



Please mute your mic. The presentation will begin soon!



Agenda

- **Introductions**
- **Anticipated Legislative and Form Changes for TY 2023**
 - *Individual Income Tax*
 - *Partnership Income Tax, Estates and Trusts Income Tax, Withholding Tax*
 - *Corporate Income and Franchise Tax*
- **Tax Systems Coordination and Oversight (TSCO) Updates**
 - *General LOI Information*
 - *Electronic Software Provider Validation and Support (eSPVS) Information and Updates*
 - *Paper Software Provider Validation and Support (pSPVS) Information and Updates*
 - *Other TSCO Updates*
- **Q&A**

Introductions

- **NCDOR Tax Administration**
- **TSCO (formerly Tax Schedule Implementation)**
- **eSPVS and pSPVS (formerly eFile and Software Provider Support)**

Individual Income Tax

- Tax rate decreased to 4.75% for tax year 2023
- Schedules S, PN, PN-1, NC-PE, NC K-1 Supplemental Schedule: Various additions to Adjusted Gross Income (AGI) including:
 - **New Addition** – A taxpayer must add the amount of any expense deducted under the Code to the extent the expense is allocable to income that is either wholly excluded from gross income or wholly exempt from the taxes imposed by this Part.
 - **Remove Addition** – A taxpayer must add an amount equal to the amount by which the taxpayer's deduction under Section 274(n) of the Code exceeds the deduction that would have been allowed under the Code as enacted as of May 1, 2020.

Partnership Income Tax

D-403: Expanded Taxed Partnership Election

- A partnership is **NOT** disqualified from being a Taxed Partnership if one (or more) of its partners is a partnership or an S Corporation (collectively, a “Pass-Through Partner”)
 - However, a Pass-Through Partner’s distributive share of NC taxable income (“NCTI”) is not included when calculating the Taxed Partnership’s NCTI
 - Instead, the Taxed Partnership is required to pay NC income tax on behalf of a **nonresident** Pass-Through Partner if a Form NC-NPA is not filed for the partner with the Taxed Partnership’s tax return
- For additional details, see [Important Notice Dated April 4, 2023](#)

Partnership Income Tax

D-403: Updates to Part 4

- Tax rate decreased to 4.75% for tax year 2023
- Part 4 will be updated to account for the following tax law changes related to Taxed Partnerships:
 - A Taxed Partnership must exclude Pass-Through Partners' distributive share of NCTI from the Taxed Partnership's calculation of its NCTI
 - A Taxed Partnership is required to complete Part 4C for nonresident Pass-Through Partners
 - Partners who are not Pass-Through Partners, are included in the Taxed Partnership's calculation of its NCTI
 - For both resident and nonresident partners, Taxed Partnership is only required to include income attributable to NC when calculating its NCTI

Partnership Income Tax

○ D-403: Updates to Part 1

- Updated line titles and line instructions for **Lines 11, 12, and 13** to account for a Taxed Partnership with one (or more) Pass-Through Partners.
 - Amounts reported on these lines:
 - are carried over from Part 4C for regular partnerships, and
 - the sum of relevant lines from Part 4C and an updated or new subsection in Part 4 for Taxed Partnerships

Partnership Income Tax

D-403TC:

- Line 8 and Part 5, both of which are titled *Credit for Income Tax Paid to Another State or Country*, will be removed
 - The provision in NC law that allowed a Taxed Partnership to claim a tax credit for entity-level taxes paid to another state or country on a resident partner's share of the Taxed Partnership's income attributable to that other state or country was removed

D-403 NC K-1:

- Update instructions for Part C to state that all Taxed Partnerships must complete this part for each partner who is not a Pass-Through Partner

Partnership Income Tax

NC-PE and NC K-1 Supplemental Schedule

- Forms will be updated to match the lines on D-400 Schedule S, N.C. Adjustments for Individuals

D-403 NC-NPA

- **Previous Law** - Taxed Partnerships were required to include in its NCTI the distributive share of all qualifying partners' NCTI
- **New Law** - Pass-Through Partners are considered qualifying partners but their share of NCTI is not included when calculating Taxed Partnership's NCTI
 - Taxed Partnership is required to pay tax on behalf of the nonresident Pass-Through partner unless a Form NC-NPA is filed for the partner
 - Current text on Form NC-NPA that instructs a partner of a Taxed Partnership to stop completing the form will be removed
- General instructions on Form NC-NPA will also be updated to remove text that states that Form NC-NPA is not applicable to partners of a Taxed Partnership, and additional instructions will be added for nonresident Pass-Through Partners

Partnership Income Tax

◀ NC-40 PTE

- ◊ ■ Column B of the worksheet included on Form NC-40 PTE was removed to reflect law changes
 - Column B reported resident partners' share of estimated income from the Taxed Partnership
 - Effective for tax years beginning on or after January 1, 2023, even for resident partners, only income that is includable in the Taxed Partnership's calculation of its NCTI is the resident partners' share of income attributable to NC
 - For both resident and nonresident partners, when calculating the Taxed Partnership's estimated NCTI, the worksheet only includes estimated amounts of income attributable to NC
- Instructions for the worksheet state that a Pass-Through Partner's share of Taxed Partnership's income (loss) should be excluded from the estimated amounts if:
 - Pass-Through Partner is a resident of NC, or
 - Pass-Through Partner is a nonresident of NC, but the Taxed Partnership plans to file Form NC-NPA on behalf of the nonresident Pass-Through Partner

D-407

- Tax rate decreased to 4.75% for tax year 2023
- Line 10 to allow a negative number. Reports the sum of Lines 9a through 9e and Line 9e can be a negative number.

Withholding Tax

- Income tax withholding rate is scheduled to be reduced from 4.85% to 4.70% in 2024
 - Income tax withholding rate is individual income tax rate plus 0.1%
- The following updated withholding allowance certificates will be available to Software Developers in early November and available on NCDOR's website in mid-December:
 - NC-4, Employee's Withholding Allowance Certificate
 - NC-4 NRA, Nonresident Alien Employee's Withholding Allowance Certificate
 - NC-4P, Withholding Allowance Certificate for Pension or Annuity Payments
- Updated withholding tables included in Publication NC-30, Income Tax Withholding Tables & Instructions for Employers, will be available on NCDOR's website in early December

CD-401S

- For resident and non-resident shareholders, a Taxed S Corporation is only required to include income attributable to NC when calculating its NCTI.
- This change is applicable to tax years **beginning on or after 1/1/23**.

CD-425

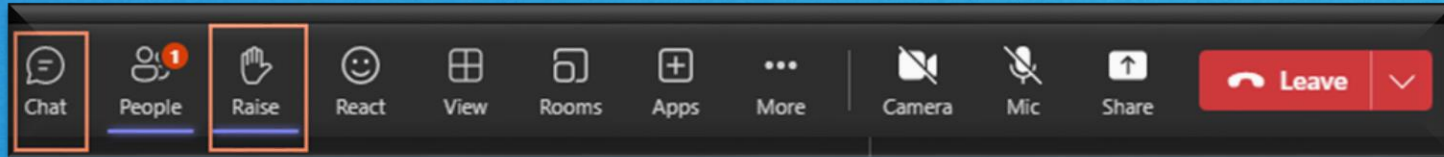
- Session Law 2023-12 removed the provision that allowed a Taxed S Corporation to claim a tax credit for entity-level taxes paid to another state or country
- Part 3, Line 23 and Part 5, both titled Credit for Income Tax Paid to Another State or Country, will be removed.
- This change is applicable to tax years **beginning on or after 1/1/23.**

CD-429 PTE

- Worksheet revised
- New web-fill version of this form now available

Q&A Break

If you joined by video, please use the raise button to ask a question OR put your question in the chat box.



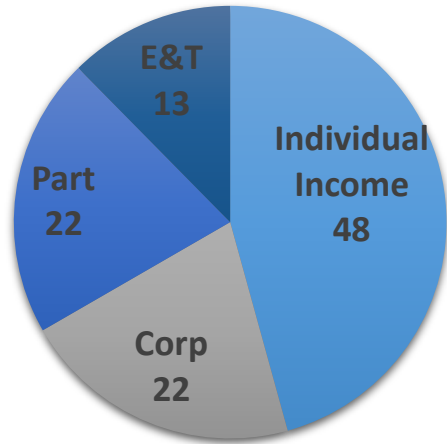
Letter of Intent Information

- Submit a single LOI for MeF and Substitute Tax Forms
- Check box will be added to indicate electronic and paper registration
- **NEW:** Use allaboutforms@ncdor.gov for MeF and paper LOIs
- Include primary and secondary contacts on the LOI
- Provide important information:
 - Forms and schedules that your software supports
 - Specific instructions and requirements
 - Complete the rebranded section of the LOI for all “white label” products
- Once the LOI is received, confirmation will be sent

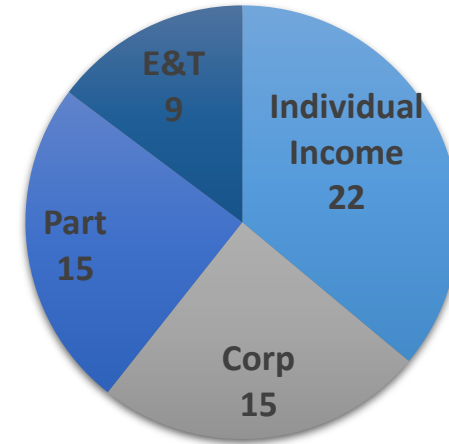
Purpose of eSPVS

- Provide access to MeF ATS testing resources
- Test and approve software products
- Research and resolve MeF related issues and business rule errors
- Provide support to software providers
- Provide support and resources for eNC3 and eNC5Q applications
- Provide support and resources for Sales and Use Electronic Data Interchange (EDI)

105 Approved Products

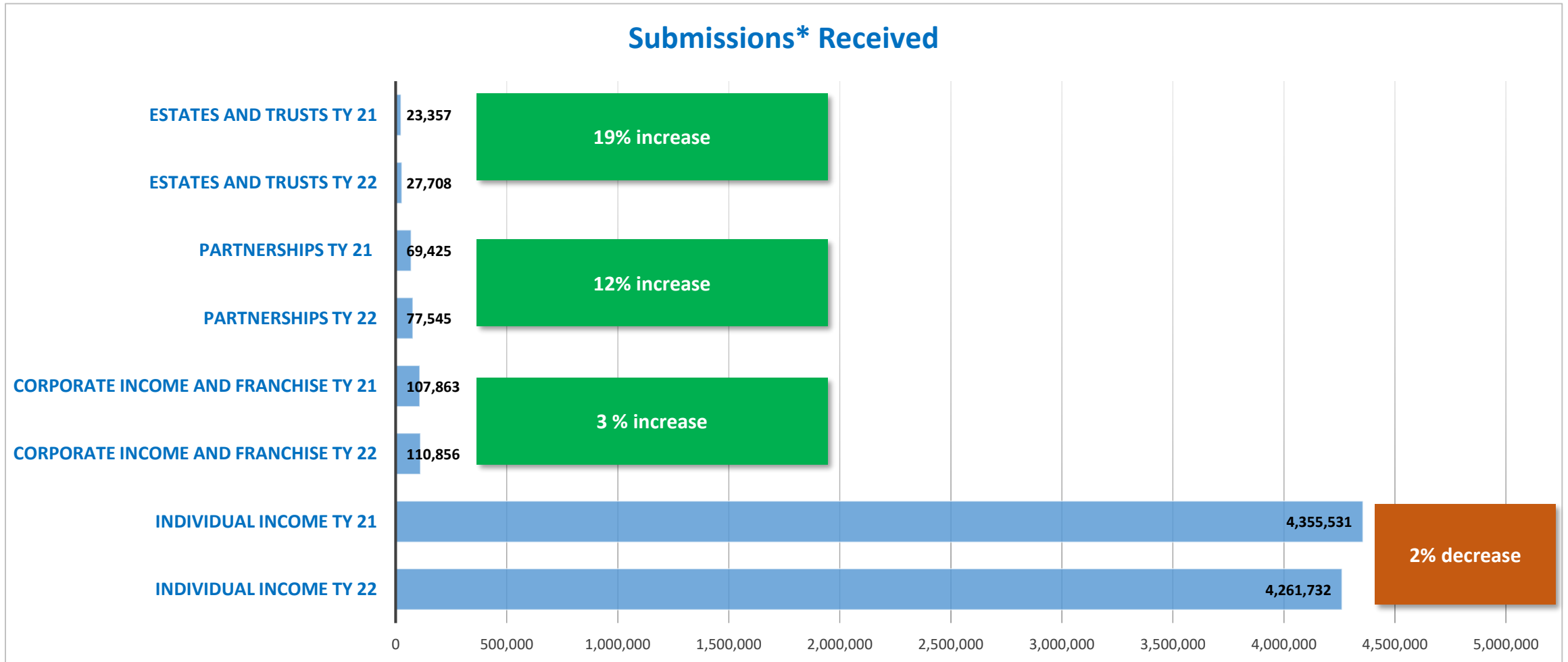


22 Software Providers



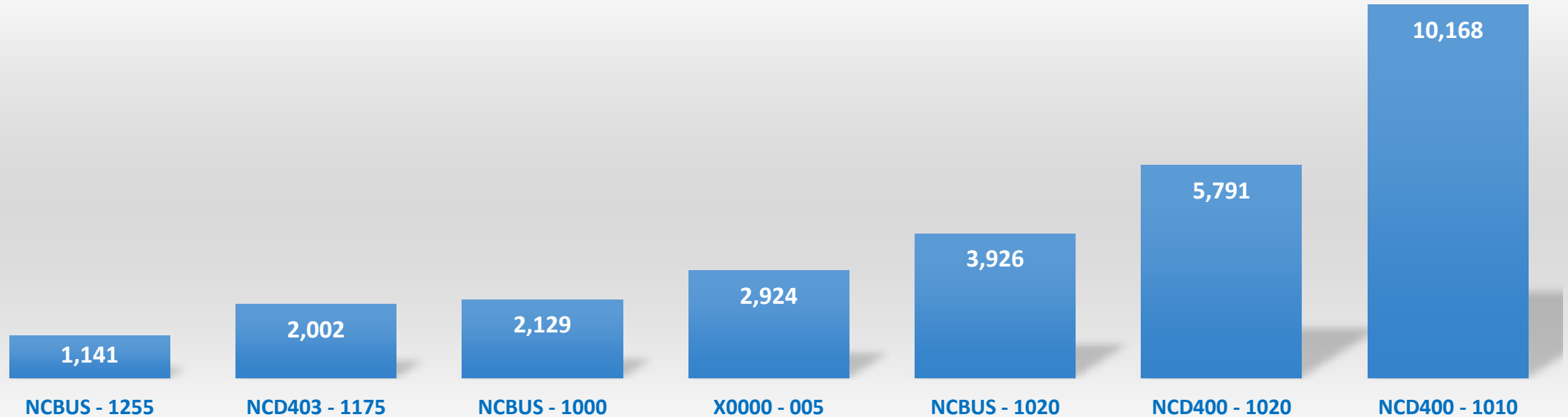
TY 21/22 Comparison	Individual			Corp.			Part.			E&T		
	2021	2022	% Change	2021	2022	% Change	2021	2022	% Change	2021	2022	% Change
Software Providers	24	22	-8%	13	15	15%	13	15	15%	11	9	-18%
Approved Products	48	48	0%	20	22	10%	20	22	10%	15	13	-13%

MeF Statistics



*TY 21 submissions are through May 24, 2022 and TY 22 submissions are through May 24, 2023

Top Business Rule Rejects



NCBUS-1000 (Duplicate Return): The original return's Federal EIN must not match an existing accepted original return's Federal EIN for the applicable period

NCD403-1175 (D-403): If Part 1 Line 20 is less than or equal to Part 1 Line 21d, then Part 1 Line 22 must be equal to the sum of Part 1 Lines 19 and 21d minus Part 1 Line 20; otherwise, Part 1 Line 22 must be zero or blank

NCBUS-1255 (NC K-1 Supplemental Schedule- NC K1 CD401S): If NC K-1 CD-401S Line 3 (Deductions) is greater than zero, then Line 3 must equal NC K-1 Supplemental Schedule Line 38 from Column A.

NCD400-1010 (D-400/D-410) Duplicate Return: The original submission's Primary SSN matches an existing accepted original return's Primary SSN or Secondary SSN

NCD400-1020 (Core): The software used has not been approved for e-file

NCBUS-1020 (Core): The software used has not been approved for e-file

X0000-005: The XML data has failed schema validation

ATS Testing

Software Limitations

- List on LOI prior to ATS testing
- If provided after the testing start date, allow 5 business days before transmitting test returns
- Test results will be inaccurate if limitations are not properly defined
- Provide detailed calculations for test results
- Provide PDF version of test cases

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	0
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

Test Case Scenarios

- Unique test returns are provided for each tax type
- Omit the following returns if not supported by your software:
 - Amended returns
 - Non-resident and/or Part-year resident returns
 - TPOS Form
 - Extensions

Test Submission Expectations

- Initial submissions (at least 1 test case) should be submitted by the December 31
- Software should be approved in 4 or fewer attempts
- Testing of all products should be completed by March 15

ATS Testing: Important Dates

NCDOR Target Release Dates for:

- Drafts of Schemas and Business Rules posted to SES—**mid/late September**
- Final Version of Schemas and Business Rules posted to SES – **October 2**
- ERO Guides – **October 2**
- ATS Test Package – **October 2**

IRS opening dates for TY2023

- TBD for all tax schedules

NCDOR Target ATS testing start date

- **November 15**

NCDOR Response Time and Expectations

Our goal is to provide a response within **3 business days**. Additional research related to the following may delay response time:

- Tax law specific questions
- More technical details related to schemas and coding logic

We will continue to use the MeF Approval Season Process Report to provide feedback based on your company's ATS testing performance.

MeF Approval Season Recap TY 22

100% of Individual Income Software Developers met expectations

100% of Corporate & Franchise Software Developers met expectations

100% of Partnership Software Developers met expectations

100% of Estates and Trust Software Developers met expectations

New for TY 2023

- NC-NOL will be added to the schema for TY 2023
 - D-400 Net Operating Loss (NOL)
 - D-407 Net Operating Loss (NOL)
- SDs will only need to resubmit test cases for review that had errors
- NCDOR will not require testing of every product if the calculation engine is shared.
 - If your software products use the same calculation engine, you will be required to submit 1 test returns to ensure connectivity

MeF Reminders

- Review ERO guide
- Email NCTaxFile@ncdor.gov if you discover production issues
- Perform regression testing for current and prior year returns when software updates are made
- Do not encourage tax professionals or taxpayers to paper file returns when they don't receive acknowledgements

Support for rejected submissions

- Retention policy: 30 days for electronic submissions

eNC3 & Server-to-Server

Forms with Updates:

- Currently no known form changes for TY 2023

Retirement of IRS's FIRE system

- NCDOR will continue to support only Pub 1220 format for TY 2023
- Once new IRIS format (xml) is supported, Pub 1220 will be supported for at least one year, dependent on IRS's schedule for retiring FIRE

Server-to-Server (S2S) Pilot Program Continues:

- Currently supports submission of forms NC-3, W-2, 1099-R, 1099-MISC, 1099-NEC
- Interested in Server-to-Server? Email eNC3@ncdor.gov

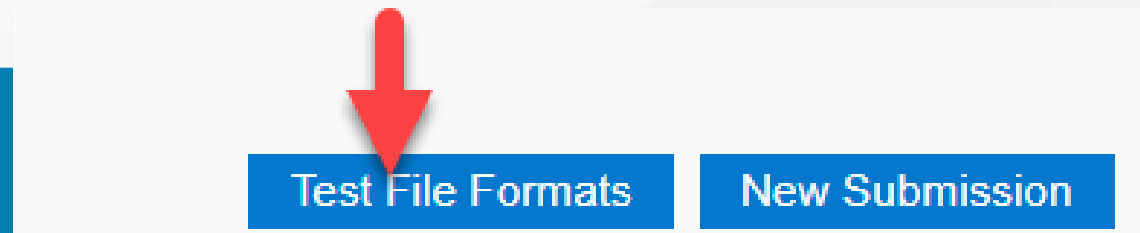
eNC3 and eNC5Q

eNC5Q

- 27% increase in NC-5Q submissions TY2021 to TY2022
- No updates to the eNC5Q application or forms for TY2023

eNC3 and eNC5Q Application Reminders

- NCDOR system is designed to follow all of these:
 - IRS Publication 1220 (eNC3 only)
 - SSA Publications EFW2 and EFW2C (eNC3 only)
 - NCDOR supplemental specifications
- Do not submit via paper if filing electronically
- Test button is available for testing file format(s)

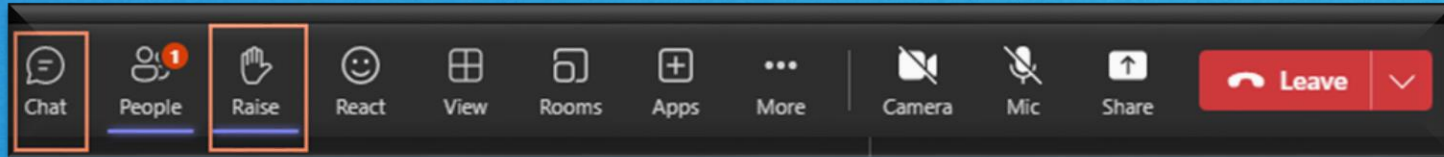


eNC3 and eNC5Q Application Reminders Continued

- Register and test with eSPVS to list products on NCDOR website
- Provide customers/clients contact information for software errors - NCDOR cannot assist with software errors
- eNC5Q application does not support payments—use Form NC-5PX
- Forms 1099-NEC and 1099-MISC that do not report NC income tax withheld are not required to be filed with NCDOR
- NC has an electronic filing requirement for Form NC-3 and related statements

Q&A Break

If you joined by video, please use the raise button to ask a question OR put your question in the chat box.



Purpose of pSPVS

pSPVS manages the annual review and approval of substitute tax forms by:

- Granting access to the Letter of Intent (LOI) folder
- Providing access to the FTA SES form folders – a repository of SD forms, specs and other resources to reproduce substitute tax forms
- Reviewing the alignment and technical specifications for each eligible NC substitute tax form
- Researching and resolving production errors for NC substitute tax forms

Standards for Substitute Tax Forms

- Substitute Tax Forms are to be submitted and approved within thirty (30) business days of submission approval start date
- Obtain approval within three (3) or fewer attempts, including the initial submission

Statistics

	2022	2021	2020	2019	2018
SDs	70	71	72	69	74
Exceptional	39	22	34	28	16
Exceeds Expectations	12	12	12	9	6
Meets Expectations	5	4	3	5	2
Improvement Needed	5	8	4	6	10
Unsatisfactory	9	25	19	21	40
Pass	56	38	49	42	24
Pass Rate	80.0%	53.5%	68.1%	60.9%	32.4%
Pass Rate % Change	49.5%	-21.4%	11.8%	87.7%	32.4%

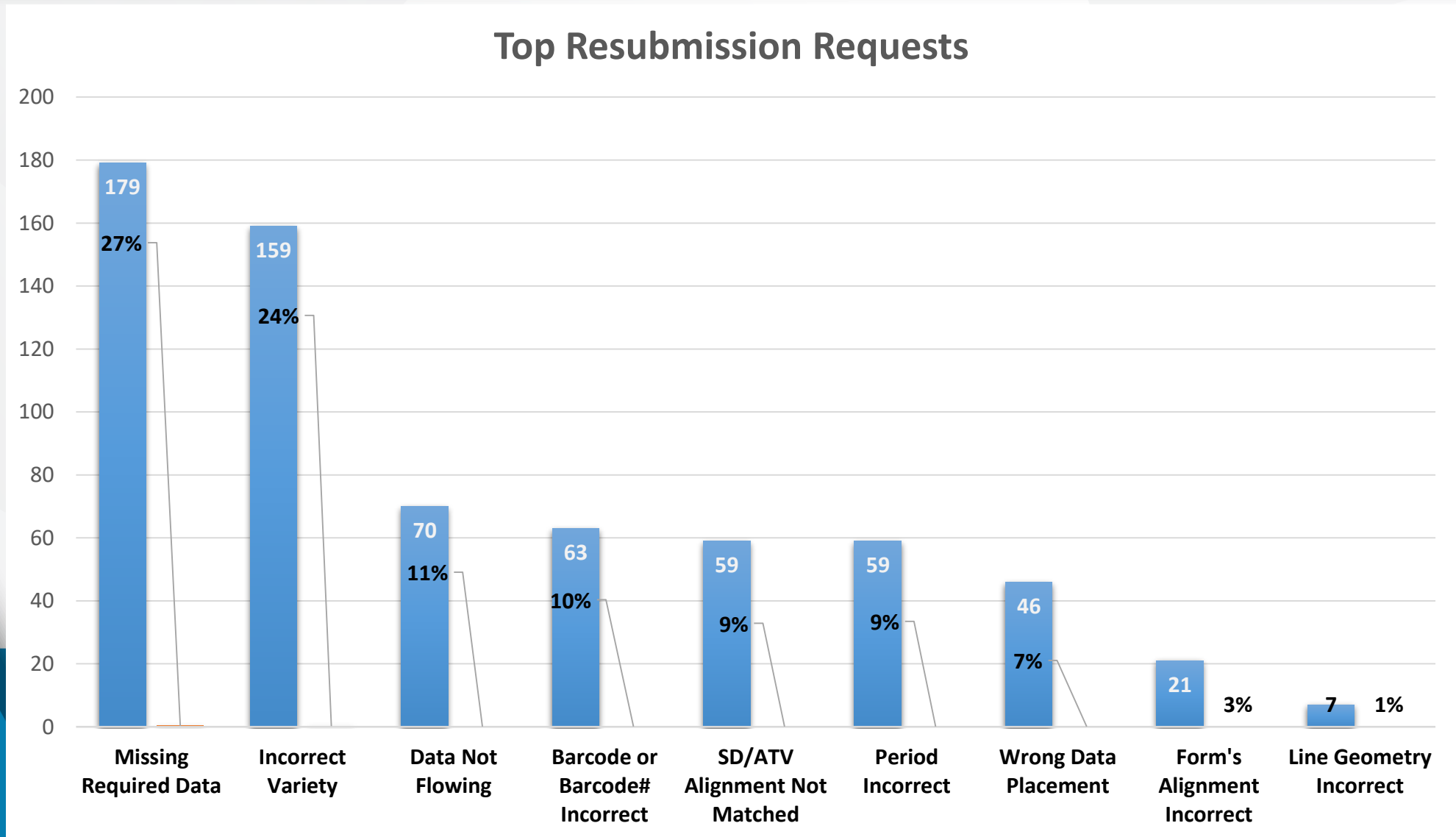
NCDOR Substitute Tax Forms Available for Developers in TY 22

Type	Total	Updated	New	Unchanged
Forms with Barcodes	42	13	0	29
Forms without Barcodes	34	21	3	10
Total Forms Available for Development	76	34	3	39
Percentage	100%	45%	4%	51%

Best practices for submissions

- E-mail questions to allaboutforms@ncdor.gov for LOI and SD submissions
- E-mail SD submissions to sdformsupdate@ncdor.gov only
- Include the correct contacts on your LOI to ensure proper SES access
 - Helps NCDOR maintain the first-in first-out method
- Submit the correct variety based on the SD Form Specification

Top Resubmission Requests



Best practices for timely approvals

- Use SD resources included on the SES
- Forms Specs provide the variety and number of forms that should be submitted
- Period Ending Chart shows the required periods for common forms and check digit
- Use the New TY 23 resource on how to format foreign addresses
- Requirements for the Approval for the Substitute of Tax forms is our most comprehensive resource that documents the submission requirements

Best Practices

Best practices for timely approvals

- Use the following 3 sources for targeted approval dates:
 - **Unchanged List** - sent with initial kick off email
 - **Required Approval Dates** - reformatted based on feedback
 - **E-mail communication blast** - sent when SD Final submission approval period/ 30 business days

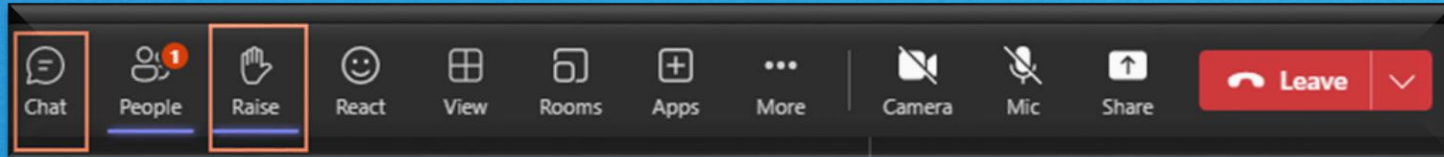
Corporate Tax Forms Required Approval Dates								
Form Number	Form Name	Unchanged	SD Form	SD Grid	SD Spec	Submission Approval Start Date	Target Date for Initial Submission By or Before**	Required Approval Date
CD-401S	S Corporation Tax Return 2023		<	<		09/29/23	10/20/23	11/13/23
CD-405	C Corporation Tax Return 2023		<	<		09/29/23	10/20/23	11/13/23
CD-405CW*	Combined Corporate Income Tax Worksheet		<	<		09/29/23	10/20/23	11/13/23
CD-418*	Cooperative or Mutual Association 2023		<	<		09/29/23	10/20/23	11/13/23
CD-419 Corp	Application for Corporate Income Tax Extension	<	<	<		09/22/23	10/13/23	11/03/23
CD-419 Fran	Application for Franchise Tax Extension	<	<	<		09/22/23	10/13/23	11/03/23
CD-425	2023 Corporate Tax Credit Summary		<	<		09/29/23	10/20/23	11/13/23
CD-429	Corporate Estimated Income Tax		<	<		09/29/23	10/20/23	11/13/23
CD-429B*	Underpayment of Estimated Taxes by C-Corporations		<	<		09/29/23	10/20/23	11/13/23
CD-429 PTE*	Taxed S Corporation Estimated Income Tax		<	<		09/29/23	10/20/23	11/13/23
CD-V Amd Corp	Amended Corporate Income Tax Payment Voucher	<	<	<		09/22/23	10/13/23	11/03/23
CD-V Amd Fran	Amended Franchise Tax Payment Voucher	<	<	<		09/22/23	10/13/23	11/03/23
CD-V Corp	Corporate Income Tax Payment Voucher	<	<	<		09/22/23	10/13/23	11/03/23
CD-V Fran	Franchise Tax Payment Voucher	<	<	<		09/22/23	10/13/23	11/03/23
NC K-1 (CD-401S)	Shareholder's Share of N.C. Income, Adjustments, and Credits	<	<	<		09/29/23	10/20/23	11/13/23
NC-NA	Nonresident Shareholder Agreement	<	<	<		09/22/23	10/13/23	11/03/23
* Reproduce substitute tax form using the DOR Final								
**NCDOR's recommended date for the first submission in order to ensure a timely approval								
Approval Cycle has started for this form								

Best Practices to avoid production errors

- Submit at least one test sample with product identifiable information so NCDOR will recognize all forms submitted from the product
- Save both paper and electronic version of the approved form for comparison in subsequent years
- Ensure only the approved version for the tax approval season is placed in operating system
- Secure software so users cannot alter the approved version from NCDOR

Q&A Break

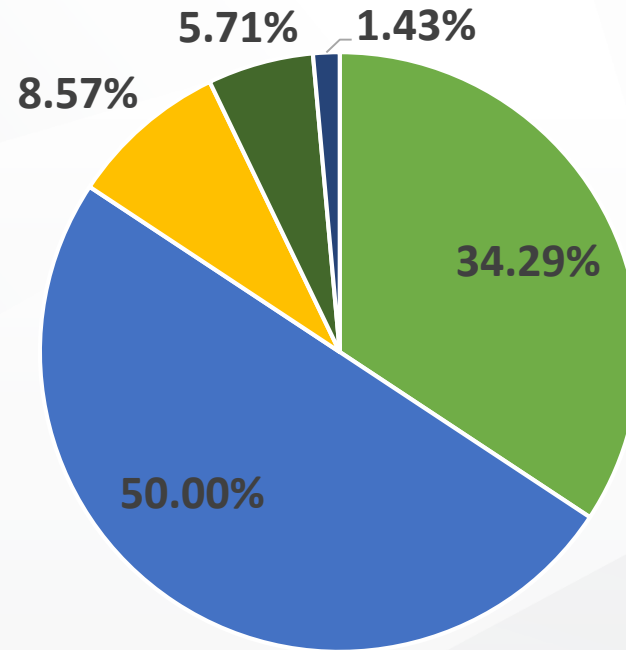
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Testing and Approval Season Survey Results

Rating of Overall Experience

- Extremely satisfied
- Satisfied
- Neither satisfied nor dissatisfied
- Dissatisfied
- Extremely dissatisfied



Testing and Approval Season Survey Results (cont.)

- **Approval Process Reviews**
 - Training/review will be conducted prior to the start of the process
 - Optional, but highly recommended for new developers
 - Individual assistance
 - Email nctaxefile@ncdor.gov and/or allaboutforms@ncdor.gov with a subject of “Approval Process Review”
- **Substitute Tax Forms**
 - Earlier access – once LOI is approved, all SES approved contacts will have access
 - Forms will be posted once available
 - Work to more clearly communicate required approval dates
 - Resubmissions – reviewing procedures

Testing and Approval Season Survey Results (cont.)

- MeF
 - ATS comparison results email
 - Starting a project to improve – may not be ready for TY23
 - Test case scenarios and narratives
 - Perform additional review to reduce issues and errors
 - Shared calc engine – only require full testing of one product
 - Schema naming conventions and unmapped folders
 - Large number of schema releases
 - Resubmissions – only require cases with errors to be resubmitted
 - Forms and instructions in SES

Business Relationship Manager Role

- Here to serve
- Liaison between providers in the industry and the NCDOR
- Advocate for continuous improvement
- Contact: Lea.Durand@ncdor.gov

Report Card

- Provider report card—opt in email was sent on Monday, June 19, respond by June 30. Report cards will be sent by July 15.

Contact Information

- Scope of support
- Copy of contact info for all TSCO groups will be sent via email

Survey

- Check your email for a survey. Your feedback helps us improve!

Poll

Poll questions will be posted in the meeting chat shortly.
Please take a moment to submit a response.



Final Q&A

If you joined by video, please use the raise button to ask a question OR put your question in the chat box.

