CORPORATE INCOME AND FRANCHISE TAX APPORTIONMENT

SINGLE SALES FACTOR

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Apportionment

- Multi-state corporations divide income among states where they do business for taxation
- Apportionment intended to prevent double taxation
- Multiply income by apportionment % to determine tax liability
- Apportion Income and Franchise Tax

Apportionment Formula

- Uniform Division of Income for Tax Purposes Act (UDIPTA) (1950s)
  - Model law relating to the apportionment of income among the states for corporations that do business in multiple states
  - Three Factors
    - Percentage of property located in a state
    - Percentage of payroll paid in a state
    - Percentage of sales in a state
  - Equally weighted = 3 Factors each weighted 1/3

NC Sales Weight in factor

- Until 1989 equally weighted factors
  - Sales factor makes up 1/3 of formula
  - Property factor + payroll factor + sales factor/3
- Current Law is double weighted sales factor
  - Sales factor makes up 1/2 of formula
  - Property factor + payroll factor + 2x sales factor/4
- Proposal
  - Sales factor makes up 2/3 of formula
  - Property factor + payroll factor +4x sales factor/6

Double weight sales and equal weight: $1,000 Taxable Income

North Carolina 2xSales		**State 2 Equal weighted**	
NC property:	50%	In-state property:	50%
NC payroll:	50%	In-state payroll:	50%
NC sales: 20%x2	40%	In-state sales:	20%
Apportionment %:		Apportionment %:	
140%/4 =	35%	120%/3 =	40%
Income to NC:	$350	Income State 2:	$400
Tax at 5%	$18	Tax at 5%	$20

4 x sales
$1,000 in Taxable Income

4 x Sales Factor

NC property:	50%
NC payroll:	50%
NC sales 20% x 4	80%
Apportionment %	
180%/6 =	30%
Income to NC	$300
Tax at 5%	$15

Single Sales Factor Example $1,000 in Taxable Income

100% Sales Factor

NC property:		50%
NC payroll:		50%
NC sales		20%
Apportionment %		
Only sales	=	20%
Income to NC		$200
Tax at 5%		$10

Arguments For Single Sales Factor

- Economic Development
  - Encourages investment and job creation in NC
  - Rewards companies that increase share of property and payroll in NC
  - Exports the tax burden to out-of-state companies that use the state as a market rather than as a location for their jobs, investment, and production activity

Arguments For Single Sales Factor

- Consistency
  - NC allows single sales factor for some industries already
  - Excluded corporations (building contractors, securities dealer, loan company, corporation receiving more than 50% of ordinary income from intangible property
  - Public Utilities
  - Capital Intensive Corporation ($1Billion investment)

Arguments Against Single Sales Factor

- Not an Effective Economic Development Tool
  - States follow the trend in a race to the bottom
- Arbitrarily Picks Winners and Losers
  - Policy change will result in big winners and losers in both income and franchise tax
  - If NC share of company sales is more than NC share of company property and payroll, tax liability increases
- Ignores why businesses pay tax
  - Property and employees = demand for government services
  - Ignores the investment and production activity that occurs in the State

Some Arguments Against Single Sales Factor

- Does not help the majority of North Carolina companies because their sales are entirely in North Carolina
  - Small NC company that serves as a supplier to a large multi-state corporation does not benefit but the multistate corporation with large manufacturing plant gets a big benefit. Most corporate income tax returns are filed by 100% NC companies

Apportionment Formulas
Neighbor States

- Virginia: Double-weighted sales with option of single sales factor apportionment for manufacturing and retail companies
- South Carolina: Sales factor only
- Tennessee: Double-weighted sales factor
- Georgia: Sales factor only

Questions?

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