

Frequently Asked Questions
Re: Employee's Withholding Allowance Certificate NC-4EZ/NC-4 &
Withholding Certificate for Pension or Annuity Payments NC-4P

General

Q1. Why is it necessary for me to complete a new Employee's Withholding Allowance Certificate for tax year 2014?

A1. The North Carolina General Assembly recently enacted House Bill 998 which becomes effective for taxable years beginning on or after January 1, 2014. Under this new law, all taxpayers will be allowed a higher standard deduction and will be taxed at a lower rate. However, taxpayers may no longer claim a personal exemption for themselves, their spouse, children, or any other qualifying dependents. Additionally, many deductions and tax credits that impact North Carolina withholding tax are no longer available for tax years beginning on or after January 1, 2014.

Q2. What is the difference between the NC-4EZ and the NC-4?

A2. The NC-4EZ is a new, simplified form which should suffice for most taxpayers. The NC-4 is the complete form which may result in a more accurate withholding amount, but requires historical tax information and will involve estimates.

Employee

Q3. Which form should I use, the NC-4EZ or the NC-4?

A3. Any employee may use the NC-4EZ. Employees who will claim zero (0) allowances or only allowances available for taxpayers who expect to claim a tax credit for children will find the NC-4EZ easier to complete.

However, an employee may wish to complete the NC-4 if they expect to claim any of the following on their 2014 N.C. individual income tax return: large N.C. itemized deductions; federal adjustments to income or State deductions from income; tax credits; filing status of married filing jointly where the spouse's combined wages and taxable pensions do not exceed \$5,000; filing status of married filing jointly and the spouse will receive only non-taxable pensions; filing status of qualifying widow(er).

Q4. If my wages will exceed \$100,000, can I still use the NC-4EZ?

A4. Yes. Any employee may use the NC-4EZ.

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Q5. Can I submit the federal W-4, instead of completing North Carolina's Employee's Withholding Allowance Certificate?

A5. No, federal and State laws are different. The federal W-4 cannot be used as a substitute for either the NC-4EZ or NC-4.

Q6. Can I claim the same number of allowances that I claimed on my last NC-4?

A6. The method of determining the number of allowances to which you are entitled for tax year 2014 is different than in years past. Unless you claimed zero (0) allowances on your most recent NC-4, you may not be entitled to as many allowances as you would have been entitled to in the past.

Q7. What will happen if I do not complete and return a new NC-4EZ or NC-4 to my employer?

A7. Your employer will be required to withhold from your wages as a single person with zero allowances.

Q8. Are North Carolina itemized deductions the same amount that you claim on federal Schedule A, itemized deductions?

A8. No. For tax years beginning on or after January 1, 2014, North Carolina itemized deductions only include the following items:

- *Qualified mortgage interest¹*
- *Real estate property taxes¹*
- *Charitable contributions²*

¹The sum of your mortgage interest and real estate property taxes may not exceed \$20,000. Even if filing as married filing separately, the \$20,000 limitation applies to the combined total qualified mortgage interest and real estate property taxes claimed by both spouses, rather than to each spouse separately.

² You may claim the same amount of charitable contributions on your North Carolina tax return as you are allowed to deduct on your 2014 federal return.

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Q9. North Carolina does not tax my social security income, retirement income deductible under *Bailey*, or railroad retirement benefits received under the Railroad Retirement Act. Why is there no deduction for these amounts on the Allowance Worksheet, Part II, Line 4?

A9. The purpose of the Employee's Withholding Allowance Certificate is to determine the amount of tax to be withheld from your taxable wages. Exempt income, such as those listed, is received separately from your taxable wages and should not be considered for the purposes of the Allowance Worksheet, Part II, Line 4.

Q10. My deductions for social security income, retirement income deductible under *Bailey*, or railroad retirement benefits received under the Railroad Retirement Act are not considered on the Allowance Worksheet, Part II, Line 4. Why are they considered on the Allowance Worksheet, Part II, Line 13 in the case of certain taxpayers who intend to file their 2014 N.C. individual income tax return as married filing jointly?

A10. The withholding tax tables were created under the premise that both spouses, who intend to file as married filing jointly, would earn taxable wages. An employee who is completing the Allowance Worksheet as married filing jointly should determine the total combined allowances for both spouses. If one spouse does not earn taxable wages, Line 13 makes additional allowances available to the spouse who is earning taxable wages.

Q11. Neither the educator expense nor the tuition and fees deduction are listed as available deductions on Schedule 2 of the Allowance Worksheet. Why would I not consider these deductions?

A11. The adjustment to income for (1) educator expenses and (2) tuition and fees both expire for tax years beginning on or after January 1, 2014. Therefore, you may not deduct either of these items for purposes of determining your 2014 N.C. withholding allowances.

Q12. I have two jobs. Do I need to complete a new NC-4EZ or NC-4 for my second employer?

A12. Yes. You must complete a new NC-4EZ or NC-4 for each employer. Refer to the Multiple Jobs Table of the Form NC-4 instructions for more information.

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Q13. If I meet the conditions to claim exempt from North Carolina withholding, why do I have to complete a new NC-4EZ or NC-4 each year?

A13. North Carolina law requires income tax to be withheld from all wages; however, the law does allow an exemption from withholding if certain conditions are met. Because your circumstances may change from year to year, an exempt status is good for only one year at a time.

Employer/Pension Payer

Q14. May we assist employees with completing the Employee's Withholding Allowance Certificate, for tax year 2014?

A14. Yes. However, the employee is ultimately responsible for furnishing a signed certificate. The number of allowances reported on the certificate shall not exceed the amount of allowances to which the employee is entitled.

Q15. Are pre-taxed health insurance premiums a deduction for the purpose of completing the NC-4 Allowance worksheet?

A15. No. Pre-tax items are not included in taxable income and similarly should not be included when completing the NC-4 Allowance worksheet.

Q16. When do we send a NC-4EZ or NC-4 to the Department?

A16. If an employee claims more than 10 allowances, you should forward this document to the Department and keep a copy for your records.

Q17. Does the employer have to provide both the NC-4 & the NC-4EZ to their employees?

A17. No. Every employee shall furnish his or her employer with a signed Employees' Withholding Allowance Certificate. Both the NC-4 and NC-4EZ are Employee Withholding Allowance Certificates. Only one needs to be submitted.

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Q18. What should pension providers do if no new NC-4P is on file and the recipient had indicated on the 2013 NC-4P that the recipient didn't want any State income tax withheld from the pension distribution?

A18. If the recipient of periodic pension payments had previously made a valid election not to have taxes withheld, the election remains in effect until revoked by the recipient. Pension payers who make nonperiodic distributions must withhold 4% of the distribution to recipients who have not furnished a new NC-4P.