



October 28, 2015

IMPORTANT TAX LAW CHANGES FOR EMPLOYERS, PENSION PAYERS, AND OTHERS THAT WITHHOLD NORTH CAROLINA INCOME TAX

The important changes addressed in this notice include:

- A change in the submission method and due date for Form NC-3 and other withholding statements
- A change in the withholding rate for Tax Year 2016 and Tax Year 2017

Changes Applicable to Withholding for Tax Year 2015

Part VII of Session Law 2015-259 includes changes to the withholding law which are designed to increase tax compliance and help the Department combat tax refund fraud. The changes affect the manner in which Form NC-3 and the Department's copies of W-2s, 1099s and other withholding statements are filed and when they are due. The changes are effective for taxable years beginning on or after January 1, 2015. For tax year 2015, the changes apply only to informational returns required to be filed in 2016.

As amended, G.S. 105-163.7 requires Form NC-3 and copies of withholding statements to be filed on or before January 31 of the succeeding year and in an electronic format as prescribed by the Secretary of Revenue. The Secretary may, upon show of good cause, waive the electronic submission requirement.

To implement this legislation, the Department is currently developing three new electronic filing (eNC3) options for taxpayers: (1) file upload, (2) bulk transmittal, and (3) online entry. These new methods will replace the current options of filing via CD or paper.

The Department has established a web page (www.dornc.com/enc3) to provide information about the electronic filing of Form NC-3 and the Department's copies of withholding statements. The webpage will be the primary method of providing additional information regarding this requirement.

The NCDOR encourages sharing of this notice with your tax preparers so they are also aware of this requirement.

Changes Applicable to Withholding for Tax Year 2016

- Session Law 2015-241 requires North Carolina income tax to be withheld from wages at a rate that is 0.1% higher than the individual income tax rate. The individual income tax rate remains at 5.75% for tax year 2016, therefore the withholding rate on wages will be 5.85%. The change is effective for taxable years beginning on or after January 1, 2016. The revised withholding tables for wages paid in 2016 will be included in Form NC-30, *2016 Income Tax Withholding Tables and Instructions for Employers*, available later this year at: www.dornc.com/downloads/wh_forms.html.
- This legislation also increases the standard deduction for each filing status. The change is effective for taxable years beginning on or after January 1, 2016 and will also be incorporated in the withholding tables for 2016.
- Session Law 2015-259 includes a new penalty for failure to file an informational return by the due date. The new penalty is \$50.00 and is effective for taxable years beginning on or after January 1, 2016. However, for tax year 2016 the penalty only applies to informational returns required to be filed in 2017.

Changes Applicable to Withholding for Tax Year 2017

Session Law 2015-241 lowered the individual income tax rate from 5.75% to 5.499%. This change is effective for taxable years beginning on or after January 1, 2017. The withholding tables will be revised for 2017 to reflect the reduced tax rate. During Tax Year 2017, the withholding tax rate will be 5.599%. The revised withholding tables for wages paid in 2017 will be included in Form NC-30 which will be available in late 2016.

Taxpayer Resources for Future Law Changes Regarding Withholding Tax

The Department will use its website, www.dornc.com, as the primary resource for reporting future law changes that affect withholding responsibilities. Law changes will be explained in the Department's annual Tax Law Changes publication, available at www.dornc.com/practitioner/tax_laws.html, and in the annual revisions of Form NC-30.

Important notices will also be placed in the Headlines section of the NCDOR's website home page and distributed by email to subscribers of the Department's E-Alerts. To subscribe, send an email to nctax-subscribe@lists.ncmail.net (leave subject line and body of message blank) or visit <https://lists.ncmail.net/mailman/listinfo/nctax>.

If you have any questions about the law changes explained in this document, please call the Department at 1-877-252-3052 (toll-free).