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NC Sales Tax Holiday. North Carolina is offering a tax free weekend event during the month of August, which applies to general merchandise. By planning purchases around this opportunity, you can save your family quite a bit of money. This tax free weekend is scheduled for August 5-7, 2011 and applies to the following items:

- Clothing, footwear, and school supplies under \$100
- Sports and recreation equipment under \$50
- Computers under \$3,500
- Computer equipment under \$250

State Sales and Use Tax Rate Scheduled to Decrease July 1, 2011. The general State sales and use tax rate is scheduled to reduce from 5.75% to 4.75% effective July 1, 2011. You are encouraged to check the Department's website for updates to stay informed of any changes as proposed legislation has been introduced that may affect the State tax rate reduction.

Effective July 1, 2011, the general State tax rate applicable to sales and purchases of tangible personal property, certain digital property, and certain services is 4.75%. As a result, the general State and local tax rate will be 6.75% in eighty-two counties, 7% in Alexander, Catawba, Cumberland, Duplin, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 7.25% in Mecklenburg County.

Taxpayers that file Form E-500, Sales and Use Tax Return, should report taxable purchases for use and taxable receipts at the 4.75% Gen. State Rate on the existing returns. The Department will not create and provide new returns.

Employers Misclassifying Workers Could Be Subject to Large Penalties

The American Payroll Association's (APA) 29th Annual Congress included a virtual workshop called "Employee or Independent Contractor – How to Determine a Worker's Status." The workshop was conducted by Steve Hodgson, CPP, APA Director of Payroll Training.

Hodgson noted that employers that misclassify employees as nonemployees or independent contractors will face substantial financial penalties as a result of not withholding income tax, failing to withhold and pay employment taxes, and failing to file the correct reports and returns with the IRS, Social Security Administration (SSA), and state government agencies.

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The IRS penalty for unintentionally failing to withhold federal income tax is 1.5% of the wages paid. This assessment is doubled to 3% if the employer failed to file an information return (Form 1099-MISC) for the worker with the IRS. The IRS penalty for unintentionally not withholding the employee's share of Social Security and Medicare taxes is 20% of the employee's share of the tax. The penalty is doubled to 40% if the employer failed to file an information return for the worker with the IRS.

If an employer intentionally misclassifies the worker as an independent contractor, even after determining that an employer-employee relationship exists, the above penalties do not apply, and the employer is liable for the full amount of federal income tax that should have been withheld, and 100% of the employee's and employer's share of Social Security and Medicare taxes. An employer misclassifying workers will also be subject to state penalties.

Retroactive Employment Benefits. An employer that misclassified workers as independent contractors may have to retroactively pay employment benefits in addition to employment taxes. In 1996, a federal appeals court held that Microsoft Corporation, which had agreed to reclassify "freelancers" as employees after an IRS employment tax audit, also had to include the misclassified workers in its 401(k) plan and 423 employee stock purchase plan (*Vizcaino v. Microsoft Corp.*, CA9, 78 AFTR 2d 96-6690, 10/3/96).

Increased Enforcement Efforts. The IRS has increased its enforcement efforts in this area. The 1099 Matching Program targets those individuals who file only one Form 1099-MISC with their personal income tax return. The IRS will look closely at a person reported on Form 1099-MISC who receives payments from only one company, as the person may well be an employee rather than an independent contractor. The IRS may also closely scrutinize a situation where a worker receives a Form 1099 from the same company over multiple years.

Forty state workforce (unemployment) agencies have signed a memorandum of understanding (MOU) with the IRS to share the results of employment tax examinations.

Hodgson noted that roughly half of Department of Labor (DOL) investigations in this area are the result of worker complaints. The DOL is also a partner with the IRS in a misclassification enforcement initiative.

Hodgson said that sometimes an employer's worker misclassification problems begin after someone who has been treated as an independent contractor stops receiving work and files a claim for unemployment benefits.

Estimated Tax Payments. The following estimated tax payments are due by July 15, 2011.

Individuals	No installment due
Corporate Income Tax Years Ending:	
March 31, 2012	1 st Installment
January 31, 2012	2 nd Installment
October 31, 2011	3 rd Installment
July 31, 2011	4 th Installment

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