

State of the State Update

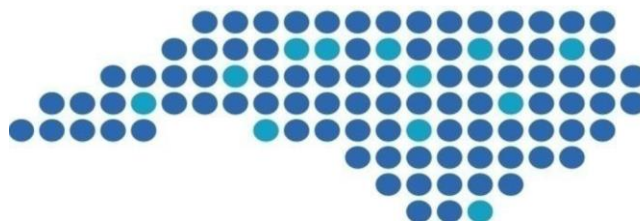


Personal Income Taxes

Office of State Controller Summit

June 5, 2018

- This presentation is for general information only.
- Presentation content can not be interpreted as specific tax advice for a specific tax situation.
- This presentation does not take draft or future legislation into account.





DOR Senior Leadership

- **Secretary of Revenue– Ronald G. Penny**
- **Chief Operating Officer – Jocelyn Andrews**
- **Assistant Secretary Tax Administration – Anthony Edwards**
- **Assistant Secretary Business Services – Angela Altice**
- **Assistant Secretary CIO/IT – David Roseberry**



Secretary Ronald G. Penny



- Ronald G. Penny has been the Secretary of Revenue since April 2017.
- Penny served as Acting Secretary of Revenue from January 2017 until his permanent appointment in April.
- Penny holds a Bachelor of Science in Economics from NC A&T University and a law degree from UNC Chapel Hill and lives in Clayton.



Chief Operating Officer Jocelyn Andrews



- Jocelyn was appointed Chief Operating Officer in May 2016 after serving a number of leadership roles in DOR during her 30+ year career at DOR.
- Jocelyn was the first female agent in the Department's Criminal Investigation's Division.
- Jocelyn received her degree from Campbell University.



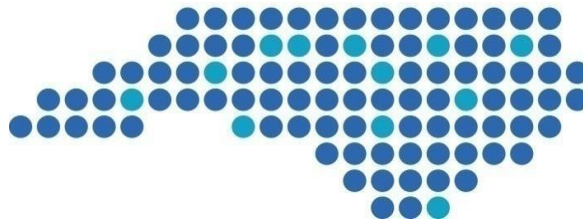
Office of Taxpayer Advocate



Office of Taxpayer Advocate
P.O. Box 871
Raleigh, NC 27602
919-715-2080

- A taxpayer who has exhausted all normal administrative channels may contact the Taxpayer Advocate's office for assistance.
- The office can be reached by mail or by phone.
- Taxpayer should complete Form NC-TA available from the Department's website.

Legislative Changes Affecting Individual Income Tax



NCDOR Personal Income Tax Rate

- Previously, there were three individual income tax rates – 6%, 7%, and 7.75%, with different thresholds for the different filing statuses.
- For tax year 2014, North Carolina law changed to a single individual income tax rate of 5.8%.
- For tax year 2015, the tax rate decreased from 5.8% to 5.75%.
- For tax year 2016, the tax rate remained 5.75%.
- For tax year 2017, the tax rate decreased from 5.75% to 5.499%.
- For tax year 2018, the tax rate will remain 5.499%.
- For tax year 2019, the tax rate will decrease from 5.499% to 5.25%.



Personal Income Tax Rate



The 2015 General Assembly amended G.S. 105-163.2(b)(1) to require the Department to revise the withholding tables and alternative methods of calculating the amount of tax withheld to reflect a tax rate equal to the individual income tax rate plus 0.1%.

For tax year 2018, the tax rate imposed is 5.499%, so the withholding rate on wages paid in 2018 is 5.599%.

For tax year 2019, the tax rate will be lowered to 5.25%. The withholding rate on wages paid in 2019 will be 5.35%.

For tax year 2019, the revised withholding tables and alternative methods will be included in Form NC-30, "2019 Withholding Tables and Instructions for Employers," which should be available on the Department's website in late 2018.

Standard Deduction

Beginning in 2014, the North Carolina General Assembly began increasing the standard deduction a taxpayer may deduct from adjusted gross income based on the taxpayer's filing status. The 2016 and 2017 General Assembly continued this practice.

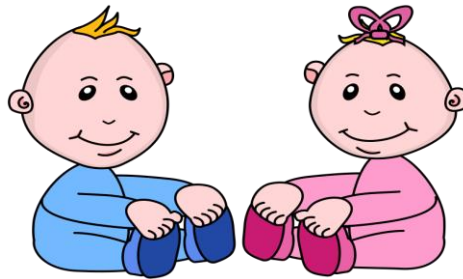
Filing Status	Standard Deduction for taxable years beginning on or after January 1, 2017 and before January 1, 2019	Standard Deduction for taxable years beginning on or after January 1, 2019
Married, filing jointly/ surviving spouse	\$17,500	\$20,000
Head of Household	\$14,000	\$15,000
Single	\$8,750	\$10,000
Married, filing separately	\$8,750	\$10,000

Important. The North Carolina standard deduction amount is zero for a person who is not eligible for a federal standard deduction.



Child Deduction Amount

- Effective for taxable years beginning on or after January 1, 2018, North Carolina's child tax credit is repealed and has been replaced with a new **child deduction**.
- The new child deduction allows a taxpayer a deduction for each dependent child for whom the taxpayer is allowed a federal child tax credit under IRC section 24.



Child Deduction Amount

The new "Child Deduction Amount" for a taxpayer with a filing status of "Married, Filing Jointly or Surviving Spouse" is equal to the amount listed below based on the taxpayer's AGI, as calculated under the Code.

Filing Status	AGI	Deduction Amount
Married, Filing jointly/Surviving spouse	Up to \$40,000	\$2,500.00
	Over \$40,000 Up to \$60,000	\$2,000.00
	Over \$60,000 Up to \$80,000	\$1,500.00
	Over \$80,000 Up to \$100,000	\$1,000.00
	Over \$100,000 Up to \$120,000	\$500.00
	Over \$120,000	\$0.00



Child Deduction Amount

The new “Child Deduction Amount” for a taxpayer with a filing status of “Head of Household” is equal to the amount listed below based on the taxpayer’s AGI, as calculated under the Code.

Filing Status	AGI	Deduction Amount
Head of Household	Up to \$30,000	\$2,500.00
	Over \$30,000 Up to \$45,000	\$2,000.00
	Over \$45,000 Up to \$60,000	\$1,500.00
	Over \$60,000 Up to \$75,000	\$1,000.00
	Over \$75,000 Up to \$90,000	\$500.00
	Over \$90,000	\$0.00



Child Deduction Amount

The new “Child Deduction Amount” for a taxpayer with a filing status of “Single/ Married, filing separately” is equal to the amount listed below based on the taxpayer’s AGI, as calculated under the Code.

Filing Status	AGI	Deduction Amount
Single/Married, filing separately	Up to \$20,000	\$2,500.00
	Over \$20,000 Up to \$30,000	\$2,000.00
	Over \$30,000 Up to \$40,000	\$1,500.00
	Over \$40,000 Up to \$50,000	\$1,000.00
	Over \$50,000 Up to \$60,000	\$500.00
	Over \$60,000	\$0.00



Child Deduction Amount



Employees are not required to file a new Form NC-4, NC-4EZ, or NC-4P because the child tax credit has been replaced with a child

deduction. However, employees should be aware that they could either be entitled to an additional allowance or lose an existing allowance because of the law change. Employees are encouraged to review the number of allowance claimed in 2018.

****For detailed information, see the Department's "Important Notice" dated September 15, 2017 available on the Department's website.**



Payment Settlement Entity

New G.S. 105-251.2(c) requires a **payment settlement entity** that is required to file a return with the IRS to also submit the same information to the Department at the same time the information is filed with the IRS.

- The term "payment settlement entity" has the same meaning as provided in section 6050W of the Code. Under section 6050W, the term generally means:
 - (a) In the case of a payment card transaction, the **merchant acquiring entity**. The term "merchant acquiring entity" means the bank or other organization which has the contractual obligation to make a payment to participating payees in settlement of payment card transactions.

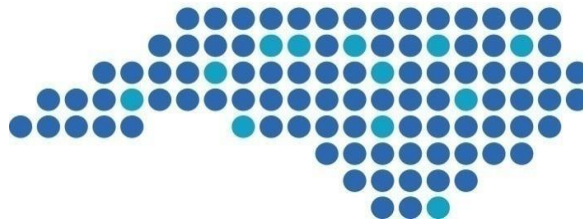
NCDOR Payment Settlement Entity

- (b) In the case of a third party network transaction, the **third party settlement organization**. The term “third party settlement organization” means the central organization which has the contractual obligation to make payment to participating payees of third party network transactions.
- Under the Code, each payment settlement entity must report the following information for each calendar year:
 - (1) The name, address, and identification number of each participating payee to whom one or more payments in settlement of **reportable payment transactions** are made.
 - (2) The gross amount of the reportable payment transactions with respect to each participating payee.

NCDOR Payment Settlement Entity

- In general, the term “**reportable payment transaction**” means any payment card transaction and any third party network transaction. The term “**payment card transaction**” means any transaction in which a payment card is accepted as payment, and the term “**third network transaction**” means any transaction which is settled through a third party network.
- **New G.S. 105-251.2(d)** requires the report to be filed with Secretary in an **electronic format**.
- Any report not timely filed is subject to a failure to file penalty of \$1000.

Federal Changes that May Affect Individual Income Tax



On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act ("Tax Act"). In addition, on February 9, 2018, President Trump signed into law the Bipartisan Budget Act of 2018 ("Budget Act"). The Tax Act and the Budget Act include a wide range of tax changes that will impact most individuals to some extent.

For example:

- Increases the federal standard deduction and eliminates the personal exemption.
- Expands the calculation of medical expenses and changes the floor to 7.5% for tax years 2017 and 2018.
- Extends certain provisions set to expire at the end of tax year 2016, including:
 - deduction for education expenses,
 - the deduction for mortgage insurance premiums as deductible mortgage interest,
 - the exclusion from gross income of the discharge of an individual's qualified principal residence indebtedness.





Tax Cuts and Jobs Act of 2018 Bipartisan Budget Act of 2018

The North Carolina General Assembly convened on May 16, 2018. Even if the General Assembly enacts legislation to update the Internal Revenue Code reference to February 9, 2018 or later, it may elect to continue to decouple from some federal provisions. In that case, taxpayers will be required to make decoupling adjustments to their individual income tax returns.

Therefore, any person required to file a North Carolina income tax return and whose 2017 federal taxable income or federal adjusted gross income was impacted by the amendments to federal law included in the TCJA or the BBA should check the Department's website, www.ncdor.gov, for updates that will be posted as they become available.



Tax Cuts and Jobs Act of 2018 Bipartisan Budget Act of 2018

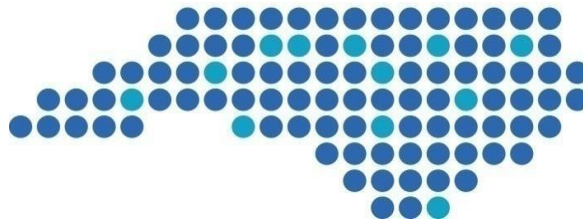
Senate Bill 715, Various Changes to the Revenue Laws, was introduced on Thursday, May 17th. This bill encompasses North Carolina's adoption of the Internal Revenue Code.

The progress of SB 715 can be tracked on the North Carolina General Assembly's website.

<https://www.ncleg.net/>



Various North Carolina Withholding Requirements



General Requirements



North Carolina law requires withholding of income tax from:

- (a) Salaries and wages of all NC residents regardless of where earned,
- (b) Wages of nonresidents for services performed in NC,
- (c) Non-wage compensation paid to nonresidents for certain personal services performed in NC,
- (d) Pension payments paid to NC residents if federal withholding is required on the payments,
- (e) Contractors identified by an Individual Taxpayer Identification Number (ITIN) if the contractor performs services in NC for compensation other than wages, and
- (f) Winnings of \$600 or more paid by the NC State Lottery Commission



4% Withholding of Taxes

Every payer who pays more than \$1500 during a calendar year to either a **nonresident contractor** or an **ITIN contractor** is required to deduct and withhold 4% of the compensation paid to the contractor.

- A **nonresident contractor** is either a nonresident individual or a nonresident entity that performs in NC for compensation other than wages any personal services in connection with a performance, an entertainment event, an athletic event, a speech, or the creation of a film, radio, or television program.
- An **ITIN contractor** is a person whose taxpayer identification number is an “Individual Taxpayer Identification Number (ITIN)” who performs services in NC for compensation other than wages.



NC-4NRA

- In general, North Carolina's wage bracket tables incorporate the amount of NC standard deduction allowed to a taxpayer in determining the amount of income tax to be withheld. However, nonresident aliens **may not be eligible** for the standard deduction.
- Form NC-4 NRA requires the nonresident alien employee to enter on Line 2 an additional amount of income tax to be withheld for each pay period to account for the inclusion of the standard deduction in the wage bracket tables. The additional withholding properly addresses the tax impact of the ineligibility for the standard deduction for the nonresident alien employee.
- To determine whether or not an individual is eligible to claim a standard deduction, see IRC publication 519, “U.S. Tax Guide for Aliens.”





Due Dates

- Employers who withhold an average of less than \$250 from wages each month must file **Form NC-5** and submit the taxes withheld on a **quarterly basis**.
- Quarterly returns and payments are due by the last day of the month following the end of the calendar quarter.
- Employers who withhold an average of at least \$250 but less than \$2000 from wages each month must file **Form NC-5** and submit the taxes withheld on a **monthly basis**.
- Monthly returns and payments, except those in December, are due the 15th day of the month following the month the tax was withheld. December filings are due January 31st.



Due Dates

- Employers who withhold an average of \$2000 or more each month from wages must file **Form NC-5P** and submit the taxes withheld on a **semi-weekly basis**.
- Semi-weekly returns and payments are due at the same time they are required to file the returns and pay the tax withheld for federal income tax purposes.
- **Form NC-5 and Form NC-5P** can be filed electronically using the Department's website, www.ncdor.gov



At the end of each year, an employer must:

- Prepare wage and tax statements for employees (**W-2s**), and **Form 1099PS** or **NC-1099ITIN** for contractors from whom NC tax was withheld. (Note. Federal form 1099-MISC may be filed in lieu of NC forms NC-1099PS or NC-1099ITIN if the form reflects the amount of NC tax withheld.)
- Furnish a copy of the W-2 and/or 1099 statement to the employee for use in filing income tax returns,
- Submit W-2s and required 1099 statements to the Department along with the annual reconciliation of income tax withheld (**Form NC-3**).



Which 1099 statements are required to be filed with DOR?

- **Form NC-1099PS, NC-1099ITIN, NC-1099NRS**, and any federal report of **Form 1099-MISC** or **1099-R**. **
- Other reports of 1099 information (interest, rents, premiums, dividends) are not required to be filed with the Department as long as these reports have been filed with the IRS.

** The Department administratively limits the filing of Form 1099-MISC and 1099-R to:

Form 1099-Misc	Form 1099-R
Box 16 (State tax withheld) is populated and NC income tax has been withheld , and/or Box 3 (other income) and/or Box 7 (nonemployee compensation) is populated and the recipient's address is in NC.	Box 12 (State tax withheld) is populated and NC income tax has been withheld , and/or the recipient's address is in NC.

- Reconciles the total NC income tax withheld as listed on the W-2 and 1099 statements with the amount of tax reported as withheld for the year.
- Serves as a “cover sheet” for submitting required W-2 and 1099 statements to DOR.
- Must be filed in an electronic format using the Department’s **eNC3** application on or before **January 31st**.
- Subject to a \$50 failure to file penalty if received after January 31st.

The image shows the Form NC-3 Annual Withholding Reconciliation form. It includes a header with the NCDOR logo and the form title. Below the header, there are fields for the filer's name, address, and contact information. The main body of the form is a table with columns for 'Month' and 'Amount'. The months listed are January through December. Below the table, there are several sections for reporting different types of withholding, such as 'Total Tax Withheld as Reported' and 'Total Tax Withheld on W-2 and 1099 Statements'. The form also includes a signature line at the bottom.

What is eNC3?

- An application created by DOR for the electronic submission of original and amended NC-3 forms, wage and tax statements (W-2s), and required 1099 statements.
- The application provides on-line tutorials that walk you through how to submit the required information to DOR.
- For more information, including specifications on how to submit documents to DOR, see <https://www.ncdor.gov/taxes/withholding-tax/enc3>



Questions?

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