u>



2003 Lee Credits taken by C-corps:

835 C Corps claimed Lee credits against income tax, franchise tax or both

Top 10% claimed 68% of the credits

Top 25% claimed 87% of the credits



2004 Lee Credits Taken Against:

C Corp franchise tax	\$30,319,451
S Corp franchise tax	<u>\$ 990,593</u>
Total franchise tax	\$31,310,044
C Corp income tax	\$46,974,415
Pass through and trust (individual income tax)	\$ 2,606,912
Individual income tax	\$ 7,013,468
Other	<u>\$ 187,036</u>
 Total	 <u>\$88,091,875</u>



2004 Lee Credits taken by C-corps:

807 C Corps claimed Lee credits against income tax, franchise tax or both

Top 10% claimed 68% of the credits

Top 25% claimed 86% of the credits



2005 Lee Credits Taken Against:

C Corp franchise tax	\$33,284,959
S Corp franchise tax	<u>\$ 597,281</u>
Total franchise tax	\$33,882,240
C Corp income tax	\$47,157,462
Pass through and trust (individual income tax)	\$ 2,346,166
Individual income tax	\$ 6,784,847
Other	<u>\$ 559,822</u>
 Total	 <u>\$90,730,537</u>



2005 Lee Credits taken by C-corps:

863 C Corps claimed Lee credits against income tax, franchise tax or both

Top 10% claimed 67% of the credits

Top 25% claimed 86% of the credits



2006 Lee Credits Taken Against:

C Corp franchise tax	\$21,818,986
S Corp franchise tax	<u>\$ 326,525</u>
Total franchise tax	\$22,145,511
C Corp income tax	\$24,427,268
Pass through and trust (individual income tax)	\$ 1,053,832
Individual income tax	\$ 6,358,332
Other	<u>\$ 796,053</u>
 Total	 <u>\$54,780,996</u>



2006 Lee Credits taken by C-corps:

C Corps claimed Lee credits against income tax, franchise tax or both

Top 10% claimed 67% of the credits

Top 25% claimed 87% of the credits



JDIG and One NC Fund Incentives:

Year	JDIG	One NC Fund
2002	\$ 0	\$ 942,786
2003	\$ 0	\$1,477,989
2004	\$ 466,080	\$2,193,250
2005	\$2,178,094	\$3,426,772



2005 Corporate Income Tax:

Number of returns: 80,167

Net Tax Liability (after credits): \$958,482,337

Top .27% (217 companies) paid 56.5% of the tax

Top 2.09% (1,674 companies) paid 86.66% of the tax

● ● ● | 2005 Corporate Franchise Tax:

Number of returns (C-corp and S-corp): 206,318

Net Tax Liability (after credits): \$331,255,274

● ● ● | 2005 Revenue Neutral Income Tax Rate:

Statutory Corporate Tax Rate: 6.9%

Revenue Neutral Rate:

- Without Lee Credits 6.59%

- Without Lee, JDIG and
One NC Fund
6.55%

● ● ● | 2005 Revenue Neutral Franchise Tax Rate:

Statutory Franchise Tax Rate: \$1.50 per
thousand of taxable assets

Revenue Neutral Rate:

- Without Lee Credits \$1.37 per
thousand of taxable assets*

* Does not take into account \$35 minimum tax
or cap on holding companies



2004 Corporate Income Tax:

Number of returns: 80,629

Net Tax Liability (after credits): \$899,663,264

Top .25% (199 companies) paid 57.71% of the tax

Top 1.9% (1,532 companies) paid 86.32% of the tax

● ● ● | 2004 Corporate Franchise Tax:

Number of returns (C-corp and S-corp): 198,897

Net Tax Liability (after credits): \$310,875,669

● ● ● | 2004 Revenue Neutral Income Tax Rate:

Statutory Corporate Tax Rate: 6.9%

Revenue Neutral Rate:

- Without Lee Credits 6.57%

- Without Lee, JDIG and
One NC Fund
6.55%

● ● ● | 2004 Revenue Neutral Franchise Tax Rate:

Statutory Franchise Tax Rate: \$1.50 per
thousand of taxable assets

Revenue Neutral Rate:

- Without Lee Credits \$ 1.37 per
thousand of taxable assets*

* Does not take into account \$35 minimum tax
or cap on holding companies



2003 Corporate Income Tax:

Number of returns: 79,896

Net Tax Liability (after credits): \$726,941,265

Top .19% (154 companies) paid 55.26% of the tax

Top 1.63% (1,305 companies) paid 84.92% of the tax

● ● ● | 2003 Corporate Franchise Tax:

Number of returns (C-corp and S-corp): 190,370

Net Tax Liability (after credits): \$286,610,347

● ● ● | 2003 Revenue Neutral Income Tax Rate:

Statutory Corporate Tax Rate: 6.9%

Revenue Neutral Rate:

- Without Lee Credits 6.59%

- Without Lee, JDIG and
One NC Fund
6.58%

● ● ● | 2003 Revenue Neutral Franchise Tax Rate:

Statutory Franchise Tax Rate: \$1.50 per thousand of taxable assets

Revenue Neutral Rate:

- Without Lee Credits \$1.35 per thousand of taxable assets*

* Does not take into account \$35 minimum tax or cap on holding companies



2002 Corporate Income Tax:

Number of returns: 80,073

Net Tax Liability (after credits): \$736,810,205

Top .20% (158 companies) paid 59.38% of the tax

Top 1.51% (1,211 companies) paid 85.40% of the tax

● ● ● | 2002 Revenue Neutral Income Tax Rate:

Statutory Corporate Tax Rate: 6.9%

Revenue Neutral Rate:

- Without Lee Credits 6.59%

- Without Lee, JDIG and
One NC Fund
6.58%



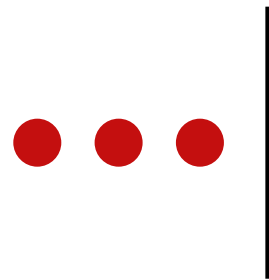
Who wins and who loses?

A small number of NC corporations (200 – 235) receive the vast majority (over 85%) of Lee credits.

However, a small number of NC corporations also pay a majority of the NC corporate income tax.

150 – 200 corps pay 55% to 60%

1200 – 1700 corps pay over 85%



Who wins and who loses?

Next steps:

Are these the same companies?