



707.1rd - NC Income Tax Withholding Requirements Matrix

Question	Nonresident Individual	Nonresident Entity
1. To whom does the State income tax withholding requirement apply to?	The withholding requirement applies to an individual who does not reside in North Carolina.	The withholding requirement applies to nonresident entities which are defined as: <ul style="list-style-type: none">a foreign limited liability companya foreign limited partnership or a general partnership formed under the laws of any jurisdiction other than NCa foreign corporation (see exception in no. 6)
2. What types of payments are subject to tax withholding?	Non-wage compensation payments for personal services performed in NC are subject to the withholding requirement.	Non-wage compensation payments for personal services performed in NC are subject to the withholding requirement.
3. Are all personal services subject to withholding?	Withholding is required only if the compensation is for services performed in North Carolina. The duty day method should be used to allocate compensation for services performed both in NC and other states. Refer to the explanation regarding the duty day allocation method below this table.	Withholding is required only if the compensation is for services performed in North Carolina. The duty day method should be used to allocate compensation for services performed both in NC and other states. Refer to the explanation regarding the duty day allocation method below this table.
4. What is the State income tax withholding rate for these payments?	4% of the non-wage compensation amount.	4% of the non-wage compensation amount.
5. What is the effective date for the withholding requirement?	January 1, 1998, for all personal services.	January 1, 1998, for personal services related to a performance, an entertainment, an athletic event, a speech, or the creation of a film, radio, or TV program.
6. Are there any exceptions to the withholding requirement?	Yes. Payments to ordained or licensed members of the clergy are not subject to withholding.	Yes. Tax is not withheld from: <ul style="list-style-type: none">a limited liability company that has obtained a certificate of authority from the NC Secretary of State,a foreign limited partnership that has a permanent place of business in NC,a foreign corporation that has obtained a certificate



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		of authority from the NC Secretary of State.
<p>7. How can a certificate of authority be obtained?</p>	<p>A certificate of authority does not apply to individuals.</p>	<p>A certificate of authority does not apply to partnerships. A limited liability company or foreign corporation may obtain an application for a certificate of authority by:</p> <ul style="list-style-type: none"> • writing to the Secretary of State, Corporations Division, 300 N. Salisbury Street, Raleigh, NC 27603-5909, • faxing the Secretary of State at 919-733-1837, • downloading from the Secretary of State's website
<p>8. How does a non-resident document eligibility for an exception to the withholding requirement?</p>	<p>Withholding is not required if individuals provide the University with their NC address and social security number.</p>	<p>Withholding is not required if:</p> <ul style="list-style-type: none"> • a limited liability company provides its corporate identification number obtained from the Secretary of State, • a foreign limited partnership provides its NC address and Federal tax identification number, • a foreign corporation provides its corporate identification number obtained from the Secretary of State.
<p>9. Who will report the tax information to nonresident contractors and Federal and State tax officials?</p>	<p>Disbursement Services will issue a Federal form 1099-MISC and a State Form 1099-PS by each January 31 to report the non-wage compensation amount and tax withholdings for University funds. Tax reporting for funds of affiliated organizations will be the responsibility of the affiliated organization. Refer to the affiliated organization notation below this table.</p>	<p>Disbursement Services will issue a State form NC 1099-PS by each January 31 to report the non-wage compensation amount and tax withholdings for University funds. Tax reporting for funds of affiliated organizations will be the responsibility of the affiliated organization. Refer to the affiliated organization notation below this table.</p>
<p>10. Which University department will withhold and remit the taxes?</p>	<p>Disbursement Services has revised its procedures and the Accounts Payable module in ConnectCarolina has been modified to accommodate the new State income tax withholding requirement for</p>	<p>Disbursement Services has revised its procedures and the Accounts Payable module in ConnectCarolina has been modified to accommodate the new State income tax withholding requirement for University funds. Withholding and remitting taxes for disbursements of funds of affiliated organizations will be the responsibility of the affiliated organization. Refer to the affiliated organization notation below this table.</p>



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	University funds. Withholding and remitting taxes for disbursements of funds of affiliated organizations will be the responsibility of the affiliated organization. Refer to the affiliated organization notation below this table.	

Duty Day Explanation

Withholding is required only if the compensation is paid for services performed in NC. When the nonresident contractor provides the service entirely in NC, tax must be withheld from the total amount of compensation. If the nonresident contractor performs the contracted service in more than one state, the University must withhold NC tax only from the portion of the compensation that is attributable to this State. In determining the portion of compensation subject to withholding of NC income tax, a nonresident contractor performing contracted service in NC and in one or more other states must use a method determining NC source income that fairly and equitably apportions and allocates the compensation for services rendered in NC.

Method

The NC Department of Revenue recommends that contractors use the "duty day" method to allocate the compensation to NC. A duty day is any day or part of a day in which an activity connected with the service is performed. The nonresident contractor's compensation which is subject to withholding is determined by allocating the total compensation to the duty days spent in NC rendering services and to the duty days spent outside of NC rendering services. For example, assume a nonresident corporation contracts for \$10,000 to provide an entertainment event. The corporation's representative spends 2 days on campus to help and spends 8 days outside NC performing services related to the event. The amount of withholding would be \$80 which represents 4% of \$2,000. The amount of \$2,000 is subject to withholding since 2 days were spent working in NC at a fee rate of \$1,000 per day. The vendor will need to indicate on the invoice the number of duty days in NC and outside of NC. The absence of such information will necessitate withholding on the entire amount.

Affiliated Organizations Notation

Organizations affiliated with the University may have some funds on deposit with the University in order to use the University's disbursement process or for other reasons. Each affiliated organization will be responsible for ensuring appropriate withholding, remitting, and reporting of NC income tax withheld based on the new State requirements. One option available to affiliated organizations is to process payments which are subject to withholding for an amount net of the 4% withholding rate. Accounting Services will then provide assistance with compliance by establishing a chartfield string for withholding in ConnectCarolina for the affiliated organizations NC income tax liability and processing journal entries initiated by the affiliated organization to account for the tax liability.