

SUMMARY OF SELECTED N.C. TAX CREDITS

WILLIAM S. LEE TAX CREDITS (ARTICLE 3A)

As part of the William S. Lee Act, North Carolina offers several types of tax credits to eligible taxpayers that undertake qualifying activities. These credits may be used to offset up to 50% of the taxpayer's state income and/or franchise tax liability, and unused credits may be carried forward for up to five years (extended carry forwards exist for projects with large/substantial investment). Several types of Lee Act credits are available, including the following:

Job Creation Tax Credit

Eligible taxpayers that create a minimum number of new full-time jobs during the year may claim a credit based on the number of net new jobs created. The amount of the credit is determined by the location of the new jobs, ranging between \$500 and \$16,500 per job. The credit is taken in equal installments over four years following the year the job is created.

Investment Tax Credit

Eligible taxpayers are allowed a credit based on a percentage of the cost of machinery and equipment placed in service during the year, in excess of the applicable threshold. The credit percentage (between 4% and 7%) and the applicable threshold (between \$0 and \$2 million) are both based on the location where the machinery and equipment is placed in service. The credit is taken in equal installments over seven years, beginning the year after the machinery and equipment is first placed in service.

Worker Training Tax Credit

Taxpayers that are eligible for the job creation credit or the investment tax credit may claim an additional credit for training at least five eligible employees. The amount of credit is equal to the wages paid during the training, capped at either \$500 or \$1,000 per employee trained, again based on the location. The credit is taken in the year the employees are trained.

Research and Development Tax Credit

Eligible taxpayers that claim the Federal Research and Experimentation Tax Credit may claim a state R&D tax credit for increasing research activities in North Carolina. The credit is equal to 5% of the state's apportioned share of the taxpayer's expenditures for R&D or 25% of the state's apportioned share of the federal credit claimed (for taxpayers claiming the Alternative Incremental Credit). This credit will sunset on January 1, 2006 and has been replaced by the Research and Development Tax Credit under Article 3F (a summary of that credit follows).

Central Administrative Office Credit

A taxpayer that has purchased or leased property and

begins to use it as a Central Administrative Office ("CAO") is allowed a credit equal to 7% of the real property investment. In order to qualify, the taxpayer must hire at least 40 new office jobs during the taxable year the property is first placed in service. The total credit is capped at \$500,000 per taxpayer and is taken in equal installments over seven years following the year in which the real property is first placed in service.

To qualify for Lee Act credits, the following eligibility requirements must be met:

1. The primary business of the taxpayer and/or establishment must be an eligible business type.
2. The average wage of the establishment, the new jobs, and the workers trained must meet or exceed the applicable wage standard of the county in which the establishment is located.
3. The taxpayer must provide health insurance for all full-time positions at the location and pay at least fifty percent (50%) of the premiums.
4. The taxpayer must certify that it has not received any significant environmental violations with the North Carolina Department of Environment and Natural Resources within the prior five years.
5. The taxpayer must certify that it has not received any "willful" or "failure to abate" serious OSHA violations at the location within the prior three years.

RESEARCH AND DEVELOPMENT TAX CREDIT (ARTICLE 3F)

Taxpayers that have qualified North Carolina research expenses during a taxable year are allowed a credit equal to a percentage of those expenses - determined in the following manner:

1. Small business - If the taxpayer was a small business as of the last day of the taxable year, the applicable percentage is three percent (3%).
2. Low-tier research - For expenses with respect to research performed in an enterprise tier 1, 2, or 3 area, the applicable percentage is three percent (3%).
3. Other research - For expenses not covered under subdivision (1) or (2) above, the percentages provided in the table below apply to the taxpayer's qualified North Carolina research expenses during the taxable year at the following levels:

<u>Qualified Expenses</u>	<u>Rate</u>
\$0-\$50 million	1%
\$50-\$200 million	2%
Over \$200 million	3%

Note: A taxpayer that has North Carolina university research expenses for the taxable year is allowed a credit equal to fifteen percent (15%) of those expenses.

Article 3F Research and Development credits may be used to offset up to 50% of state income or franchise tax after all other credits allowed against that tax are applied.