

# Penalties For Informational Returns

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Legislative Analysis Division, NCGA

Revenue Laws Study Committee  
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## What is this about?

- The filing of “informational returns” only.
  - NC-3s – Employer W-2 Reconciliation
  - Alcohol Vendors, Payment Settlement Entities, & OLBs
  - Motor Fuels – terminal operators & transporters
  - E-536 County Allocation of Sales Tax
- The information submitted is used to ensure compliance.

**NCDOR NC-3 Annual Withholding Reconciliation**

Employer ID: \_\_\_\_\_ Taxpayer ID: \_\_\_\_\_

Line	Description	Amount	Balance
1	Employer's Total Withholding		
2	Employee's Total Withholding		
3	Employer's Total Withholding		
4	Employee's Total Withholding		
5	Employer's Total Withholding		
6	Employee's Total Withholding		
7	Employer's Total Withholding		
8	Employee's Total Withholding		
9	Employer's Total Withholding		
10	Employee's Total Withholding		
11	Employer's Total Withholding		
12	Employee's Total Withholding		
13	Employer's Total Withholding		
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44	Employee's Total Withholding		
45	Employer's Total Withholding		
46	Employee's Total Withholding		
47	Employer's Total Withholding		
48	Employee's Total Withholding		
49	Employer's Total Withholding		
50	Employee's Total Withholding		

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## What is the problem?



- When the Department doesn't receive these returns in real-time, it increases the potential for refund fraud and identity theft.
- Statutorily required to be filed electronically, but not all filers comply.
- There is no penalty for failure to file in the format required.

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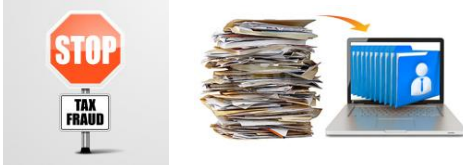
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What is the Department's objective?

- To reduce refund fraud and identity theft and to enhance compliance
- To reduce costs associated with converting paper to digital



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How can DOR's objective be accomplished?

- DOR proposes an enforcement mechanism in the form of a penalty for existing requirement that informational returns be filed electronically.



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Concern

- Potential burden for small business owners without access to or proficiency with computers.



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### Proposal

CURRENT	PROPOSED
Failure to file NC-3.....\$50	Failure to file NC-3.....\$50/day; \$1000 max
Failure to timely file compliance info request.....\$1,000	Failure to timely file compliance info request.....\$50/day; \$1,000 max
Failure to file in proper format.....No penalty	Failure to file in proper format.....\$200

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### Department Response to Concerns

- **Waiver of Electronic Submission Requirement**
  - Proposal maintains current law that Secretary can waive the electronic submission requirement.
- **Waiver of Penalty**
  - Proposal maintains current law that Secretary can waive the penalty. DOR has written policy that every taxpayer "in good compliance" be allowed 1 penalty waiver every 3 years.
- **No Cost to Filer**
  - DOR has a free web application that would allow an employer to enter the NC-3 information manually.
- **Minimal Impact**
  - 84% of businesses already file electronically.
  - Of the remaining 16%, the vast majority are computer-generated. Only 400 of the 6.8 million NC-3s are handwritten.

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### Questions?

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