

OVERVIEW OF FRANCHISE AND STATE PRIVILEGE LICENSE TAXES

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Corporate Franchise Tax

- Paid by corporations for the privilege of doing business in NC
- \$1.50 per \$1,000 of the largest of three alternate bases
- Collect about \$520 million

Franchise Tax

- Privilege tax for:
 - ▣ Privilege of engaging in business
 - ▣ The “enjoyment, under the protection of the laws of this State, of the powers, rights, privileges and immunities derived from the State by the form of” the existence of the business structure
 - ▣ The benefit and protection received from the government and laws of NC in doing business

Businesses Not Subject to the Tax

- ❑ Limited Liability Companies (unless electing to be taxed as a corporation)
- ❑ Partnerships
- ❑ Sole proprietors
- ❑ Insurance companies

Limited Liability Companies

- Limited Liability Companies pay higher annual report fee (\$200) in lieu of franchise tax
- Annual report fee for Corporations is \$18 if filed online and \$25 if a paper report is filed with the Department of Revenue

Calculation of Franchise Tax

Tax rate applied to highest of three asset bases:

- Capital stock, surplus, and undivided profits apportioned to the State (similar to net worth)
- Depreciated value of NC real and tangible personal property
- 55% of the appraised value of NC real and tangible personal property

Rate of Tax

- \$1.50 per \$1,000
- \$35 minimum tax
- \$75,000 maximum tax for holding companies – those that receive at least 80% of income from subsidiaries

Some Franchise Tax Statistics

- Approximately 220,000 returns
- Taxpayers with franchise taxable amount over \$20 million make up less than 1% of the returns, but pay about 75% of the total tax
- Taxpayers paying the \$35 minimum tax make up more than half of the returns

State Privilege License Taxes

- Personal Privilege License (\$5M to \$6M)
 - ▣ Attorney, CPA, Doctor, Dentist, Vet, Real Estate Broker, appraiser, engineers, architect, mortician, others
 - ▣ \$50 per year
 - ▣ Local government cannot levy license tax on professions taxed at the state level
- Banks (\$15M)
 - \$30 per \$1 Million of assets held
 - Local government cannot levy license tax on banks

State Privilege License Taxes

- Loan Agencies (\$250k)
 - ▣ Making loans other than by banks, check cashing, pawnbrokers
 - ▣ \$250 per location
 - ▣ Local government can levy tax but not to exceed \$100
- Installment Paper Dealers (\$15M)
 - ▣ .277% of the face value of the obligations
 - ▣ Local government cannot levy license tax

State Privilege Taxes

- Publishers of newsprint publications (\$20k)
 - ▣ Incentive to use recycled content
 - ▣ If minimum recycled content is not used, tax of \$15 per ton of the shortage is imposed
 - ▣ Proceeds credited to Solid Waste Management Trust Fund

Questions?

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