Tax Information for Small Businesses

Keys to Success
Disclaimer

✓ These seminars are for general information only.
✓ They should not be interpreted as specific tax advice for your specific situation and may not be relied upon:
  ⇒ There are some tax issues with easy answers
  ⇒ There are many others that require more information from you before we can give you a full, accurate answer
✓ During question and answer session, it may be recommended that you follow up with a Department of Revenue representative, or a representative from another agency.
✓ Anyone using this presentation should be alert for changes which may result from legislative action, court decisions, Attorney General Opinions, or from rules adopted or amended under the Administrative Procedures Act, Chapter 150B of the General Statutes.
✓ The information presented is applicable for the date the presentation was given.
What type of business are you?

Different types of business entities
All individuals that live or work in North Carolina with income above the minimum filing requirements are required to file a North Carolina Income Tax return.
Individual and Corporate Income Tax

- **Proprietorship:**
  - a business that has no separation from it’s owner

- **Partnership:**
  - a business in which 2 or more people share in management and profits

- **C–Corporation:**
  - a business that has an identity completely separate from it’s owners and is taxed under Subchapter C of the Internal Revenue Code

- **S–Corporation:**
  - a business that has an identity completely separate from it’s owners and is taxed under Subchapter S of the Internal Revenue Code

- **Limited Liability Company:**
  - a business in which the owners are called “Members” and are protected from some or all liability of the company
Most N.C. residents with income are required to file an individual return. Complete filing requirements are available at www.dornc.com. Filing deadline is April 15.
Estimated Income Tax

- Must pay if you owe more than $1,000 after withholding and credits
- Four equal quarterly payments during the year
- Candidates for estimated tax are:
  - Self-employed
  - Pension payment recipients
  - Anyone receiving payments from tax-deferred accounts
Filing Estimated Individual Income Tax (NC-40)
Filing Partnerships (D-403)

- Partnerships required to file a D-403 Partnership Income Tax Return
- Deadline:
  - April 15 for calendar year
  - The 15th day of the fourth month after the end of the fiscal year
- Each partner receives a K-1 form listing income, tax credits, adjustments, etc.
Filing C-Corporations (CD-405)

- File CD-405 return annually to pay franchise and income tax
- File CD-479 (annual report)
- Must file by April 15 (if on the calendar year)
- Franchise and income tax due by 15th day of fourth month after year end (if on fiscal year)
- Franchise tax rate: $1.50 per $1,000 of either capital stock, surplus, and undivided profits; investment in NC tangible property; or appraised value of NC tangible property
- Annual report fee is $25 for corporations that file a paper copy with the Department of Revenue and $18 for taxpayers that file the report online with the Secretary of State
- Annual report may be filed on paper with NCDOR and electronically with the Secretary of State
Filing S-Corporations (CD-401S)

- File CD-401S return annually to pay franchise and income tax
- File CD-479 (annual report)
- Franchise and income tax due by April 15 (if on the calendar year)
- Franchise tax rate: $1.50 per $1,000 of capital stock, surplus and undivided profits
- Annual report fee is $25 for corporations that file a paper copy with the Department of Revenue and $18 for taxpayers that file the report online with the Secretary of State
Business Registration

How to register
How to Register

- Use Form NC-BR
- You may:
  - Register Online
    - Found at Dornc.com under the electronic services tab
  - Use Personalized Form
    - Entering information online then printing out a form with your information
  - Paper Form
    - Order Online
    - Pick up from one of our service centers
How to Register, continued

On Line

• Free
• Easy step-by-step instructions
• Account number in minutes

Benefits
Sales and Use Tax

Understanding Sales and Use Tax obligations
Every person engaged in business in North Carolina is required to collect and pay sales tax on the retail sale, rental or lease of tangible personal property, unless specifically exempt from tax by statute.

Some services also taxable
Filing Frequencies

- **Quarterly:**
  - Owe less than $100 per month
  - Reports due by the last day of the first month after the quarter (April, July, October, January)

- **Monthly:**
  - Owe $100 – $19,999 per month
  - Reports due by the 20th of the following month

- **Monthly (with Prepayment):**
  - Owe at least $20,000 per month ($20,000 or more)
  - Reports and balance of tax owed are due by the 20th of the following month
General state rate: **4.75%**

- Sales of tangible personal property
- Receipts from leases/rentals of tangible personal property
- Receipts from rentals of hotel/motel rooms, lodgings, etc.
- Receipts from laundries, dry cleaning
- Receipts from satellite digital audio radio service
- Certain digital property that is delivered or accessed electronically, is not considered tangible personal property, and would be taxable under G.S. 105-164.4(a) if sold in a tangible medium.
Tax Rates

County rates as of April 1, 2013:

2% - 74 counties

2.25% - Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Edgecombe, Greene, Halifax, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes

2.5% - Mecklenburg County (Includes the 0.5% local sales and use tax for public transportation)

2.75% - Durham, Orange (2.25% county and the 0.5% local sales and use tax for public transportation)
Sourcing Principles

For purposes of sourcing, the terms “receive” and “receipt” mean “taking possession of tangible personal property” or “making first use of services.”
Over-the-counter. When a purchaser receives a product at a business location of the seller, the sale is sourced to that business location.

Delivery to a specified address. When a purchaser receives a product at a location specified by the purchaser and the location is not a business location of the seller, the sale is sourced to the location where the purchaser receives the product.

Delivery address unknown. When the seller does not know the address where a product is received, the sale is sourced to the first address or location listed below that is known to the seller:

- a. The business or home address of the purchaser.
- b. The billing address of the purchaser or, if the product is prepaid wireless calling service, the location associated with the mobile telephone number.
- c. The address from
Use Tax

- Use taxes are due from any business that purchases tangible personal property and does not pay sales tax
  - For example, you buy a computer from a vendor in Virginia and that computer is delivered to your home. The vendor doesn’t have to charge N.C. sales tax. You would owe use tax on it in North Carolina

- Tax rates are the same as sales tax
- Taxpayer can claim a credit for any sales tax paid in the other state
- Use tax is paid on Form E–500: Sales and Use Tax Return
- Businesses that owe Use Tax must register on Form NC–BR
Withholding Tax

Understanding Withholding Tax obligations
Withholding

- Businesses are required to collect and pay withholding taxes on employees in North Carolina
Withholding Definitions

- **Withholding Tax:**
  - a portion of income an employer forwards to the federal and state government on behalf of the employee for income tax purposes

- **Employer:**
  - any person or organization whom an individual performs any service as an employee

- **Employee:**
  - generally, a worker that performs services for a person or business

- **Contractor:**
  - a business or person that provides goods and/or services to another according to the terms of a contract

(Effective Jan. 1, 2010, businesses, organizations or individuals in North Carolina that pay more than $1,500 per year to a contractor with an Individual Taxpayer Identification Number (ITIN) must withhold 4% of that pay.)
Filing Requirements (based on NC-BR)

- Quarterly:
  - Form NC-5
  - employers who withhold less than $250 per month
  - Reports due by the last day of the first month after the quarter

- Monthly:
  - Form NC-5
  - employers who withhold $250 – $2,000 per month
  - Reports due by the 15th of the following month

- Semi-Weekly:
  - NC-5Q
  - employers who withheld more than $2,000 per month
  - Reports due on the same day the employer is required to make a federal deposit
Record Keeping

Recommendations
General Recommendations

- Income Tax
  - Keep records for six years
  - Records include:
    - Returns
    - All documents used to prepare the returns
- Sales Tax
  - Keep records for three years
  - Records include:
    - Returns
    - All documents used to prepare returns
- Withholding
  - Keep records for four years
  - Records include:
    - Returns
    - Annual Reconciliation
    - NC-4
    - W-2s
General Recommendations, continued

- Assets
  - Keep records until fully depreciated
  - Records include:
    - Invoices
    - Account statements
    - Canceled checks

- Business Records
  - Keep records for six years
  - Records include:
    - Gross receipts
    - Invoices
    - Cash register tapes
    - Receipt books
    - Purchases
    - Canceled checks
    - Credit card statements
    - Expenses
    - Account statements
Small Business deduction
New Business Income Deduction

- Deduction of up to $50,000 of net business income the taxpayer receives during the tax year
- Applies to income from federal Schedules C, E, and F
  - Exception: Does not include passive income under IRC
- Joint Returns –
  - If both spouses receive or incur net business income, the maximum $50,000 applies separately to each spouse’s net business income
    - Cannot exceed $100,000
    - Effective for tax years beginning on or after January 1, 2012
Small Business Counseling Program
Small Business Counseling Program: Purpose

- A program that aims to help small businesses recover from certain tax liability.

Program Goals

Encourage small businesses facing challenges to seek help/counseling
Expedite repayment of misappropriated trust tax
Save small businesses ... minimize failures and improve overall NC business climate
What businesses are eligible to Participate?

- A taxpayer must be a active small business employing 200 or fewer employees; **and**

- Required to file and pay trust taxes to the State of North Carolina. Trust taxes include:
  - Motor vehicle lease and rental
  - Sales and use
  - Scrap tire disposal
  - White goods disposal
  - Withholding
Small Business Counseling

The counseling and technical assistance offered by the SBTDC and SBCN can include:

- Review of business plan
- Review of financial statement
- Trust tax education
- Ongoing assistance to remain compliant
What’s in it for Me?

- Free counseling/training from SBTDC or SBCN
- All penalties and fees assessed on delinquent trust taxes will be waived upon final payment of tax and interest and completion of counseling.
- Business will be out of debt with NCDOR and have the business knowledge to operate successfully going forward.
I Qualify... What Should I do?

- Contact the NCDOR at 1-877-252-4549
- Contact your local Service Center
- Indicate that you would like to take advantage of the Taxpayer Small Business Counseling Program
Questions?