The credit for investing in machinery and equipment expired for taxable years beginning on or after January 1, 2007. However, if you signed a letter of commitment with the Department of Commerce on or before December 31, 2006 stating your intent to invest in machinery and equipment in this State, the credit is repealed for business activities that occur in taxable years beginning on or after January 1, 2008.

If you have a letter of commitment and you conduct an activity that qualifies for the investing in machinery and equipment credit under Article 3A, you may not take any credits under Article 3J with respect to the same establishment for activities occurring in 2007.

The following instructions for completing Part 1 through Part 3 of NC-478B apply to taxpayers that have a signed letter of commitment. Taxpayers who do not have a letter of commitment may continue to take installments of the credit and any carryforward of prior years’ installments by completing Parts 4 and 5.

**Part 1. Qualifying Information.** (The information requested in Part 1 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during 2007. If you invested in machinery and equipment at more than one establishment in 2007, complete a separate NC-478B for each establishment.)

To be eligible for the credit for investing in machinery and equipment, a taxpayer must be one of the eligible business types. In addition, taxpayers must meet all of the following conditions:

1. Meet the general eligibility requirements.
2. Purchase or lease eligible machinery and equipment.
3. Place the eligible machinery and equipment in service during the 2007 tax year.

**Name, Address, and County of Establishment at which Credit is Generated.** Enter the name, address, county, and NAICS Code for each establishment in which an investment of machinery and equipment is made. If the establishment is located in a tier three, four, or five area and not in a development zone or agrarian growth zone, a wage standard test must also be satisfied. The wage standard test for investing in machinery and equipment requires the combined average weekly wage of all jobs at the location with respect to which the credit is claimed to meet the wage standard. For more information about the wage standard test, see the “Guidelines for Article 3A Tax Credits” available from the Department’s website.

**Tier, Zone, and Health Insurance Information.** The amount of credit allowed for investing in machinery and equipment is based upon the enterprise tier of the area in which machinery and equipment is placed in service. The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce’s website, www.nccommerce.com, and click on “financial incentives/North Carolina County Tier Designations.”

Within each tier, there may be designated “development zones” or “agrarian growth zones.” Development zones and agrarian growth zones recognize defined areas of economic need within a tier. For purposes of computing the credit for machinery and equipment, development zones and agrarian growth zones are considered tier one areas.

Taxpayers must provide health insurance for all full-time positions at the location with respect to which the credit is claimed. The insurance must be provided to the employees at the time the machinery and equipment is purchased or leased and placed in service and must be maintained to claim an installment or carryforward of the credit. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location.

**Part 2. Computation of Credit Amount for Investing in Machinery and Equipment in 2007 with Signed Letter of Commitment.** (The information requested in Part 2 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during tax year 2007. If you invested in machinery and equipment at more than one establishment in 2007, complete a separate NC-478B for each establishment.)

**Line 1.** Enter the cost of eligible machinery and equipment purchased or leased and placed in service in North Carolina during the 2007 tax year. Machinery and equipment are eligible if they are capitalized for tax purposes under the Internal Revenue Code and not leased to another party. (Note. Property expensed under Section 179 of the Internal Revenue Code, real property, and rolling stock are not eligible.) The cost of machinery and equipment is determined pursuant to the regulations of Section 1012 of the Internal Revenue Code. The cost of leased property is valued at eight times the net annual rental rate.

**Line 2.** Enter the cost of all machinery and equipment in service in North Carolina on the last day of the tax year. (Note. Also enter this amount in the 2007 column of Part 3.)

**Line 3.** Enter the cost of all machinery and equipment in service in North Carolina on the last day of the base year. The base year is that year, of the three immediately preceding taxable years, in which the most eligible machinery and equipment was in service in this State.

**Line 4.** Subtract Line 3 from Line 2, but not less than zero.

**Line 5.** Enter the lesser of Line 1 or Line 4. This is the maximum eligible investment amount for investing in machinery and equipment in North Carolina for tax year 2007.

**Line 6.** If you invested in machinery and equipment at more than one establishment during tax year 2007, enter the amount of Line 5 attributable to this establishment.

**Line 7.** Enter the applicable threshold from the following table based on the enterprise tier of this establishment:

<table>
<thead>
<tr>
<th>Tier 1, Agrarian Growth, or Development Zone</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-</td>
<td>$100,000</td>
<td>$200,000</td>
<td>$1,000,000</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

**Line 8.** Subtract Line 7 from Line 6, but not less than zero. If the calculated amount is zero or less, stop. **You are not eligible for the credit for investing in machinery and equipment for 2007.** If the calculated amount is greater than zero, enter the amount on Line 8.

**Line 9.** Multiply Line 8 by the applicable credit percentage from the following table based on the enterprise tier of this establishment:

<table>
<thead>
<tr>
<th>Tier 1, Agrarian Growth, or Development Zone</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>
This is the amount of credit for investing in machinery and equipment at this establishment in 2007. The total credit amount for investing in machinery and equipment in 2007 for ALL establishments must also be entered in the Credit History Table. (See Part 5, 2007 Column, Credit Amount.)

Line 10. Divide Line 9 by the number 7. This is the eligible installment amount for this establishment to be taken starting in tax year 2008.

Part 3. Machinery and Equipment in Service in North Carolina on the Last Day of the Tax Year. (The information requested for Part 3 is a cumulative total for all establishments and should be entered only once on the last NC-478B filed.)

Enter the total cost of all eligible machinery and equipment in service in North Carolina on the last day of the tax year for each year requested. This information should be used to determine the base year on Part 2, Line 3.

Part 4. Computation of Amount To Be Taken in 2007. (The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last NC-478B filed.)

Line 11. Enter the 2006 installment amount. (From 2006 NC-478B, Part 2, Line 10.)

Line 12. Enter the 2005 installment amount. (From 2005 NC-478B, Part 2, Line 10.)

Line 13. Enter the 2004 installment amount. (From 2004 NC-478B, Part 2, Line 10.)

Line 14. Enter the 2003 installment amount. (From 2003 NC-478B, Part 2, Line 10.)

Line 15. Enter the 2002 installment amount. (From 2002 NC-478B, Part 2, Line 10.)

Line 16. Enter the 2001 installment amount. (From 2001 CD-478B, Part 2, Line 10.)

Line 17. Enter the 2000 installment amount. (From 2000 CD-478B, Part 2, Line 10.)

Line 18. Enter the portion of installment amounts not taken for tax years 1996 through 2005.

Line 19. Add Lines 11 through 18. This is the amount of credit to take in 2007 for investing in machinery and equipment. (Carry amount to Line 2 of NC-478.)

Part 5. Machinery and Equipment Credit History Table. (The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last NC-478B filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of NC-478.)

Credit Amount In the 2007 column, enter the total credit amount for investing in machinery and equipment in tax year 2007. (Add Part 2, Line 9 for all establishments.) In the 2000 through 2006 columns, enter the total credit amount as calculated on the prior years’ NC-478B.

Installments In the 2000 through 2006 columns, enter the amount of installment actually taken in each tax year. The amount of installment taken includes the amount of each year’s installment utilized during that tax year plus any unused portion of a prior year’s installment taken in that tax year. (For more information on the Credit History Table, see the detailed example.)

Carryforwards Taken If any portion of a prior year’s installment is taken in tax year 2007, enter the amount in the applicable column. (Important. Carryforwards taken do not include the amount of current year’s installment taken. Carryforwards taken should only be entered if in 2007 a portion of a prior year’s installment is utilized.)

Carryforwards To Take In Future If the current year’s installment is not fully utilized in tax year 2007, enter the amount not taken as a carryforward to take in the future. (Important. Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2007 a portion of a current year’s installment can not be utilized due to the 50% of tax limitation.)

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. The credit for investing in machinery and equipment expires if a taxpayer fails to meet the general eligibility requirements described previously. Generally, installments expire if the machinery and equipment are disposed of, taken out of service, or moved out of North Carolina prior to the end of the seven-year period in which the credit is claimed. (For a detailed example on how to calculate the amount of expired installment, see the “Guidelines for Article 3A Tax Credits” available from the Department’s website.)

Pass-through Entities. S corporations claiming the credit for investing in machinery and equipment against income tax complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the shareholders. Complete Parts 4 and 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 18, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. Partnerships complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the partners. Complete Parts 4 and 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 18, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. Trusts and estates complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount allocated to the fiduciary.