North Carolina Bill May Provide Refund Opportunities

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North Carolina recently passed House Bill 200 which allows an additional deduction in computing its corporate franchise tax. The North Carolina franchise tax is computed by applying the franchise tax rate to the largest of the following three taxable bases:

1. Capital stock, surplus, and undivided profits;
2. Investment in North Carolina tangible property; or
3. Appraised value of North Carolina tangible property.

Prior to House Bill 200, North Carolina taxpayers were allowed to reduce the "Capital stock, surplus, and undivided profits" franchise tax base by any reserves for depreciation of tangible assets (i.e., "accumulated depreciation") allowed for income tax purposes. Effective with the passage of House Bill 200, North Carolina taxpayers can also reduce the "Capital stock, surplus, and undivided profits" franchise tax base by reserves for allowable tax amortization of intangible assets. The statute modification is contained in North Carolina Gen. Stat. §105-122(b)(2), which describes deductions in computing the franchise tax base, and now allows the subtraction for amortization as underlined below:

> Taxes accrued, dividends declared, and reserves for depreciation of tangible assets and for amortization of intangible assets as permitted for income tax purposes. [Emphasis added]

Since the revision to Gen. Stat. §105-122(b)(2) is effective for taxable years beginning on or after January 1, 2007, North Carolina taxpayers should review their returns to determine if this change may provide any refund opportunities.

If you have any questions regarding the revisions to North Carolina's franchise tax base or how these changes may impact your company, please feel free to contact Geoff Christian at 864-241-2009, gchristian@dlptax.com or Russell Padgett at 864-241-2006, rpadgett@dlptax.com.

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