

[2015]

ERO HANDBOOK FOR ELECTRONIC FILERS OF NORTH CAROLINA
INDIVIDUAL INCOME TAX RETURNS/PAYMENTS

*For Modernized e-File
(MeF)*



NC Department of Revenue

501 N. Wilmington Street

Raleigh, NC 27604

Tax Year 2015

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Chapter 1 - Introduction

The North Carolina Department of Revenue (NCDOR) is preparing for the 22nd consecutive year of accepting tax returns through the Federal/State Modernized Electronic Filing (MeF) program. The Federal/State MeF program is a cooperative effort between the Internal Revenue Service (IRS) and participating state revenue state departments. MeF is an integrated, web-based system which allows the electronic submission of federal and/or state tax return data to the IRS in real-time using the widely accepted Extensible Markup Language (XML) format.

The purpose of this handbook is to ensure that the IRS and NCDOR rules, regulations and requirements to process MeF returns are clearly defined. We encourage all software developers, transmitters and EROs to become very familiar with both IRS and NCDOR publications that pertain to MeF. These publications are referenced in Chapter 5, so please use these documents to assist with properly preparing North Carolina tax data for electronic filing via the MeF platform.

NCDOR is confident that our e-File program will continue to be very successful. We also recognize that our success is dependent on the continued partnerships, open communication and dedicated efforts of each participating software developer, transmitter and ERO. Therefore, if you have any questions or concerns, please contact the NCDOR personnel listed in Chapter 2. As always, we welcome any comments and/or suggestions so that our partnerships in the e-File program can continue to be a great success with you the developers, EROs, tax professionals and to the taxpayers of North Carolina.

Chapter 2 – NCDOR Contact Personnel

E-File and Development Unit

Judith Kapp
Josephine Prince
Vickie Grant
Bradford Miller

We encourage you to use the following email and telephone number for a prompt response from the E-File and Development Unit:

Email Address: NCTaxEfile@dornc.com

Phone: (919) 814-1500

Fax: (919) 715-6158

Management Contact Personnel

Cindy Mallard – Director

Email Address: Cindy.Mallard@dornc.com

Lei Satterfield – Assistant Director

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Sharon Tanner – Group Manager

Email Address: Sharon.Tanner@dornc.com

Felecia Coley – Manager

Email Address: Felecia.Coley@dornc.com

Janie Wright – Team Leader

Email Address: Janie.Wright@dornc.com

Mailing Address:

North Carolina Department of Revenue
E-File and Development Unit
P. O. Box 25000
Raleigh, NC 27640

Web Address:

www.dornc.com

Please contact the E-File Development Unit for questions, comments or concerns regarding tax software guidelines, procedures, MeF schemas and business rules.

Chapter 3 – Electronic Filing Calendar

NORTH CAROLINA ELECTRONIC FILING CALENDAR

For Tax Year January 1, 2015 to December 31, 2015

Begin Federal ATS Testing.....	11/2/2015
Begin State ATS Testing.....	TBD
Last Date to Submit Initial Test Transmission.....	12/31/2015
End Federal/State ATS Testing.....	3/11/2016
Begin Transmitting Returns to IRS/NCDOR.....	TBD
NCDOR Begins Processing State Returns	TBD
Last Date for Timely Filed Returns	4/18/2016
Last Date for Retransmission of Rejected Timely Filed Returns	4/25/2016
Last Date for Extended Filed Returns	10/16/2016
Last Date for Retransmission of IRS Rejected Late Filed Returns	10/23/2016

NOTE: (*) Indicates that the date is estimated and is subject to change at any time.



Chapter 4 – Modernized e-File Program (MeF)

NCDOR's Fed/State MeF program will accept Individual Income tax returns for the current tax year (2015) and 2 prior tax years (2014 & 2013) via the MeF system. NCDOR's MeF system has the functionality to allow taxpayers to e-File extensions with or without payments, estimated tax payments and tax due payments. State payments and extensions payments made via bank draft will have the option to schedule payments up to 6 months. Estimated bank draft payments will have the option to schedule 1 or all 4 estimated payments up to 12 months.

Our MeF program does not accept stand-alone payments, therefore any estimated or tax due payments must be submitted with the original submission. Extension payments must be submitted with the extension return submission. Federal Form 1040, 1040A or 1040EZ are required with all original return submissions. The return will be rejected if the federal form is not included in the submission.

EROs, Intermediate Service Providers and Transmitters accepted in the IRS e-File Program will be able to participate in the Fed/State Modernized e-File program and file both the federal return and the state return in one transmission (linked) or the state return in a separate transmission as (unlinked). The software used to transmit the data must be approved by both the IRS and the NCDOR. North Carolina conforms to the requirements, rules and regulations set forth by the IRS Modernized e-File program.

WHAT'S NEW FOR TAX YEAR 2015

Support of Amended Returns

NCDOR will allow Amended Returns for the D-400 Individual Income Tax return to be submitted electronically to the department. Since the IRS does not support the electronic filing of the form 1040X - Amended U.S. Individual Income Tax Return, NCDOR will receive this submission as state only (Unlinked). Please note that amended returns can only be e-Filed beginning with TY2015. If an amended return has to be filed for a prior year return, the amended return must be submitted via paper to the department. Payments can also be made for an amended return as well.

Note: Beginning with tax year 2015, you no longer use a separate tax form (Form D-400X) to amend your original return. All changes will be made on form D-400.

NORTH CAROLINA TAX LAW CHANGES AND/OR UPDATES

Change in Tax Rate

The individual income tax rate is reduced to a flat rate of 5.75 percent for tax years beginning on or after January 1, 2015.

New Deduction for Tax Year 2015

Deduction for Compensation Received from the Eugenics Sterilization Compensation Fund. You may claim a deduction for the amount of compensation that you received from the Eugenics Sterilization Compensation Fund as compensation received under the Eugenics Asexualization and Sterilization Compensation program, to the extent the compensation is included in federal adjusted gross income.

Claim this deduction on Form D-400 Schedule S, Part B, Line 11, Other Deductions from Federal Adjusted Gross Income.

Changes to NC Itemized Deductions

You may continue to claim either the NC standard deduction or NC itemized deductions. NC itemized deductions now include medical and dental expenses.

E-FILED SUPPORTED FORMS

INDIVIDUAL INCOME	
Form Type	Description
D-400	Individual Income Tax Return
D-400	Amended Individual Income Tax Return
D-400TC	Individual Income Tax Credits
D-400 Sch S	North Carolina Supplemental Schedule
D-400 Sch AM	North Carolina Amended Schedule
D-410	Individual Income Extension
NC-40	Individual Income Estimated Tax
NC-478	Summary of Tax Credits Limited to 50% of Tax
NC-478G	Tax Credit – Investing in Renewable Energy Property
NC-478I	Tax Credit – Research and Development
NC-478J	Tax Credit – Creating New Jobs
NC-478K	Tax Credit – Investing in Business Property
NC-478L	Tax Credit – Investing in Real Property
NC-478 Pass Through	NC-478 Pass Through
D-400V	Individual Income Payment Voucher
NC-EDU	Education Payment Voucher

Additional forms and documents that can be submitted electronically include:

- Prior year returns (Tax Years 2014 & 2013)
- NC-1099PS
- NC-1099ITIN
- 1099-G
- 1099-MISC
- PDF attachments for forms not supported by IRS and/or NCDOR & supporting documentation.
 - 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

The Department will notify the taxpayer(s) if any supporting documentation for an e-Filed return is needed.

Taxpayers are **required** to submit the following forms for an e-Filed return:

- Form NC K-1 if the return indicates tax payments from a partnership or S Corporation.
- Copy of the other state(s) return if claiming the credit for income tax paid to another state.

PDF attachments must be submitted unsecured.

EXCLUSIONS FROM NCDOR E-FILE

The following forms are excluded from the department's electronic filing program:

- Returns for non-calendar year filers
- NC K-1 forms from a Partnership or S-Corporation

The NC K-1 form can be attached to the MeF return as an unsecured PDF attachment.

Note: If the tax preparation software that is being used does not support the electronic filing of the NC-478 form and NC-478 form series, you will need to either find a software product that supports these forms to be e-Filed or submit the D-400 return and associated NC-478 forms via paper. You **cannot** claim the credit Business incentive and energy tax credits on form D-400TC without including the applicable form(s) in the electronic submission. The NC-478 form and/or form series must be submitted with the e-Filed return if these credits are being claimed on the return, if not the return will be rejected. Please check the software specifications to determine if it will meet your filing needs.

If you cannot e-File your return, please mail your return to either one of the following addresses. If a refund is due, mail the return to:

NC Department of Revenue
PO Box R
Raleigh, NC 27634-0001

If a tax due return, mail the return to:

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

NOTE: In addition to the above exclusions from North Carolina e-File, any Individual Income tax return in the list of exclusions from Federal e-File cannot be filed through the Federal/State MeF program.

ELECTRONIC FILING MANDATES

Currently, there are no legislative mandates for taxpayers to electronically file Individual Income Tax returns for tax year 2015.

Chapter 5 – NCDOR Fed/State eFile Program

ACCEPTANCE AND PARTICIPATION

NCDOR requires all tax professionals, EROs, Intermediate Service Providers and Transmitters to be accepted into the Federal e-File program before they can participate in the Federal/State Modernized e-File Program. Tax professional who offer electronic filing of federal and state returns must be approved by the IRS to prepare returns. Once accepted, the IRS will assign an Electronic Filing Identification Number (EFIN), which is necessary to participate in State e-File program.

Tax professionals do not need to submit an application to NCDOR nor submit a copy of the federal acceptance letter to be accepted into the e-File program for state e-Filing purposes. Upon acceptance in the IRS e-File Program, tax professionals will be able to file both the federal return and the state return in one transmission (linked) or the state return in a separate transmission as (unlinked). Once approved, tax professionals must adhere to the requirements and specifications set forth by the IRS and North Carolina.

NCDOR will 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 following offenses 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 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 actions are not taken and approved by 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 the handbook.**

Tax professionals will need to transmit data using software that has been certified and approved by both the IRS and the NCDOR in order to e-File. It is recommended 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 and the software has been approved by NCDOR. A list of approved software developers for the current tax year can be accessed on our website at www.dornc.com.

Note: NCDOR does not promote or endorse any particular product and NCDOR's approval only means that the vendor has met the established software requirements and specifications.

PUBLICATIONS

The following publications describe the rules, regulations and processes in order to be successful in the Federal/State Electronic Filing program:

INTERNAL REVENUE SERVICE PUBLICATIONS

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

Publication 3112 – IRS e-File Application and Participation

Publication 4164 – MeF Guide for Software Developers and Transmitters

NORTH CAROLINA DEPARTMENT OF REVENUE PUBLICATIONS

ERO Handbook for Electronic Filers and Transmitters of North Carolina Individual Income Tax Returns /Payments (Tax Year 2015)

SOFTWARE DEVELOPERS, TRANSMITTERS AND ERO'S DEFINED

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

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

A firm, an organization, or an individual may choose to perform one or all of the above noted functions associated with e-File. Therefore, you must abide by the terms set forth in this handbook and maintain a high degree of integrity, compliance, and accuracy in order to participate in the Federal/State Modernized e-File program.

RESPONSIBILITIES OF E-FILE PROVIDERS

All authorized E-file providers must comply with the requirements and specifications set forth by the IRS publications and the NCDOR ERO handbook referenced on page 10. The providers must also ensure that the electronic returns are filed in a timely manner. Other responsibilities include:

- Ensure that an electronic return is filed on or before the due date of the return.
- 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.

SOFTWARE DEVELOPERS, TRANSMITTERS AND ERO'S

Software Developers

Electronic filers that function as a software developer must:

- Follow the requirements that are provided in this manual.
- Follow the schema and business rule specifications when programming your software.
- Notify NCDOR, customers and clients within 10 business days when an issue has been discovered with the software.
- Quickly correct software errors that may prevent electronic returns from being filed timely.
- Notify NCDOR, customers and clients when the error has been corrected and provide NCDOR with satisfactory evidence that the error has been corrected.

*** Errors made by NCDOR and software developers will be placed on the Department's website for public viewing.**

Transmitters

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 business day after receipt of the acknowledgment from NCDOR.
- Include the EROs EFIN on each return that the transmitter accepts from an ERO.
- Use their EFIN on returns in which they performed duties of an ERO.
- Notify NCDOR if the transmitter ceases business operations.

Electronic filers functioning as transmitters must:

- Transmit all electronic returns within 3 calendar days of receipt and retrieve the acknowledgment file within 2 business days of transmission.
- Provide acknowledgment files to the ERO or Intermediate within 2 business days 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 3 calendar days of transmission.

- Retain a state acknowledgment file received until the end of the calendar year in which the electronic return was filed.

EROs

Electronic filers that function as an ERO must:

- Obtain (2) forms of identification from taxpayers to discourage fraud in the e-File program.
 - One form of ID should be a picture id that reflects the taxpayer's name and current address if available.
 - The second form of ID should reflect the same name and the same social security number the taxpayer is using to file the return.
- Use approved software for the North Carolina electronic filing program.
- Timely originate the electronic submission.
- Ensure the acknowledgments are received for all state submissions.
- Identify the paid preparer (if applicable) in the appropriate field of the electronic record.
- Give taxpayers copies of all forms filed including attachments.

Chapter 6 – NCDOR Testing & Approval Process

Important: The information and line numbers on the Department's tax forms and instructions as well as references to line numbers on Federal income tax forms are based on the most current information available. Please be advised this information is subject to change based on possible federal and/or state tax provision changes.

ASSURANCE TESTING SYSTEM (ATS) PROCESS

All software developers and transmitters are required to test their transmission software with North Carolina data on an annual basis. The testing phase is a critical component for the e-File program and requires each of the software developers and transmitters to adhere to North Carolina tax laws, Schema, and Business Rule validations. Therefore, testing ensures prior to live processing that:

- Both TIGERS and state specific schemas fields are coded correctly
- Business rule validations are coded correctly
- Returns have no calculation errors
- Returns post to the NCDOR tax system

Prior to testing, each software developer **must** submit a “Response Form” to the E-File & Development Unit for each software product that **must** be tested. Each software product must have a different software developer code. For example, if you have both Tax Preparation and Online software products, you can differentiate between the products by using XYZ for the Tax Preparation product and XYZ OL for the online product. Therefore, each transmission of test data must contain valid software developer identification. Any records received by NCDOR that do not contain valid identification will **not** be processed.

Also, if a developer is seeking approval for a software product that runs on different operating systems (i.e., Windows, Macintosh) or that has alternative user interfaces (i.e., Desktop, Web, Custom Branding) the developer must test each version of the product separately with NCDOR. Software Developers and Transmitters participating in the program will be provided with test data and instructions to perform testing of North Carolina’s Corporate Income/Franchise and Partnership Tax Forms.

All North Carolina test returns used in e-File testing are comprised of applicable federal test data. Therefore, knowledge of Federal and North Carolina State tax laws and tax preparation is necessary. If after reviewing the test case package, you may identify certain federal forms or specific lines on the North Carolina return that your software does not support. It may be necessary to modify some of the federal data as provided by North Carolina to complete your testing package for processing. Therefore, if your software does not support certain federal forms or certain line items on the North Carolina return, please provide detailed calculations and/or explanations for your test return results. **It is very important that you list all of your software limitations on the “Response Form” prior to the start of software developer testing. This will ensure the automated comparison is accurate when providing the results.** If limitations are not properly identified, test results will be based on supporting all forms, schedules and test scenarios.

For limitations, developers should calculate the return based on NCDOR’s test case and the software’s limitation.

NCDOR Test Case and Limitation Example

Form 1040 Line Items	NCDOR	Software Limitation
Wages, salaries, tips, etc.	7,937	7,937
Taxable refunds, credits, or offsets of state and local income tax	1,000	1,000
Schedule E <i>(Rental real estate, royalties, partnerships, S corps, trust, etc)</i>	1,000	<i>0</i>
Total income	9,937	8,937
Student loan interest deduction	50	50
Adjusted gross income	9,887	8,887
Standard deduction	5,700	5,700
Exemptions	3,650	3,650
Taxable Income	537	- 463

If for some reason limitations are recognized after the “Response Form” has been submitted to NCDOR, please submit an updated list to the E-File & Development Unit as soon as possible so that your file can be updated. If software limitations are provided after the testing start date, please allow at least 3-5 business days from the time the limitations are submitted before transmitting test returns.

Once the Federal/State ATS testing season begins, software developers and transmitters can begin transmitting test returns through the Fed/State MeF program. **All** test returns must be received in a single transmission. After a successful transmission without triggering any business rules you will receive an automated comparison email for all the accepted returns. Listed below is an example of the automated email.

Software ID: NC_TEST
Submission Category: IND
Tax Year: 2015

Thank you for filing MeF test returns with the North Carolina Department of Revenue.

An automated comparison has been performed, and the results are shown below. If no discrepancies were found, only basic submission information will be listed. If discrepancies were found, submission information will be listed along with the XPath and received values for the elements in question.

Please review the information below, make any necessary corrections, and resubmit as needed until ALL discrepancies have been resolved. We request that a full set of valid test returns be submitted and accepted in a single batch. As a final step in the approval process, please also provide the required screenshots by email to NCTaxEfile@dorn.com.

Submission ID: 65555820120529806643, Case ID: 1, Identity Number: 00-0000001 (Example of correct return)
 -- Successful compare --

Submission ID: 78234420120521072545, Case ID: 2, Identity Number: 00-0000002 (Example of incorrect return)
 [D400] Originator EFIN [000000]
 //ReturnHeaderState/Originator/EFIN

Please note that Developers who are seeking approval for a software product that runs on different operating systems (e.g. Windows, Mac) or that has alternative user interfaces (e.g. desktop, web, custom branding) must test each version of the product separately with NCDOR.

If you have any questions, please feel free to contact the E-File Development Unit at (919) 814-1500 or NCTaxefile@dorn.com.

Thank you for your participation with North Carolina in the MeF program!

Sincerely,

North Carolina E-File Development Unit

SOFTWARE APPROVAL

In the second step of the approval process, an email will be sent to the developer requesting the screen shots detailing the verbiage used from their software product for the following:

- **Verbiage used to prompt the user to answer the direct deposit refund question:** “Is this refund going to or through an account located outside of the United States?” “If yes, an IAT direct deposit refund is not allowed. In order to continue with your refund, you must choose a domestic bank account.”
- **Verbiage used to prompt the user to answer the payment question:** “Is this payment(s) coming from or through an account located outside of the United States?” “If yes, an IAT payment is not allowed. In order to continue with your payment you must choose a domestic bank account.”
- **Verbiage used to prompt the user to fill out the Payment Contact information:** “Enter your complete name (first and last name), email address, and telephone number, including area code, in the appropriate fields. This information will be used in the event the North Carolina Department of Revenue needs to contact you regarding your payment. We will use the email address to acknowledge receipt of your payment. If you do not provide an email address, you will not receive confirmation that your payment has been received.”
- **Verbiage for the payment draft date:** “The payment draft date or effective date must be a valid banking date that does not include weekends or bank holidays. When entering your draft date, you will be provided with the earliest possible effective date. This date is based on a 5:30pm EST cutoff. If it is after 5:30 pm EST, the actual draft date may be a later business date. You will need to submit your payment information at least one banking day prior to the payment due date in order for the payment to be received timely. Payments received beyond the payment due date are subject to penalty and interest.

You will receive a NCDOR Confirmation email after your payment is received.

If your payment is returned from your bank unpaid, you will be subject to a "Penalty for Bad Electronic Funds Transfer." The penalty is 10% of the payment (minimum \$1.00; maximum \$1,000.00)."

Software developers must require taxpayers to select valid settlement dates, and display language to taxpayers stating that payments may be settled on dates later than the requested settlement date. Invalid settlement dates are weekends, past dates, the same date as the submission, and bank holidays specified on the Federal Reserve website (<http://www.frbservices.org/holidayschedules/index.html>).

- **Verbiage on the instruction page to verify the following:** “If you owe additional tax, you can pay online by bank draft or debit/credit card using Visa or MasterCard. To pay online, go to the Department’s website at www.dorn.com and click onto Electronic Services.”

These screens shots must be submitted for software products used only by the general population and those used strictly by professionals. Software developers will be notified in writing of their e-File approval after completing the e-File testing process. The approval letter will be emailed and the original copy faxed **only** if requested. If, after approval, your software company has production problems, the NCDOR reserves the right to disapprove the company for the remainder of the filing season.

Once you have received your approval letter, you may release your software product for e-File even if your forms have not been approved for paper filing. You will need to place a banner over the forms that are not supported for e-File stating the form has not been approved for paper filing. In addition, you must do all of the following:

- Software Developers are to notify the Department, customers, and clients within 10 business days when an issue has been discovered within their software. Errors must be corrected and the Department provided with satisfactory evidence that the errors have been corrected and customers/clients have been notified of the correction.
- Developers are not required to provide a copy of the software or ‘URL’ unless requested. If requested, developers must provide a copy of the software or ‘URL’ within 5 business days from the date of request.

NC SCHEMAS AND BUSINESS RULES

The MeF schemas for TY2015 Individual Income will be sent to the developers that have submitted response forms. They will be sent to the primary and secondary e-File testing contacts that are listed on the TY2015 MeF Response form. The business rules will be submitted via email as well and posted on the web. The business rules can be found at the following address:

http://www.dorn.com/electronic/e-file_taxpro.html

Schemas and business rule information can be requested by sending an email to NCTaxEfile@dorn.com. However the TY2015 MeF Response form must be completed prior to receiving this information.

Important Information Regarding Elements in the Schema

Each payment is identified by the combination of the FTA (Federation of Tax Administrators) and STT (State Tax Type) codes. The FTA and STT codes are found in the addenda record element in the 'FinancialTransaction' schema. The following are the FTA and STT for Individual Income Tax Payments:

Payment	FTA Code	STT
D-400V	010	00
D-400V Amended	015	00
NC-40	012	00
D-410	014	01
NC-EDU	200	02

Forms Approval

Each software developer must gain approval to produce paper substitute tax forms. This approval process is handled by NCDOR's Forms Development & Testing Unit. Therefore, you will need to visit the following website www.dornc.com/forms/generated.html for instructions regarding their testing and forms approval process.

Chapter 7 – Filing an Electronic Return

ACKNOWLEDGMENTS

The expectation for all electronic filing providers is to ensure that the electronic returns are filed in a timely manner, which should be done on or before the due date. NCDOR uses the IRS' Received Date when determining if a return is timely filed. The tax return is not considered filed until the electronic portion of the tax return has been acknowledged and accepted.

The IRS will acknowledge acceptance of the federal data and receipt of a 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.

NCDOR will generate an acknowledgement from the MeF system for each submission that is received from EROs and transmitters. The acknowledgements will indicate if the return was accepted or rejected. A federal acknowledgement is separate from a NCDOR acknowledgement. The receipt of a federal acknowledgement does not signify that NCDOR received your state submission. Only a NCDOR acknowledgement guarantees that the North Carolina submission was received.

If an error is discovered and can be corrected, both returns may be retransmitted. If the federal return cannot be corrected, the state return can be retransmitted separately as an "unlinked" return. Some returns are rejected based on schema validation or business rule errors and must be corrected by the ERO, transmitter or taxpayer before resubmitting. Returns with errors that are not rejected will be corrected through the normal error resolution process.

Business rule and/or schema validation error codes should be displayed on the acknowledgment provided to the taxpayer and/or tax preparer. The acknowledgment **should not** state, "Contact NCDOR for business rule or schema validation error information."

If an acknowledgment has not been received within 3 business days for a return that has been transmitted, please contact the E-File and Development Unit via email at NCTaxEfile@dorncc.com so that we can research the missing acknowledgments.

Sometimes changes may need to be made on an e-filed return that has been acknowledged by NCDOR. If the acknowledgment states that the return was "Accepted" by NCDOR, the e-filed return cannot be intercepted to make corrections. In order to correct an error on a return, you will need to file an amended tax return. Beginning with tax year 2015, taxpayers can now e-File an amended return via MeF or submit by paper.

PERFECTION PERIOD

Please reference the Electronic Filing Calendar, Chapter 3, page 5 as it relates to the perfection period for an Individual Income tax e-Filed return.

Chapter 8 – Banking Transactions for Refunds and Payments

BANK TRANSACTIONS

Name of Financial Institution – A financial institution for the purposes of direct deposit of tax refunds is defined as a state or national bank (including the District of Columbia and political subdivisions of the 50 states), credit union, savings and loan association or mutual savings bank within the United States and established primarily for personal, family, or household purposes. This field represents the name of the bank or financial institution to which the refund will be deposited.

Routing Transit Number – The routing transit number (RTN) is a valid number for the financial institution where the taxpayer’s account is held. The RTN must contain nine (9) numeric characters. The RTN must be present on the Financial Organization Master File (FOMF) and the financial institution must process Electronic Funds Transfer (EFT). The RTN must be keyed as a nine-digit containing no spaces or dashes. **Leave this field blank, no zeroes, if there is no direct deposit election.**

Depositor Account Number – The depositor account number or taxpayer bank account number must be alphanumeric (i.e. only alpha characters, numeric characters and hyphens). The depositor account number must be entered exactly as it appears on the check or proof of account, without spaces. The maximum number of allowable characters is 17 positions and cannot equal all zeroes or all blanks. **Leave this field blank, no zeroes, if there is no direct deposit election.**

Type of Account – This field consists of alpha characters and is a required field if the direct deposit election has been selected. The field indicates if the account is a checking or savings account. The values are “X” or blank. If the routing transit number is significant, then the checking account indicator or savings account indicator must equal “X.” Both fields cannot equal “X.”

When direct deposit information is present, the following fields must be provided: Routing Transit Number (RTN), Checking Account Indicator or Savings Account Indicator and Depositor Account Number.

NOTE: The Department requires the Routing Transit Number, Depositor Account Number and Type of Account screen to be entered twice to ensure accuracy.

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

- The refund cannot be direct deposited based upon the information provided (i.e. invalid routing number or invalid account number). This will delay the refund therefore, please verify banking information is correct before transmitting.
- Rejection by the financial institution
- 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. Therefore, it’s important to verify the current mailing address with the taxpayer. If the taxpayer (client) anticipates moving before the check is received, they must call NCDOR at 1-877-252-3052 to correct the address.

INTERNATION ACH TRANSACTION (IAT)

What is IAT?

IAT is the acronym for International ACH Transaction. IAT is an ACH entry that is part of a payment transaction involving a financial agency that is not located in the territorial jurisdiction of the United States. A financial agency is an institution authorized by law to accept deposits, issue money orders or transfer funds.

Effective September 18, 2009, all international transactions made via the ACH Network will be required to use the IAT SEC code. This rule applies to all ACH participants and will simplify the process of identifying international transactions by requiring that IAT entries include specific data elements defined by the [Bank Secrecy Act's \(BSA\) "Travel Rule."](#) This rule will also define parties to the IAT entry and re-define gateway operator obligations.

NACHA Operating Rules

- It is the intent of the North Carolina Department of Revenue not to use the ACH system for transactions in violation of US Law, including the sanctions administered by the Office of Foreign Assets Control (OFAC). It is also the intent of the agency to be in compliance with the "International ACH Transaction (IAT) rules" that are part of the NACHA Operating Rules. Therefore, all direct deposit refunds and ACH payments made through via the MeF system not associated with a foreign bank account would classify it as an "International ACH Transaction (IAT)" under the NACHA Operating Rules.

Non-Support of IAT Indicator Passing to NCDOR

- As a result of banking rules, NCDOR does not support direct deposits into a financial institution that is not located in the territorial jurisdiction of the United States. Therefore; if you request your refund to be directly deposited into a financial institution that is not located in the United States, your direct deposit request will not be granted. Instead, you will be issued a paper check. Therefore, please reference the Financial Transaction schema to program your software per NCDOR specifications.

REFUNDS

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 refunds are electronically transferred to a taxpayer's financial institution into a checking or savings account. Refunds may not be deposited into a credit card account.

Requirements for Direct Deposit – Direct deposit is **only** available for the original return submitted by electronic filing or an amended return in which a refund is due to the taxpayer. It is not available to taxpayers filing a paper return. The Federal/State cooperative e-File program does not allow Refund Anticipation Loans (RALs) on the North Carolina State refund. Refunds may not be deposited into a credit card account.

North Carolina is not involved in or responsible for RALs. A refund anticipation loan (RAL) is money borrowed by the taxpayer from a lender based on the taxpayer's anticipated refund amount. 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 is **not** available for taxpayers requesting a direct deposit to or through a foreign financial institution. If you use a foreign financial institution you will be issued a paper check.

Eligibility Requirements

- The return must be e-filed by an approved ERO or online service provider.
- The return must be for the current filing tax year or the prior two tax years.
- 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 bank 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.

Some financial institutions do not permit the deposit of a joint refund into an individual account. 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.

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

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

Direct Deposit Acknowledgment

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

Direct Deposit 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
 - 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

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. A taxpayer may also inquire about an individual income tax refund by accessing the "[Where's My Refund?](#)" feature on NCDOR's web site.

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.

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. The same policy applies for a paper return.

PAYMENTS

Payment via E-File Software

Note: For Tax Year 2015, the due date was changed from April 15th to April 18th due to the IRS observance of Emancipation Day.

The ERO is responsible for giving the taxpayer the payment forms and for instructing the taxpayer on submitting the voucher with payment on the 15th day of the fourth month following the close of the income year to avoid interest and penalties. The taxpayer must remit payment for any tax due to the North Carolina Department of Revenue.

Taxpayer can remit their tax due payment through the Fed/State MeF program by bank draft only. Taxpayers who choose this option must provide the ERO with routing numbers and account numbers for the qualified savings or checking accounts. Taxpayers must specify the bank accounts from which they wish to have the balances paid and the dates on which the debits will be made. NCDOR's MeF system can:

- Accept extension and bank draft payments with the option to schedule payments up to 6 months.
- Accept estimated bank draft payments with the option to schedule 1 or all 4 estimated payments up to 12 months.

Payment via NCDOR Website

In lieu of mailing a check or money order to the Department, a taxpayer can also use the Department's Electronic Services to pay the tax due for the current year. Go to www.dornc.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 or electronic funds withdrawal:

- Social Security Number or Federal Employer ID Number
- Address
- Email address
- Telephone number
 - If making a payment by bank draft:
 - Bank account number
 - Bank routing number
 - Account type (checking or savings)
 - Amount of Payment
 - 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 the account details 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.

Frequently Asked Questions (FAQs)

- 1) Can the State refund and the federal refund be deposited into a different account?**

Yes, the State refund and the federal refund can be deposited into different accounts. 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).

2) 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 or by visiting NCDOR's website and clicking on the link "[Where's My Refund?](#)"

3) Can a refund be deposited into more than one account?

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

4) What are the benefits of direct deposit?

Eliminates the possibility of your refund check being lost, stolen, or returned due to incorrect address. Money will be deposited in your bank account much quicker than waiting on a paper check. (Please be sure to verify your bank account information)

5) 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.

6) What Information Do I Need to Make a Payment Via Bank Draft?

- Bank Account Number
- Bank Routing Number
- Account Type (checking or savings)
- Amount of Payment
- Date you want to make the payment

7) What is a Debit Block and how can it be removed?

Some financial institutions offer a "Debit Block" service for some banking accounts. A Debit Block is a restriction placed on a bank account to prevent unauthorized debits to the account. A debit block must be removed before an ACH Debit transaction can occur successfully. **If you are unsure if your bank account has a debit block, contact your financial institution for more information.**

For ACH Debit (Online Payments), you may also provide your bank with the North Carolina Department of Revenue Company ID -**1561611838**. This number allows the bank to identify the NC Department of Revenue as an acceptable party to debit the account and bypass a debit block.

8) What If I Change My Mind After I Have Completed the Bank Draft Transaction?

If you make a payment by bank draft and later decide to reverse the transaction, you will need to contact your bank to cancel the transaction. However, you may be subject to penalties, interest or other fees imposed by the Department of Revenue for nonpayment or late payment of tax.

9) How Will I Know the Department Has Received My Payment?

A confirmation email will be sent to the taxpayer with a confirmation number to let you know that your information has been successfully submitted.

If the payment was made via your software package, you will receive an email from the Department within two business days from submission of your payment information. The confirmation number and the Document Locator Number are one in the same. You should retain the email for your records and should provide this number if you contact the Department for assistance with the payment.

If the payment was made via the NCDOR website, the email will contain the same confirmation number that is displayed on the confirmation page that you print for your records. This email will also contain a Document Locator Number. You should retain the email for your records and you should provide these numbers if you contact the Department for assistance with the payment.

Please contact the Electronic Services Help Line at 1-877-308-9103 if you do not receive a confirmation page or if you do not receive an email acknowledgment so that an agent can assist you in determining if your transaction was successfully submitted.

10) Is My Information Safe?

Safety measures are in place to protect your information. No one can read your tax information while it is being electronically filed. The web site and your data are secured with SSL (Secure Socket Layer) with at least 128-bit encryption.

Note:

The web browser must be configured to enable "per session cookies." In Internet Explorer, this can be set under the "Internet Options" menu option. For additional information on enabling the "per session cookies," please check the browser's documents/help. If you receive a message that 128-bit encryption is needed, you will need to download the 128-bit encryption for your browser. The 128-bit encryption is standard in the United States so the problem would normally apply to someone trying to access the application from outside the United States.

11) Who Can I Contact for Assistance?

For additional assistance, 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.

Chapter 9 – Tax Fraud

The Department is asking you to help identify individuals or businesses that do not file or pay state taxes 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 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!

Chapter 10 – Helpful Reminders

- ✦ Clearly define in your software how to enter and submit an unlinked return.
- ✦ Do not use the D-400 Schedule S, Part C as a worksheet to determine if the standard or itemized deduction will be used. D-400 Schedule S, Part C, Lines 13 -20 should not be populated if the standard deduction is being claimed.
- ✦ Please respond in a timely manner when we make you aware of problems with your software.
- ✦ Please complete regression testing after making changes and corrections to your software packet during production.
- ✦ You must complete the Forms Testing process in order to get your software approved for paper filing.
- ✦ To assist in the ATS testing process, it may be helpful to have a person on staff that is familiar with tax law assisting the programmer.
- ✦ Acknowledgments should be sent to the transmitters on a timely basis.
- ✦ Federal and all other attachments should not be submitted as “Secured” documents.
- ✦ The software must include the tax rate.
- ✦ If the taxpayer’s address on the D-400 form is located outside of North Carolina, leave the county code blank.
- ✦ NCDOR requires Paid Preparer information even if the tax return is being submitted by a VITA employee.

APPENDIX

TAX RATE SCHEDULE FOR TAX YEAR 2015

The individual income tax rate is reduced to a flat 5.75 percent, (0.0575), for tax years beginning on or after January 1, 2015. To obtain a copy of the instruction booklet please call toll-free at 1-877-252-3052 or you may visit a [service center](#) or go to our [Order Forms](#) page.

NORTH CAROLINA COUNTY CODES

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

NC DEPARTMENT OF REVENUE

HOLIDAY SCHEDULE

2015 Holiday Schedule		
Holiday	Observance Date	Day of Week
New Year's Day	January 1, 2015	Thursday
Martin Luther King Jr.'s Birthday	January 19, 2015	Monday
Good Friday	April 3, 2015	Friday
Memorial Day	May 25, 2015	Monday
Independence Day	July 3, 2015	Friday
Labor Day	September 7, 2015	Monday
Veteran's Day	November 11, 2015	Wednesday
Thanksgiving	November 26 & 27, 2015	Thursday & Friday
Christmas	December 23, 24 & 25, 2015	Wednesday, Thursday, Friday

2016 Holiday Schedule		
Holiday	Observance Date	Day of Week
New Year's Day	January 1, 2016	Friday
Martin Luther King Jr.'s Birthday	January 18, 2016	Monday
Good Friday	March 25, 2016	Friday
Memorial Day	May 30, 2016	Monday
Independence Day	July 4, 2016	Monday
Labor Day	September 5, 2016	Monday
Veteran's Day	November 11, 2016	Friday
Thanksgiving	November 24 & 25, 2016	Thursday & Friday
Christmas	December 23, 26 & 27, 2015	Friday, Monday and Tuesday