

NORTH CAROLINA HANDBOOK FOR ELECTRONIC FILERS OF INDIVIDUAL INCOME TAX RETURNS

TAX YEAR 2008

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CHAPTER 1

INTRODUCTION

The North Carolina Department of Revenue (NCDOR) will accept electronically transmitted individual income tax returns for tax year 2008. This transmission will be in conjunction with the Internal Revenue Service's (hereafter referred to as the IRS) existing E-File Program. The taxpayer's state return can be filed with his/her federal return or the state return can be filed separately. The program for the 2007 tax year was very successful. During 2008, NCDOR processed over 2.5 million individual income tax returns received through the cooperative program.

NCDOR requires all tax professionals to be accepted into the Federal program before they can participate in the Federal/State E-File Program. **Tax professionals do not need to submit an application to NCDOR to be accepted into the E-File program nor does a tax professional need to submit a copy of the federal acceptance letter to participate in the E-File program.**

The North Carolina Handbook is to be used with IRS Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns, and IRS Publication 1345A, Filing Season Supplement for Authorized IRS e-file Providers of Individual Income Tax Returns. The North Carolina Handbook sets forth those items that are specifically unique to NCDOR. All rules, regulations, and requirements specified by the IRS governing tax preparers, transmitters, and originators of returns are in effect for NCDOR.

The IRS provides detailed instructions on hardware, transmission procedures, policies, etc. in Publications 1345 and 1345A. We encourage participants to study and become familiar with these documents.

CHAPTER 2

PUBLICATIONS

The following publications describe the process of E-File and Federal/State E-File.

INTERNAL REVENUE SERVICE PUBLICATIONS

Publication 1345 - Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns

Publication 1345A - Filing Season Supplement for Authorized IRS e-file Providers of Individual Income Tax Returns

Publication 1346 - Electronic Return File Specifications for Individual Income Tax Returns

Publication 3112 - IRS e-file Application and Participation

NORTH CAROLINA DEPARTMENT OF REVENUE PUBLICATIONS

North Carolina Handbook for Electronic Filers of Individual Income Tax Returns (Tax Year 2008)

North Carolina Individual Income Tax Guide for Software Developers and Transmitters (Tax Year 2008)

North Carolina Test Package (Tax Year 2008)

CHAPTER 3

CONTACT PERSONNEL

E-File Development Unit

nctaxefile@dornc.com

The E-File Development Unit will assist tax professionals who have questions concerning participation in the E-File program or who are experiencing problems transmitting electronically filed returns. The operating hours are Monday through Friday, 8:00 am to 5:00 pm except holidays. We can be reached toll-free at 1-877-308-9103, option 1. **The number for taxpayer inquiry of the North Carolina refund is 1-877-252-4052.**

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CHAPTER 4

NORTH CAROLINA ELECTRONIC FILING CALENDAR

For Tax Year January 1, 2008 to December 31, 2008

Begin Federal/State Software Testing	November 12, 2008
Last Date to Submit Initial Test Transmission	December 31, 2008
End Federal/State Software Testing	January 12, 2009
Begin Transmitting Returns to IRS/NCDOR	January 16, 2009
Last Date for Timely Filed Returns	April 15, 2009
Last Date for Retransmission of Rejected Timely Filed Returns.....	April 20, 2009
Last Date for Extended Filed Returns	October 15, 2009
Last Date for Retransmission of IRS Rejected Late Filed Returns...	October 20, 2009



NOTE: DATES SUBJECT TO CHANGE AT ANY TIME



CHAPTER 5

AUTHORIZED E-FILE PROVIDERS – DEFINITIONS

An authorized E-File provider can be included in one or more of the categories defined below.

Electronic Return Originator (ERO) – A firm, an organization, or an individual who originates the electronic submission of an income tax return to the IRS and may originate the electronic submission of income tax returns that either they have prepared or that they have collected from taxpayers.

Transmitter – A firm, an organization, or an individual who transmits electronic tax returns directly to the IRS.

Intermediate Service Provider – A firm, an organization, or an individual who receives tax information from an ERO (or from a taxpayer who files electronically using a personal computer, modem, and commercial tax preparation software), processes the tax return information, and either forwards the information to a transmitter or sends the information back to the ERO or taxpayer in the case of online filing.

Software Developer – A firm, an organization, or an individual who designs software for the purpose of formatting returns according to electronic return specifications of the IRS and the NCDOR and/or transmitting electronic tax returns directly to the IRS.

A firm, an organization, or an individual may choose to perform one or all of the above noted functions associated with E-File.

CHAPTER 6

RESPONSIBILITIES OF E-FILE PROVIDERS

Authorized E-File providers must abide by the terms set forth in this handbook and must maintain a high degree of integrity, compliance and accuracy in order to participate in the Federal/State Electronic Filing Program. Persons or firms not meeting these requirements are subject to suspension from the program by the NCDOR Electronic Filing Review Board.

- All providers must comply with the requirements and specifications set forth in IRS Publications 1345, 1345A, 1346, 3112, and this North Carolina Handbook for Electronic Filers.
- Providers must ensure that electronic returns are filed in a timely manner. The date of the IRS acknowledgment will be considered the filing date for a North Carolina return. Electronic filers should confirm acknowledgment of the State return data packet by NCDOR before considering the State portion received.
- Stockpiling of returns for electronic transmission is not permitted. Stockpiling is defined in IRS Publication 1345 as "collecting returns from taxpayers or from authorized e-file providers prior to official acceptance in the program or having more than a few days inventory of returns for electronic transmission in-house."
- A provider may only accept returns for E-File directly from taxpayers or from another accepted electronic filer. If there is any doubt whether an individual or a firm using your service has been accepted by NCDOR to participate in E-File, contact the E-File Development Unit.
- If an electronic filer charges a fee for the electronic transmission of a tax return, the fee may not be based on a percentage of the refund amount or on the amount of taxes.
- A provider must ensure that an electronic return is filed on or before the due date of the return. A tax return is not considered filed until the electronic portion of the tax return has been acknowledged as accepted.
- NCDOR will accept electronically filed North Carolina individual income tax returns that have been submitted for transmission to the IRS Philadelphia Submission Processing Center through October 15, 2009. Any North Carolina returns submitted after October 15, 2009 must be filed as paper documents. Error Resolution System/correspondence will be submitted to the Philadelphia Submission Processing Center.
- EROs should obtain two forms of identification from taxpayers in an effort to discourage abuse of the E-File program. One piece of identification should be a picture ID that reflects the taxpayer's name and current address, if available. The second piece of identification should reflect the same name and the same social security number the taxpayer is using to file the tax return, such as a social security card.

- The employer-issued state copy of the wage and tax statement is the only acceptable wage and tax statement. Tax returns may be prepared using documentation of income and federal tax withholding (such as a pay stub, Leave and Earning Statement, etc.), but the return must not be electronically filed prior to the ERO's receipt of the related Form W-2, W-2G, or 1099-R. If the taxpayer has not received a correct Form W-2, W-2G, or 1099-R by February 15, a Federal Form 4852 or other documentation may be needed to complete the federal and State returns.
- The ERO **must** mail Form NC-478 and series A thru L to the Department.
- Transmitters who provide transmission services to other electronic filers must:
 - Only accept electronic returns for transmission to NCDOR from an accepted electronic filer;
 - Provide acknowledgment files to each client for their transmitted returns within one workday after receipt of the acknowledgments from NCDOR;
 - Include the ERO's EFIN on each return that the transmitter accepts from an ERO;
 - Use their EFIN on returns for which they performed the duties of an ERO; and,
 - Notify NCDOR if the transmitter ceases business operations.
- Electronic filers who function as transmitters must:
 - Transmit all electronic returns within three calendar days of receipt and retrieve the acknowledgment file within two workdays of transmission;
 - Provide acknowledgment files to the ERO or Intermediate Service Provider within two workdays of retrieval from NCDOR;
 - Ensure the security and confidentiality of all transmitted data;
 - Ensure against the unauthorized use of its EFIN or ETIN;
 - Match the state acknowledgment files to the original transmission files and contact the E-File Development Unit if the state acknowledgment has not been received within three days of transmission; and,
 - Retain a state acknowledgment file received until the end of the calendar year in which the electronic return was filed.
- Adhere to advertising standards as explained in the IRS publications.

CHAPTER 7

PROGRAM PARTICIPATION

The Form NC-8633, Application to Participate in the IRS E-File Program, is **not** a requirement for program participation. Tax professionals interested in participating in the Federal/State E-File Program will not have to submit a new or a revised application to the NCDOR. A tax professional must complete IRS Form 8633, Application to Participate in the IRS E-File Program, submit it to the IRS, be accepted into the program, and receive an Electronic Filing Identification Number (EFIN) in order to participate in State E-File. **You will not have to submit to the NCDOR a copy of the federal acceptance letter.** Also, tax professionals will no longer receive a letter of acceptance for the current or subsequent filing seasons from the NCDOR. The NCDOR will continue to send a letter of rejection to participants if necessary for violating the regulations and guidelines of the E-File program. The Department will have access to the Federal Applicant Database that enables the Department to reference pertinent information regarding the tax professional.

The tax professional will need software that has been approved by the IRS and the NCDOR for E-File. A list of approved software developers for the current tax year can be accessed on our web site at www.dornc.com.

The following may result in a tax professional being denied participation in the program:

- Conviction of a criminal offense under the revenue laws of the State of North Carolina, or of any offense involving dishonesty or breach of trust.
- Failure to file timely and accurate returns, both business and personal.
- Failure to pay business and personal tax liabilities.
- Suspension or rejection from the program in a prior year if corrective action is not taken and approved by the NCDOR.
- Other facts or conduct of a disreputable nature that would reflect adversely on the program.
- Unethical practices in return preparation.
- Noncompliance with North Carolina electronic filing rules and regulations as explained in this handbook.

NORTH CAROLINA TESTING PROCESS

Only software developers are required to test their software with North Carolina data. Software developers participating in the program will be provided with test data and instructions to perform the North Carolina testing of Forms D-400 and D-400TC.

Important: NCDOR recommends that a tax professional contract to purchase software capable of electronically filing the North Carolina return after the software developer has completed the testing process with the NCDOR. See page 6 for the dates software developer testing begins and ends. A master list of all approved software developers will be maintained by the E-File Development Unit and is available on the NCDOR's web site.

CHAPTER 8

FEDERAL/STATE ELECTRONIC FILING

EROs, Intermediate Service Providers, and Transmitters accepted in the IRS E-File Program will be able to participate in the Fed/State cooperative program and file both the federal return and the State return in one transmission or the State return separately to the IRS Philadelphia Submission Processing Center. The software used to transmit the data must be certified by both the IRS and the NCDOR. The IRS will acknowledge acceptance of the federal data and receipt of a State data packet. The IRS acts as a conduit through which NCDOR will retrieve the State data packet for processing. The State data packet consists of the State return and a copy of the federal return.

NCDOR will acknowledge receipt of the State data packet through the Fed/State Acknowledgment System and will then process the taxpayer's return.

Approved refunds will be processed within four weeks from the acknowledgment date from NCDOR that is posted to the IRS. Refunds that are directly deposited into a taxpayer's account will be quicker.

There are two ways to file an income tax return electronically. If a taxpayer has a personal computer, the federal and state returns can be filed electronically online. The taxpayer must use tax preparation software or an online service that allows the capability of filing both the federal and state returns electronically. A list of online software products can be found on NCDOR's website. The software package will provide instructions for transmitting the returns. Acknowledgments will be sent to the online transmitter that the State return has been received.

If the taxpayer does not have access to a personal computer, he or she will need to contact a tax professional who offers electronic filing of federal and state returns. Tax professionals must be approved by the IRS.

CHAPTER 9

NORTH CAROLINA ELECTRONIC RETURN

The North Carolina electronic return will consist of data transmitted electronically and supporting paper documents, if applicable. In total, an electronic return contains the same information as a comparable return filed entirely on paper documents.

ELECTRONIC NORTH CAROLINA RETURN DATA

The following forms and schedules may be transmitted electronically and are considered the "electronic portion" of the return:

- NC Form D-400
- NC Form D-400TC

NON-ELECTRONIC NORTH CAROLINA RETURN DATA

The following paper documents must be retained in the ERO's office if a North Carolina return is filed electronically:

- State copies of wage and tax statements **must** be maintained. Substitute wage and tax statements and copies of statements created on an ERO's personal computer are not acceptable.
- Supporting documentation for certain tax credits and deductions that are claimed on an e-filed return. The documentation should be mailed to the Department and a copy should be kept in the ERO's office.

EXCLUSIONS FROM ELECTRONIC FILING

In addition to the returns excluded from federal E-File listed in Publications 1345 and 1345A for tax year 2008, the following state returns are also excluded:

- ☞ Form D-400X, Amended Individual Income Tax Return
- ☞ Prior year returns -- any return not for tax year 2008
- ☞ Corrected or amended returns on forms other than Form D-400X
- ☞ Returns for non-calendar year filers
- ☞ Returns requiring more than one Form D-400TC

- ☞ Form D-410, Application for Extension for Filing Individual Income Tax Return
A taxpayer requesting an extension cannot file Form D-410 through the Fed/State E-File Program. However, Form D-410 can be filed electronically through the Department's website at www.dornnc.com. A taxpayer that has received an extension of time to file their return can file their return electronically but must do so by October 15, 2009.

- ☞ Form NC-478 and/or series NC-478A thru L
A taxpayer that is required to file Form NC-478 and/or Forms NC-478A thru L can file their Form D-400 and D-400TC electronically. However, Form NC-478 and Forms NC-478A thru L themselves cannot be filed electronically and must be mailed to the NCDOR.

CHAPTER 10

TRANSMITTING THE NORTH CAROLINA ELECTRONIC RETURN

GENERAL INFORMATION

The North Carolina data packet will be transmitted to the IRS Philadelphia Submission Processing Center with the federal return data. The North Carolina data packet will consist of the electronic State return and a copy of the electronic federal return. **The Philadelphia Submission Processing Center is the only IRS Service Center designated to receive the North Carolina data packet.**

Any E-File provider that is located outside of North Carolina and not assigned to the Philadelphia Submission Processing Center because of his or her geographic location must take specific steps with the IRS to file North Carolina returns electronically. The E-File provider will be issued an EFIN from the IRS that will allow transmission to the appropriate service center.

Under the Federal/State cooperative program, the IRS may reject a State return if an error is detected as a result of entity and consistency checks. IRS Publications 1345 and 1345A should be referenced for the 400 series error codes for Federal/State Electronic Filing. The North Carolina acknowledgment system will provide reject error codes for the North Carolina return.

If a federal return is rejected due to errors, the accompanying State return will also be rejected. If the IRS rejects a State return due to errors, the accompanying federal return will also be rejected. If the error can be corrected, both returns may be retransmitted to the Philadelphia Submission Processing Center. If the federal return cannot be corrected, the State return can be retransmitted separately as a State Only return.

ERROR RESOLUTION AT THE NCDOR

Although the error rate is very low for electronic returns, a few errors may be identified on North Carolina returns when they enter the tax processing cycle at NCDOR. State returns are rejected for specific errors (see Chapter 13). Returns with errors that are not rejected will be corrected through the normal error resolution process. Some errors that will be rejected are duplicate returns, missing social security numbers, and computation errors.

NCDOR will communicate with the transmitter and/or the taxpayer if additional information is needed to correct a return. Providers will only be given limited information about the tax return, including acknowledgment of receipt by NCDOR through the Fed/State Acknowledgement System, the reason for any refund delay, and the date the refund check is released.

CHANGES TO THE RETURNS

If the provider or taxpayer wishes to make any changes after the electronically filed return has been accepted, the taxpayer must file an amended return on Form D-400X. Please do not send

changes or corrections to an e-filed return via the transmission of a State Only return. Amended North Carolina returns should be mailed to:

North Carolina Department of Revenue
PO Box 25000
Raleigh, NC 27640-0640

CHAPTER 11

FED/STATE ACKNOWLEDGMENT SYSTEM

The IRS allows the posting of state acknowledgments through the same portal that is used for federal acknowledgments. This is a single path retrieval method for transmitters. The Fed/State Acknowledgment System is designed to inform EROs, Transmitters, Intermediate Service Providers, and Software Developers that the federal and North Carolina returns have been retrieved from the IRS and the NCDOR. Under normal processing conditions, North Carolina acknowledgments are posted on a daily basis upon return retrieval from the IRS. Transmitters who transmit for EROs and Intermediate Service Providers **must** notify them of the State acknowledgment at the time of receipt.

NCDOR will acknowledge receipt of the State data packet from the IRS through the cooperative Fed/State Acknowledgement System. The North Carolina Acknowledgment Record will indicate acceptance of the return by the NCDOR and include reject codes, if applicable. The North Carolina record only indicates that the Department received or rejected the return. The "State Packet Code" in the IRS's ACK Key Record will indicate receipt of the state return at the IRS Memphis Submission Processing Center. State Only returns will be acknowledged in the same manner as a Fed/State return.

EROs and Transmitters should compare the North Carolina acknowledgment records against the returns transmitted to determine that the Department successfully received all returns. **The timely posting of North Carolina acknowledgments by software developers to their clients is strongly encouraged.** In the event the transmitter does not successfully transmit a state record electronically, immediate affirmation allows the tax professional to promptly file the return through the normal paper process.

CHAPTER 12

WHAT'S NEW FOR TAX YEAR 2008?

- A Taxpayer may deduct 20% of the total amount of accelerated depreciation added to federal taxable income in taxable year 2008 in each of the first five taxable years beginning on or after January 1, 2009.
- Taxpayer is required to add to federal taxable income 85% of the amount allowed as a special accelerated depreciation deduction under section 168(k) of the Code for property placed in service after December 31, 2007, but not before January 1, 2009. In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 for property placed in service for that period, and whose North Carolina taxable income for that year reflected that accelerated depreciation deduction must add to federal taxable income in the taxpayer's 2008 taxable year an amount equal to the applicable percentage of the deduction amount allowed in the 2007 taxable year. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.
- A deduction is allowed from taxable income to the extent each item is included in taxable income, for 5% of the gross purchase price of a qualified sale of a manufactured home community. A qualified sale is a transfer of land comprising majority of the manufactured home community leaseholders or to a nonprofit organization that represents such a group. To be eligible for this deduction, a taxpayer must give notice of the sale to the North Carolina Housing Finance Agency under G.S. 42-14.3
- The amount of a donation made to a nonprofit organization or unit of State or local government for which a credit is claimed under G.S. 105-129.16H. The credit was expanded to include a unit of State or local government.
- The credit for North Carolina State Ports Authority wharfage, handling, and throughout charges was scheduled to sunset for taxable years beginning on or after January 1, 2009. The credit now sunsets effective for taxable years beginning on or after January 1, 2014.
- A refundable Earned Income Tax Credit (EITC) is available to certain taxpayers. In order to better ensure taxpayers receive the tax benefits for which they qualify, software companies producing computer programs for tax calculation should design all tax calculation software, other than forms library products, to automatically compute an individual's eligibility for the State and Federal earned income tax credit when (1) the taxpayer is a North Carolina resident and (2) the taxpayer is preparing both the federal and North Carolina individual income tax returns with the tax calculation software.
- Qualified Business Venture Tax Credit Corp has been increased to \$7,500,000.

- The personal exemption adjustment increased from \$900 to \$1000 per exemption for taxpayers whose adjusted gross income is less than \$100,000 if married filing joint/qualifying widow (er); \$80,000 if head of household; \$60,000 if single; and \$50,000 if married filing separately. For taxpayers with an adjusted gross income exceeding the above limits, the personal exemption adjustment increased from \$1400 to \$1500 per exemption.
- Credit for Adoption Expenses may be claimed on the North Carolina return of 50% of the allowable adoption tax credit claimed on the federal return. A part-year resident or nonresident is allowed the credit in the proportion that federal taxable income (as adjusted) is taxable to North Carolina. Any unused portion of this credit may be carried forward for the next succeeding five years.
- NCDOR is requesting that all online filers provide an IP address.
- Executor name is no longer required for deceased taxpayers.
- The multiplier changed from .3333 to .6666 on the Personal Exemption Adjustment Worksheet.
- Additional reject codes have been added.
- Forms 8839 (Qualified Adoption Expenses), Form 4972 (Lump Sum Distribution), Schedule D-1 and Schedule EIC

REMINDERS

- A taxpayer does **not** have to submit any supporting documentation for an e-filed return for the following: Bailey settlement deduction, other deductions from federal taxable income, other additions to federal taxable income, 1099s, tax credit for taxes paid to another state or country, etc. The Department will contact the taxpayer if any supporting documentation is needed.
- Taxpayers are required to submit Form NC-478 and/or Forms NC-478A thru L if a business incentive or energy tax credit is claimed on an e-filed return. All Forms NC-478 and series A thru L should be mailed to the North Carolina Department of Revenue, PO Box 25000, Raleigh NC 27640-0500 within 48 hours after submitting the electronic individual income tax return. Individual income tax credits associated with Form NC-478 and series A thru L include but are not limited to:
 - Credit for investing in machinery and equipment
 - Credit for creating jobs
 - Credit for research and development

- Credit for worker training
 - Credit for investing in central office or aircraft facility property
 - Credit for technology commercialization
 - Credit for development zone projects
 - Credit for nonhazardous dry-cleaning equipment
 - Credit for investing in low-income housing
 - Credit for use of North Carolina ports
 - Credit for investing in renewable energy property
- Taxpayers are required to submit Form NC K-1 to the NCDOR for an e-filed return if the return shows tax payments from a partnership or S corporation. The form(s) should be mailed to the North Carolina Department of Revenue, PO Box 25000, Raleigh NC 27640-0001 within 48 hours after submitting the electronic individual income tax return.
 - The North Carolina direct deposit **should not be connected to RALs or Bonus Checks (G.S. 143.3.3 – Prohibits RAL on State Refund)**. The NC direct deposit is a true direct deposit, which requires a checking or savings account number and a routing transit number from the taxpayer that can show acceptable proof-of-account of their designated financial institution. RAL accounts are temporary accounts and in some instances, deposits cannot be made before these accounts are closed.

CHAPTER 13

REJECT ERRORS AND CODES

The NCDOR will reject returns for the 2008 tax season. The following reject errors and reject codes should be displayed on the North Carolina acknowledgment record.

Number	Description
9000	Duplicate return.
9001	If the filing status is other than Married Filing Jointly, only the primary taxpayer name and SSN must be present.
9002	The Primary SSN cannot be blank or zero and must be valid.
9003	If the filing status is Married Filing Jointly, the spouse SSN and spouse name must be present and the SSN must be valid.
9004*	If either a taxpayer or spouse (if MFJ) is not a full-year resident, then line 51 cannot be blank or zero.
9005	When line 6 of the D-400TC is greater than zero, then all of lines 1 through 4 of the D-400TC cannot be blank or zero and line 7b must equal one.

- 9006 The sum of D-400TC lines 7a, 15, and 18 must equal line 19 of the D-400TC.
- 9007* If both taxpayer and spouse (if MFJ) are full-year residents, D-400TC line 16 must equal D400TC line 18, and D-400TC line 17 must be zero or blank. If either taxpayer or spouse (if MFJ) is not a full-year resident, both D-400TC line 17 and D-400TC line 18 must equal D-400TC line 16 multiplied by D-400 line 12(or multiplied by 1.0000 if D-400 line 12 is greater than 1.0000).
- 9008 When the filing status equals Single and the AGI is greater than or equal to \$60,000 or Married Filing Jointly and the AGI is greater than or equal to \$100,000 or Married Filing Separately and the AGI is greater than or equal to \$50,000 or Head of Household and the AGI is greater than or equal to \$80,000 or Qualifying Widow (er) with Dependent Child and the AGI is greater than or equal to \$100,000 on the D-400, then lines 16 through 18 of the D-400TC must be zero or blank.
- 9009* If a taxpayer and spouse (if MFJ) are full-year residents, D-400TC line 13 must equal D-400TC line 15, and D-400TC line 14 must be zero or blank. If either taxpayer or spouse (if MFJ) is not a full-year resident, both D-400TC line 14 and D-400TC line 15 must equal D-400TC line 13 multiplied by D-400 line 12(or multiplied by 1.0000 if D-400 line 12 is greater than 1.0000).
- 9010* When line 18 of the D-400 is less than line 22, then lines 23a and 23b must be blank or zero.

- 9011* The sum of lines 19a through 21 must equal line 22 of the D-400.
- 9012* When line 18 of the D-400 is more than line 22, then line 18 minus line 22 must equal line 23a.
- 9013* When line 18 of the D-400 is more than line 22, then lines 25 through 29 must be blank or zero.
- 9014 An amount must be present on line 6 of the D-400, either positive, negative or zero.
- 9015 Line 6 plus line 7 must equal line 8 and line 8 minus line 9 must equal line 10 of the D-400. (Note: Lines 7 and 9 can be positive or zero and lines 6, 8 and 10 can be positive, negative or zero.)
- 9016* If either a taxpayer or spouse (if MFJ) is not a full-year resident, then all of lines 51 through 53 of the D-400 cannot be blank or zero and line 12 must equal line 53.
- 9017 Lines 10 and 11 of the D-400 must equal.
- 9018 Line 15 of the D-400 must equal line 36 of the D-400TC.

- 9019 Line 14 minus line 15 must equal line 16 of the D-400.
- 9020 Line 16 plus line 17 must equal line 18 of the D-400.
- 9021* An amount must be present on line 31 of the D-400, either positive or zero.
- 9022* Line 34 must equal the lesser of lines 32 or 33 of the D-400.
- 9023 An amount must be present for Federal Adjusted Gross Income on the D-400, either positive, negative, or zero.
- 9024 The residency status of the taxpayer and spouse (if MFJ) must be present.
- 9025 A filing status must be present.
- 9026* Line 51 of the D-400 divided by line 52 must equal line 53 rounded to four decimal places.
- 9027* When an amount is present on line 51 of the D-400, an amount must be on line 52.

- 9028 If a taxpayer is a part-year resident, the beginning and ending dates of residency must be present. If the spouse is a part-year resident, the beginning and ending dates of residency must be present.
- 9029 Line 2 of the D-400TC divided by line 1 of the D-400TC must equal line 3 of the D-400TC rounded to four decimal places.
- 9030 Line 4 of the D-400TC must equal line 14 of the D-400.
- 9031 Line 3 of the D-400TC multiplied by line 4 of the D-400TC must equal line 5 of the D-400TC.
- 9032 Line 7a of the D-400TC must be equal to the lesser of line 5 or line 6 of the D-400TC.
- 9033 Line 9 of the D-400TC must be less than or equal to line 8 of the D-400TC.
- 9034 Line 11 of the D-400TC must equal line 8 minus line 9 of the D-400TC.
- 9035 Line 32 of the D-400TC must equal the total of lines 19, 20b, 21, 22, 23, 24, 25, 26b, 27b, 28b, 29b, 30, and 31 of

the D-400TC.

- 9036 Line 34 of the D-400TC must be equal to the lesser of lines 32 and 33. Also, the sum of lines 34 and 35 must equal line 36 of the D-400TC.
- 9037 When line 33 of the D-400TC is blank, then line 36 of the D-400TC must be blank.
- 9038 When line 32 or line 35 of the D-400TC is greater than zero, then line 33 of the D-400TC must equal line 14 of the D-400.
- 9039 The NC Public Campaign Fund election for the taxpayer or spouse (if MFJ) or both is not valid.
- 9040 The NC Political Party Financing Fund election for the taxpayer or spouse (if MFJ) or both is not valid.
- 9041* Line 7 of the D-400 must equal line 40 of the D-400.
- 9042* Line 9 of the D-400 must equal line 50 of the D-400.

- 9043* If a taxpayer and spouse (if MFJ) are full-year residents, then line 11 of the D-400 must equal line 13 and all of lines 12 and 51 through 53 of the D-400 must be blank.
- 9044 If either a taxpayer or spouse (if MFJ) is not a full-year resident, then line 11 of the D-400 multiplied by line 12 must equal line 13.
- 9045 If line 13 of the D-400 is greater than or equal to \$10, then an amount must be present on line 14 of the D-400.
- 9046 If the filing status is not Married Filing Jointly, then line 19b of the D-400 (spouse withholding) must be blank or zero.
- 9047 The indicator denoting an exception to underpayment of estimated income tax is not valid on the D-400.
- 9048* When line 18 of the D-400 is more than line 22, then the sum of lines 23a through 23c must equal line 24.
- 9049* When line 18 of the D-400 is less than line 22, then line 22 minus lines 18 and 23c must equal line 25 if the result is greater than zero.
- 9050* When line 18 of the D-400 is less than line 22, then line 22 minus lines 18 and 23c must equal line 24 if the result is

less than zero.

- 9051* Line 26 of the D-400 plus line 27 must equal line 28.
- 9052* Line 28 of the D-400 must be less than or equal to line 25.
- 9053* Line 25 of the D-400 minus line 28 must equal line 29.
- 9054* Line 30 of the D-400 minus line 31 must equal line 32.
(Note: Line 32 cannot be less than zero.)
- 9055* The sum of lines 34 through 39 of the D-400 must equal line 40.
- 9056* The sum of lines 41 through 49 of the D-400 must equal line 50.
- 9057 If line 7b of the D-400TC is greater than one, then lines 1 through 6 of the D-400TC must be blank.
- 9058 Line 10 of the D-400TC plus line 12 of the D-400TC must equal line 13 of the D-400TC.

- 9059 When line 20b of the D-400TC is greater than zero, then line 20a cannot be blank or zero.
- 9060 When line 28b of the D-400TC is greater than zero, then line 28a cannot be blank or zero.
- 9061 When line 29b of the D-400TC is greater than zero, then line 29a cannot be blank or zero.
- 9062 When line 26b of the D-400TC is greater than zero, then line 26a cannot be blank or zero.
- 9063 When line 27b of the D-400TC is greater than zero, then line 27a cannot be blank or zero.
- 9064 Line 36 of the D-400TC must be less than or equal to line 14 of the D-400.
- 9065 The part-year resident dates for the taxpayer or spouse (if MFJ) or both are not valid dates.
- 9066 If a taxpayer and spouse (if MFJ) are full-year residents, then the nonresident indicators, part-year resident indicators, and part-year resident dates for the taxpayer and spouse (if MFJ) must be blank.

- 9067 If a taxpayer is not a full-year resident, then either the nonresident indicator or the part-year resident indicator and not both must be present. If the filing status is MFJ and the spouse is not a full-year resident, then either the spouse nonresident indicator or the spouse part-year resident indicator and not both must be present.
- 9068 If a taxpayer is a nonresident for the entire year, then the part-year resident dates should be blank. If the filing status is MFJ and the spouse is a nonresident for the entire year, then the spouse part-year resident dates should be blank.
- 9069 The part-year resident indicator for the taxpayer or spouse (if MFJ) or both is not valid.
- 9070 The nonresident indicator for the taxpayer or spouse (if MFJ) or both is not valid.
- 9071 The date of death for the taxpayer or spouse (if MFJ) or both is not valid.
- 9072 Line 17 cannot be less than zero.
- 9073 A numeric field contains invalid data.

- 9074 The software used has not been approved for e-file.
- 9075 If the taxpayer or spouse is deceased, then a corresponding date of death must be present. If the taxpayer or spouse is not deceased, then the corresponding date of death must be blank.
- 9076 The deceased indicator for the taxpayer or spouse (if MFJ) or both is not valid.
- 9077** If a taxpayer and spouse (if MFJ) are full-year residents, D-400 line 21 must equal D-400TC line 38, and D-400TC line 39 must be zero or blank.
- 9078** If either taxpayer or spouse(if MFJ) is not a full-year resident, both D-400 line 21 and D-400TC line 39 must equal D-400TC line 38 multiplied by D-400 line 12 (or multiplied by 1.0000 if D-400 line 12 is greater than 1.0000).
- 9079** D-400TC line 38 must equal D-400TC line 37 multiplied by 3.5%(0.035)

* = Revised

** = New

CHAPTER 14

DIRECT DEPOSIT

Direct deposit is available for individual income tax returns that are e-filed by an approved tax preparer or an approved online service provider. Direct deposit is available only for the original refund and is not available to taxpayers filing a paper return.

A refund anticipation loan(RAL) is money borrowed by the taxpayer from a lender based on the taxpayer's anticipated refund amount. North Carolina is not involved in or responsible for RALs. All parties to RAL agreements, including electronic return originators(EROs), must ensure that taxpayers understand that RALs are interest-bearing loans. North Carolina is not liable for any loss suffered by taxpayers, EROs, or financial institutions due to processing delays, reduced refunds, or direct deposits not being honored (resulting in refund checks being issued).

Direct deposit refunds are electronically transferred to a taxpayer's financial institution into a checking or savings account. A financial institution for the purposes of direct deposit of tax refunds is defined as a state or national bank, credit union, savings and loan association or mutual savings bank within the United States. Refunds may not be deposited into a credit card account.

Taxpayers may elect the following options for receipt or designation of their overpayment.

- 1) Direct deposit into a bank account
- 2) Receipt of a check
- 3) Crediting the overpayment as an estimated tax payment for the next tax year
- 4) Contribution to the NC Nongame and Endangered Wildlife Fund

A check will be issued if any of the following conditions exist.

- 1) The refund cannot be direct deposited based upon the information provided (i.e. invalid routing number or invalid account number)
- 2) Rejection by the financial institution
- 3) Discretion of the Department of Revenue based upon a review of the tax return

Checks will be made payable to all taxpayers stated on the return and will be mailed to the address stated on the return.

Some financial institutions do not permit the deposit of a joint refund into an individual account. The NCDOR is not responsible if a direct deposit is rejected for this reason. Check or share draft accounts that are "payable through" another institution may not accept direct deposits. Taxpayers should verify the financial institution's policy on direct deposits before filing.

ACKNOWLEDGMENT

The North Carolina acknowledgment process will only indicate receipt of the e-filed return. The acknowledgment system will not indicate proof that the direct deposit election was honored.

ELIGIBILITY REQUIREMENTS

- The return must be e-filed by an approved ERO or online service provider.
- The return must be for the current tax year.
- The taxpayer must show the ERO acceptable proof-of-account from the financial institution that the taxpayer designates. Acceptable proof-of-account is a check, a statement or a form generated by the financial institution. A deposit slip is not an acceptable proof-of-account because it may contain internal routing numbers that are not part of the account number. The proof-of-account document must contain the following preprinted information:
 - Account name and address -- name and address on the account as it appears on the records at the financial institution
 - Name of financial institution
 - Account number -- maximum 17 numeric characters
 - Routing Transit Number (RTN) – must be 9 numeric characters
- The account designated to receive the direct deposit must be in the taxpayer's name.
- IRS Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns, sets forth detailed eligibility requirements, responsibilities, and instructions governing tax preparers, transmitters, and EROs who offer taxpayers the option of direct deposit. Those same rules, policies, and procedures apply when offering direct deposit on the State return.

THE RESPONSIBILITIES OF AN ERO

- Advise taxpayers of the option to receive their refund by direct deposit and ensure that the taxpayer is knowledgeable of all the general information regarding direct deposit.
- Accept direct deposit election to any eligible financial institution designated by the taxpayer.
- Ensure that taxpayers electing direct deposit meet the eligibility requirements listed under "Eligibility Requirements."
- Verify the direct deposit information is correct.
- Must never charge a separate fee for direct deposit.

- Inform the taxpayer that after an e-filed return has been accepted for processing and once the return is accepted by the IRS and by North Carolina:
 - the direct deposit election cannot be rescinded,
 - the account number cannot be changed, and
 - the routing transit number cannot be changed.

- Crosscheck bank account information with repeat clients. Some software maintains the previous year's data and reuses it unless it is changed.

FREQUENTLY ASKED QUESTIONS

Can the state refund and the federal refund be deposited into a different account?

Yes, the State refund can be deposited into a different account than the federal refund. A taxpayer may elect to have the State refund direct deposited even though the federal return may be a tax due or vice versa. In addition, the federal and state refunds can be deposited into the same account (checking or savings).

Will a notice be sent to the ERO or to the taxpayer on the status of the direct deposit?

No, a notice will not be sent to the ERO or to the taxpayer to confirm that the refund was deposited into an account. Also, the Department cannot guarantee a specific date that a refund will be deposited. Taxpayers may check the status of their refund by calling 1-877-252-4052.

Can a refund be deposited into more than one account?

No, a refund can only be deposited into one account.

When can a taxpayer expect to receive his/her direct deposit?

By electing the direct deposit method, most taxpayers can expect to receive their refund quicker than if they requested a check, usually within 4 weeks.

Can the same bank account be used more than once?

There are no limitations on the number of deposits that can be made to one bank account. However, the Department reserves the right to issue a check in the event of an erroneous account or routing transit number, closed accounts, bank mergers, or for any other reason at the discretion of the Department.

CHAPTER 15

REFUND DELAYS

Taxpayers may confirm acknowledgment of their North Carolina returns with their tax practitioner or ERO and are advised to wait six weeks from the date of acknowledgment before calling or writing NCDOR to inquire about the status of a refund check.

If a taxpayer and/or spouse owe money to the NCDOR, another State agency, or the IRS, the amount owed may be deducted from the refund. This debt **will delay** processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. This is the same policy that applies to a paper return.

REFUND INQUIRY

A taxpayer may inquire about the status of an income tax refund by calling 1-877-252-4052. When inquiring about the refund, the taxpayer should be prepared to provide his or her social security number, name and address, the North Carolina acknowledgment date and indicate that the return was filed electronically. An ERO or transmitter may inquire about the receipt of an electronic return, reason for refund delay, and date refund check is issued if the ERO identifies himself/herself with their EFIN.

A taxpayer may also inquire about an individual income tax refund by accessing the "Where's My Refund?" feature on the NCDOR's web site at www.dornnc.com.

CHAPTER 16

BALANCE DUE RETURNS

The ERO is responsible for giving the taxpayer Form D-400V, Individual Income Payment Voucher, and for instructing the taxpayer on submitting the voucher with payment on or before April 15. The taxpayer must remit payment for any tax due to the North Carolina Department of Revenue by the April 15 deadline to avoid all applicable penalties and interest.

E-PAY

In lieu of mailing a check or money order to the Department, a taxpayer can use the Department's Electronic Services to pay the tax due on an individual income tax return for the current year. Go to www.dornnc.com and select Electronic Services to make an online payment.

Payments can be made online by bank draft and credit or debit card using MasterCard or Visa. There is no fee for choosing the bank draft method. There is a convenience fee for choosing to remit by credit/debit card. The fee is calculated as \$2.00 for every \$100.00 increment of the tax payment. The fee is automatically calculated and added to the tax payment amount to obtain the total amount to be charged to the taxpayer's credit/debit card account.

The taxpayer will need the following information to make an online payment:

- ✓ Social security number
- ✓ Spouse's social security number (if filing a joint return)
- ✓ Address
- ✓ Email address
- ✓ Telephone number
- ✓ Amount of payment

- ✓ If making a payment by bank draft:
 - ✓ Bank account number
 - ✓ Bank routing number
 - ✓ Account type (checking or savings)
 - ✓ Date you want to make the payment

- ✓ If making a payment by credit/debit card:
 - ✓ Credit/debit card number
 - ✓ Expiration date
 - ✓ Zip code as it appears on the credit/debit card statement

The taxpayer will be prompted through a series of screens that will require the taxpayer to complete a D-400V and furnish credit/debit card or bank draft account information. The taxpayer will be provided a confirmation page that contains a confirmation number. This page should be printed and saved for record keeping.

The taxpayer will receive an email message from the Department within two business days of submitting the payment information. The email contains the confirmation number and Document Locator Number (DLN). The taxpayer should retain both numbers for future reference. If assistance is needed, the taxpayer can contact the Electronic Services Help Line Monday through Friday between the hours of 8:00 am and 5:00 pm EST at 1-877-308-9103 or (919) 754-2444

Form D-400V should be used only for the payment of tax owed on an original North Carolina individual income tax return for the current tax year. This payment voucher should not be used to pay estimated tax, tax owed on prior year returns, tax billed on assessment notices, or tax due on amended returns. All of these payment options can also be accessed on NCDOR's web site at www.dornc.com under Electronic Services for Individuals.

CHAPTER 17

TAX FRAUD

The Department is asking you to help identify individuals or businesses that do not file or pay state taxes (sales, income, withholding, etc.) or who file fraudulent tax returns. In addition, there have been instances of fraud identified in the Federal/State E-File Program. EROs can assist NCDOR in identifying potentially fraudulent returns before the Department receives them.

One way EROs can help is to verify the identity of taxpayers who want their returns filed electronically, especially if they are not regular clients. Request a picture ID and a second form of identification, such as a voter registration card, credit card or work pay stub. Some examples of potential fraudulent activities are:

- ➔ W-2s that are typed, handwritten, duplicated or have visible corrections
- ➔ W-2s from a company in the area that differs from other W-2s from the same company
- ➔ A suspicious-acting taxpayer or a suspicious person accompanying a taxpayer
- ➔ Multiple refunds to the same address or post office box
- ➔ Earnings, income and/or deductions that are not well documented
- ➔ Similar returns with the same amount of refund, same number of dependents and same number of W-2s

Transmitting fraudulent returns is against North Carolina Administrative Code .0118, Electronic Filing of Individual Income Tax Returns, and can cause suspension from the E-File program.

If you have any information that you wish to provide, please contact our Tax Fraud Hotline Monday through Friday between 8:00 am and 5:00 pm at 1-800-232-4939. The information that you provide and the source of the information will be kept confidential. The NCDOR appreciates your help!

APPENDIX

**NC DEPARTMENT OF REVENUE
HOLIDAY SCHEDULE**

2008 HOLIDAY SCHEDULE		
<u>Holiday</u>	<u>Observance Date</u>	<u>Day of Week</u>
Veteran's Day	November 11, 2008	Tuesday
Thanksgiving	November 27 & 28, 2008	Thursday & Friday
Christmas	December 24, 25 & 26, 2008	Wednesday, Thursday & Friday

2009 HOLIDAY SCHEDULE		
<u>Holiday</u>	<u>Observance Date</u>	<u>Day of Week</u>
New Year's Day	January 1, 2009	Thursday
Martin Luther King, Jr.'s Birthday	January 19, 2009	Monday
Good Friday	April 10, 2009	Friday
Memorial Day	May 25, 2009	Monday
Independence Day	July 3, 2009	Friday
Labor Day	September 7, 2009	Monday
Veteran's Day	November 11, 2009	Wednesday
Thanksgiving	November 26 & 27, 2009	Thursday & Friday
Christmas	December 24 & 25, 2009	Thursday & Friday

NORTH CAROLINA COUNTY CODES

01 - Alamance	35 - Franklin	69 - Pamlico
02 - Alexander	36 - Gaston	70 - Pasquotank
03 - Alleghany	37 - Gates	71 - Pender
04 - Anson	38 - Graham	72 - Perquimans
05 - Ashe	39 - Granville	73 - Person
06 - Avery	40 - Greene	74 - Pitt
07 - Beaufort	41 - Guilford	75 - Polk
08 - Bertie	42 - Halifax	76 - Randolph
09 - Bladen	43 - Harnett	77 - Richmond
10 - Brunswick	44 - Haywood	78 - Robeson
11 - Buncombe	45 - Henderson	79 - Rockingham
12 - Burke	46 - Hertford	80 - Rowan
13 - Cabarrus	47 - Hoke	81 - Rutherford
14 - Caldwell	48 - Hyde	82 - Sampson
15 - Camden	49 - Iredell	83 - Scotland
16 - Carteret	50 - Jackson	84 - Stanly
17 - Caswell	51 - Johnston	85 - Stokes
18 - Catawba	52 - Jones	86 - Surry
19 - Chatham	53 - Lee	87 - Swain
20 - Cherokee	54 - Lenoir	88 - Transylvania
21 - Chowan	55 - Lincoln	89 - Tyrrell
22 - Clay	56 - Macon	90 - Union
23 - Cleveland	57 - Madison	91 - Vance
24 - Columbus	58 - Martin	92 - Wake
25 - Craven	59 - McDowell	93 - Warren
26 - Cumberland	60 - Mecklenburg	94 - Washington
27 - Currituck	61 - Mitchell	95 - Watauga
28 - Dare	62 - Montgomery	96 - Wayne
29 - Davidson	63 - Moore	97 - Wilkes
30 - Davie	64 - Nash	98 - Wilson
31 - Duplin	65 - New Hanover	99 - Yadkin
32 - Durham	66 - Northampton	100 - Yancey
33 - Edgecombe	67 - Onslow	101 - Foreign
34 - Forsyth	68 - Orange	