

North Dakota **Electronic Filing Procedures**



**Tax Year 2010
Processing Year 2011**



**Office of State Tax Commissioner
Electronic Filing Unit
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Electronic Filing Calendar

For Tax Period January 1, 2010 through December 31, 2010

Begin IRS Acceptance Testing..... November 9, 2010

Software developers must first complete Internal Revenue Service testing before obtaining final approval with North Dakota. The date for start up of IRS Acceptance Testing may change.

Transmitters must be accepted by the Internal Revenue Service prior to sending data and testing the North Dakota acknowledgments.

Electronic Return Originators are not required to perform state acceptance testing.

Begin Transmitting Returns to IRS/North Dakota..... January 14, 2011

Last Date for Timely Filed Returns April 18, 2011

Last Re-transmission of Rejected Timely Filed Returns April 22, 2011

Last Date for Extended Filed Returns..... October 15, 2011

Last Re-transmission of Rejected Extended Filed Returns..... October 20, 2011

NOTE: These dates may be subject to change at any time.

Overview

The Office of State Tax Commissioner participates in the Federal/State electronic filing program. Electronic filing allows taxpayers to file their federal and state income tax returns through their tax professional in one electronic transmission. It is a fast, efficient, and accurate way to file tax returns because e-filed returns bypass most manual steps required to process paper returns.

To participate, you must be accepted into the Internal Revenue Service (IRS) electronic filing program and use software that has been tested and approved by the IRS and North Dakota. Only North Dakota individual income tax returns may be filed electronically through the Federal/State program.

This handbook provides tax professionals with information needed to participate in the North Dakota program. Please use this handbook in conjunction with IRS Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns. The Office of State Tax Commissioner conforms to all requirements, rules, and regulations set forth by the IRS. Any information found in this handbook is subject to change.

A Review Of The 2010 Season

Thank you for e-filing and making this another great year!

- √ Received 242,046 e-filed returns which was a 9% increase over last year.
- √ 22,582 returns were sent as State-Only, in comparison to 16,146 the year before.
- √ 158,595 refund returns, 54,350 balance due returns, 29,101 zero balance due returns.
- √ 111,222 of the refund returns chose direct deposit.

What's New

- **Retroactive property tax relief income tax credit.** Schedule ND-1RPT, Retroactive Property Tax Credit for Individuals, has been discontinued for the 2010 tax year. This was a one-time income tax credit only allowed for the 2009 tax year.
- **Modernized E-file.** North Dakota will allow individual income tax returns to be submitted via the Modernized E-file or MeF platform. Returns transmitted through MeF will have a faster turnaround from transmission to acknowledgement. North Dakota will support both legacy and MeF until the IRS sunsets the legacy platform. Once legacy is gone, we will explore the opportunity of adding forms, business rules, and other functionality that has been unavailable in legacy.

General Differences between MeF and Legacy platforms:

- MeF uses XML (extensible markup language) instead of fixed-length text files.
- MeF uses business rules, instead of error reject codes. Errors should be more accurate and precise, as well as easier to understand.
- MeF provides the Submission Identification Number (SID) in lieu of the Document Control Number (DCN).
- MeF returns must validate against IRS and state schemas in order to be accepted. Schema validation errors will occur if required fields are missing, data is not formatted properly, etc.
- MeF allows binary attachments (PDF) to be attached to the return. North Dakota does not require any attachments when filing but may request them during an audit.

- MeF does not have the full collection of IRS forms available. If a return requires a form that has not yet been developed in MeF, the return will be sent through Legacy.

What Forms Can Be E-filed

The Office of State Tax Commissioner will accept refund, zero balance due, and balance due returns. Following is a list of North Dakota forms and schedules that can be filed electronically:

Form ND-1	North Dakota individual income tax return
Form ND-1UT	Underpayment of estimated individual income tax
Schedule ND-1NR	North Dakota nonresident and part-year resident filers schedule
Schedule ND-1CR	Credit for income tax paid to another state
Schedule ND-1FA	North Dakota farm income averaging schedule
Schedule ND-1SA	Statutory adjustments
Schedule ND-1TC	Tax credits

What Forms Can Not Be E-filed

If the North Dakota return includes any of the following forms and schedules, it can not be filed electronically.

Schedule RZ	Renaissance Zone
Schedule ND-1FC	Family Member Care Credit
Schedule PG	Planned Gift Credit
Schedule ME	Credit for wages paid to mobilized employee
Form ND-1EZ	North Dakota Individual Income Tax Return for full-year residents with no adjustments or credits

Avoidable errors

The majority of the electronic returns are processed without any errors. However, the following errors will delay the processing of a return. We ask you to review this list to help reduce the number of avoidable errors on the electronic returns.

1. **Taxpayers still mail a paper return.** Make sure your clients know they are **not** to mail a copy of their return to our office, **if** it has been electronically filed.
2. **Address changes are not made on the return.** Ask your clients for their current mailing address. Each year, numerous refunds are returned to our office because the taxpayer has moved or the U.S. postal service has changed their correct mailing address. This adds a long delay for your clients to receive their refund.
3. **Form ND-1V is only for e-filed returns.** Do not use Form ND-1V when filing a paper return with a tax due. Unlike the IRS who requires the payment voucher for all tax due returns, Form ND-1V is only for electronically filed state tax returns with a balance due. Also, please instruct your clients to send only Form ND-1V with their payment. In the past, we have received many payments that include paper returns from taxpayers who had e-filed. When that happens, the payment is processed with the paper return, which creates a duplicate filing on our system. Your client will also receive a letter, and maybe a bill from us until it is cleared up. In other words, it creates unnecessary confusion.
4. **Direct Debit is not available.** North Dakota will not accept direct debit for balance due returns. Please make sure your clients realize this. Every year, there are several taxpayers who are surprised they still owe North Dakota taxes when they used Direct Debit to pay their federal tax liability.
5. **Submitting payment for the tax due before the return has been e-filed and accepted.** Please do not have your client send in Form ND-1V with their payment until you receive the acknowledgment that we have accepted the e-filed return. We continue to receive many paper checks before the e-filed returns are received and this delays the processing. Waiting for the state acknowledgement before the payment

is mailed will save time and reduce calls to your office. Only when the transmission is close to the due date, should your clients mail their payment when you have not received the acknowledgement. This will ensure the tax is considered timely paid.

6. **Do not use ND-1V for extension payments.**

Form ND-1EXT should be used to submit extension payments. Please make sure your clients use this form instead of Form ND-1V for making an extension payment.

7. **State tax refunds can be direct deposited.**

Many taxpayers still call our office about their tax refund only to find it has been direct deposited into their bank account. Direct deposit of the state tax refund has been available since 1999. If direct deposit has been selected for a federal tax refund, many software programs will automatically select direct deposit for the state tax refund. Please inform your clients accordingly.

8. **Extension block is not being checked on returns with an extension.**

Many taxpayers have been billed for penalty charges on returns having a valid federal or state extension because the extension block has not been checked on the state return. Most software programs will not automatically carry over the extension block from the federal return to the state return. You may have to manually check the state extension block in the program you use, to avoid having your clients billed for penalty on a valid extension.

These are all common errors that can be avoided. By eliminating these simple errors, you can help reduce the correspondence sent to your clients, lessen the confusion for you and your clients, and help eliminate delays.

Participation and Acceptance

Participation

North Dakota E-file is available to all tax professionals who have been accepted by the IRS to participate in the federal electronic filing program. IRS Publication 1345 defines the application process and requirements for federal participation. For North Dakota purposes, there are three basic electronic filer categories. These electronic filer categories are defined below:

- *Electronic Return Originators (ERO)* prepare or collect tax returns for the purpose of electronic transmission. An ERO may be either a tax professional who prepares returns for their clients or someone who creates electronic returns from already prepared returns.
- *Transmitters* use approved software to electronically transmit completed returns directly to the IRS. An ERO may also be a Transmitter or an ERO may have an arrangement with a third-party Transmitter to use their computer services.
- *Software developers* create tax preparation and transmission software for the purpose of formatting returns according to North Dakota's electronic specifications. A software developer must test their communication/transmission protocol and test transmissions of all returns and schedules supported by their software that they intend to file.

In order to participate in the Federal/State E-file Program, you must apply to the IRS using Form 8633, Application to Participate in the IRS E-file Program, and meet the IRS suitability checks. To participate in North Dakota e-file, you will need to comply with these procedures depending on your type of participation.

Electronic Return Originators (EROs)

North Dakota EROs must meet federal acceptance standards and be officially accepted by the IRS. Once you are accepted into the federal program, you are automatically accepted into North Dakota E-file. No separate North Dakota application is required. EROs accepted into the federal program are assigned an Electronic Filing Identification Number (EFIN) by the IRS. The same EFIN will be utilized by the Office of State Tax Commissioner to identify you.

Transmitters

Transmitters are not required to test with the department. Transmitters must complete federal testing and be accepted by the IRS prior to sending state returns and receiving acknowledgments from North Dakota. Transmitters accepted into the federal program are assigned an Electronic Transmitter Identification Number (ETIN) by the IRS. The same ETIN will be utilized by the Office of State Tax Commissioner to identify transmitters.

Software developer

As a software developer, you must:

1. Successfully complete testing procedures with the IRS.
2. Obtain the North Dakota file specifications for individual income tax returns and successfully complete testing procedures with the Office of State Tax Commissioner. The file specifications are available in a PDF format to download from the department's web site: www.nd.gov/tax under Tax Professionals ► Software Developers. All North Dakota test scenarios must be correctly formatted and approved by the Electronic Filing Unit before acceptance is given.

To begin processing “live” data, software developers must successfully complete the IRS PATS testing and the North Dakota E-file testing. At the completion of the state testing, the Office of State Tax Commissioner will e-mail the developer a letter confirming their acceptance into North Dakota E-file. The Electronic Filing Unit does not assign software license numbers, but a general description entered in that field on the electronic return is helpful. Only Software Developers are required to test their software.

However, EROs should verify with their software provider that their software has been tested and approved by the Office of State Tax Commissioner prior to submitting North Dakota returns. If EROs fail to verify this, they may not be able to e-file their North Dakota returns.

How E-file Works

When EROs and transmitters participate in the federal/state electronic filing program, the process works as follows:

1. Both the federal and the North Dakota returns are filed in one transmission to the IRS using approved software.
2. The IRS will review the federal return, and after acknowledging the acceptance of the federal return, the IRS will make the state return available for retrieval by the state.
3. Upon retrieval, the Office of State Tax Commissioner will review the North Dakota return and determine if it is in a format acceptable to be processed.
4. If the North Dakota return can be processed, the Office of State Tax Commissioner will send an acknowledgment.
5. The department will upload the return to the state’s computer system for further processing. If any errors are encountered, a notice will be sent to the taxpayer informing them of any changes made to their return.

Contents of the Electronic Return

An electronic North Dakota income tax return contains the same information as a return filed entirely on paper. It consists of the following two parts:

1. **The Electronic Return** - Data transmitted electronically to North Dakota through the IRS.
2. **The Non-Electronic Return** - Paper documents that contain information that cannot be electronically transmitted, such as taxpayer documents prepared by third parties.

The Electronic Return

The North Dakota portion of the electronic return will consist of the state return data transmitted electronically and the supporting federal electronic information. The federal electronic information will include the federal forms and schedules and any withholding documents required by the IRS. The following North Dakota forms and schedules may be transmitted as part of the electronic return:

Form ND-1	North Dakota individual income tax return
Form ND-1UT	Underpayment of estimated individual income tax
Schedule ND-1NR	North Dakota nonresident and part-year resident filers
Schedule ND-1CR	Credit for taxes paid to another state
Schedule ND-1FA	North Dakota farm income averaging
Schedule ND-1SA	Statutory adjustments
Schedule ND-1TC	Tax credits

The Non-electronic Return

Preparers and EROs must retain the following non-electronic portions of the North Dakota return for three years after the due date of the return, including extensions. The Office of State Tax Commissioner may request copies of this documentation at a later date.

- State copies of Form W-2s, W-2Gs and 1099s – anything with state withholding identified.
- Other necessary attachments to explain information stated on the return.

Acknowledgments

North Dakota Acknowledgments

A North Dakota acknowledgment informs the transmitter that the Office of State Tax Commissioner has retrieved the state return from the IRS and has either accepted or rejected the return. Acceptance of the return does not imply that the return has passed all edit checks or will post to the taxpayer's account without any delays.

The North Dakota acknowledgment is separate from the IRS acknowledgment. Receiving an IRS acknowledgment is no guarantee that the state return was accepted by the Office of State Tax Commissioner. Therefore, it is very important that you get your state acknowledgments to be certain that your state returns were received.

The Office of State Tax Commissioner uses the Internal Revenue Service acknowledgment system to post North Dakota acknowledgments for retrieval by transmitters. Under normal processing conditions, North Dakota acknowledgments are posted the next business day following the IRS acceptance of the federal return. If federal and state returns are transmitted on a weekend or holiday, the North Dakota acknowledgment will be posted the next business day following the weekend or holiday.

Acceptance Codes

The Office of State Tax Commissioner will not reject any return unless the state data cannot be used. In the event a state return is rejected, it may be resent electronically as a state-only return. The following codes apply to North Dakota returns:

A = Accepted return
R = Rejected return – no reject codes present
D = Duplicate return
E = Exception Return

Rejected Returns

The IRS may reject both the federal and state returns. If the IRS rejects a federal return due to errors, they will also reject the attached state return. Likewise, if the IRS rejects the state return due to errors, the federal return will also be rejected.

North Dakota uses a feature of the Federal/State electronic filing program called “consistency checking.” The IRS checks several items on the state return to make sure those items match the information on the federal return. If one or more of these items do not match, or if the state return data is improperly formatted, the IRS will reject both the federal and state returns.

If the error is one that can be corrected and the record processed, both the federal and state returns may be re-transmitted to the IRS. If the state return cannot be corrected, the filer has the option of re-transmitting the federal return and filing a paper state return by mail.

State-Only Returns

EROs and transmitters usually transmit both the federal and state returns at the same time. However, it is possible to transmit the state return without a federal return attached. This is referred to as a State-Only return. Not all software supports the State-Only option; so please check with your software provider to see if they support this option.

North Dakota accepts State-Only returns. We encourage EROs to take advantage of this option to transmit state returns for taxpayers paying taxes in more than one state or in any other situations where a North Dakota return can be filed by itself. Amended returns can not be filed using the State-Only option. Amended returns must be filed on paper.

Converting to Paper Returns

If the federal and state returns are rejected by the IRS and can not be retransmitted electronically, the following documents should be submitted to our office:

- Copy of the signed federal Form 8879.
- Form ND-1 and any supporting North Dakota forms and schedules. On the taxpayer's signature line of Form ND-1, please write "See attached Form 8879."

- The federal return and any supporting federal forms and schedules.
- Copy of any W-2s or 1099 forms that indicate North Dakota withholding.
- Any other documentation needed to support the state return.

Please mail these returns to the following address:

Attn: Electronic Filing Unit
Office of State Tax Commissioner
PO Box 5621
Bismarck, ND 58506-5621

Refund and Balance Due Options

Refund Options

Taxpayers have four options when their North Dakota return shows an overpayment of taxes. They may elect to have their overpayment:

1. Sent as a paper check;
2. Deposited electronically into their financial institution account;
3. Applied as an estimated payment to next year's tax liability;
4. Donated to the Watchable Wildlife Fund or the Trees for ND Program Trust Fund.

Refunds applied under options 1 and 2 generally occur within ten days of the transmission of the taxpayer's return if the tax return is electronically filed without errors. If our department encounters any errors when processing the tax return, the refund will be delayed.

A refund may also be delayed or denied if the taxpayer owes past due North Dakota taxes or fines or debts to other state agencies (i.e. child support, student loans, etc.). The Office of State Tax Commissioner is required by law to offset the income tax refund to any of these debts.

Direct Deposit

Direct deposit is a fast and convenient way for taxpayers to receive their refund. It allows for the immediate use of the refund upon deposit in the taxpayer's account.

IRS Publication 1345 sets forth detailed eligibility requirements, responsibilities, and instructions governing tax preparer, transmitters, and EROs who offer taxpayers the option of direct deposit. Those same rules, policies, and procedures apply when offering direct deposit on the state return.

The North Dakota refund does not need to be deposited into the same financial institution account as the IRS refund. Therefore, the state and federal Routing Transit Numbers and Deposit Account Numbers may be different.

The Office of State Tax Commissioner may deem that certain conditions justify converting a direct deposit to a paper check. For example, invalid or missing direct deposit information will cause a direct deposit to automatically be converted to a paper check.

Balance Due Options

Balance due returns may be electronically filed at any time. However, the payment must be postmarked on or before April 15, 2011 to avoid penalty and interest charges.

Taxpayers have two options to remit their balance due. They may elect to:

1. Mail in Form ND-1V, Electronic Return Payment Voucher, with a check or money order.
2. Pay by credit card.

Form ND-1V

Taxpayers who file electronically may remit their tax liability with a North Dakota electronic return payment voucher, Form ND-1V, and a check or money order. An ERO who files a balance due electronic return for a taxpayer must provide the taxpayer with a completed Form ND-1V unless payment is made by credit card. EROs must instruct the taxpayer that the full amount due must be paid by April 15, 2011 to avoid penalty and interest charges.

Taxpayers should mail their check or money order with Form ND-1V to:

Office of State Tax Commissioner ND-1V
PO Box 5622
Bismarck ND 58506-5622

Do not use Form ND-1V with paper filed returns, to make extension payments or when paying by credit card. Extension payments must be made using Form ND-1EXT. When mailing Form ND-1V, please do not include a photocopy of the tax return.

Credit Card Payments

Taxpayers have the option to pay their balance due using MasterCard®, American Express®, Discover®, or Visa®. This option is available to both electronic and paper filers.

Credit card payments may be made by telephone or over the Internet through Link2Gov Corporation, a private credit card payment service provider. Link2Gov will charge a convenience fee based on the tax payment amount. Taxpayers are told what this fee amount is when making the transaction and have the option of canceling the

transaction. This fee is retained by Link2Gov for its services - the State of North Dakota does not receive any part of this fee.

A confirmation number is given at the completion of the transaction. The confirmation number should be retained as proof of payment.

To pay the balance due by credit card, visit Link2Gov Corporation's web site at www.ndtaxpayment.com or call them toll-free at 1-888-ND-TAXES (1-888-638-2937).

Electronic Signatures

When a return is electronically filed through an ERO, the ERO must obtain the taxpayer's signature authorizing them to file on the taxpayer's behalf. There is one option for obtaining the taxpayer's signature, and that is using the federal PIN (Federal Form 8879). North Dakota recognizes the federal personal identification number (PIN) as the signature for the North Dakota return.

Attachments

The following documents must also be retained:

- State copies of Form W-2s, W-2Gs and 1099s – anything with state withholding identified.
- Copy of the other state's return if a Schedule ND-1CR is included in the return.
- Copy of supporting statement identifying interest from U.S. obligations if included in the return.
- Copy of RRB-1099/RRB-1099-R or both if U.S. railroad benefits are included in the return.
- Copy of statement from entity if a gain or loss from pass-through entity subject to North Dakota's financial institution tax is included in the return.
- Copy of statement if new or expanding business income exemption is included in the return.
- Copy of mobilization orders if National Guard/Reserve member federal active duty pay exclusion is included in the return.
- Copy of supporting statement if human organ donor expense deduction is included in the return.
- Copy of investment reporting form if ag commodity or seed capital investment credit is included in the return.
- Copy of statement if biodiesel fuel supplier or biodiesel fuel seller credit is included in the return.
- Other forms, schedules, or statements to explain information stated.

ERO and Transmitter Responsibilities

All electronic filers must maintain a high degree of integrity, compliance, and accuracy to remain in the Federal/State electronic filing program. In addition, they must meet the requirements listed below.

1. Comply with the requirements and specifications found in IRS Publications 1345 and 1346, and in this publication, North Dakota Electronic Filing Procedures.
2. Verify the accuracy of the taxpayer's name, address, and Social Security number. This information will be used to update the department's records and errors may delay a refund.
3. File electronic returns in a timely manner. The date of the IRS acknowledgment will be considered the filing date for the electronically transmitted North Dakota return.
4. File electronic 2010 North Dakota returns by October 15, 2011. Any 2010 North Dakota returns filed after October 15, 2011 must be filed as paper returns.
5. Retrieve the North Dakota acknowledgments to ensure that the department has received the state returns. In turn, transmitters must provide the North Dakota acknowledgments to the EROs and preparers in a timely manner.
6. Ensure that their client's electronic return arrives at the Office of State Tax Commissioner. If a North Dakota electronic return fails to reach our office or is rejected, the preparer must advise the client to file a paper return.
7. Retain copies of the W-2 and 1099 forms and any other appropriate schedules for three years after the return is due, including extensions. Please do not mail these documents to our office unless requested to do so.
8. Comply with the laws and regulations restricting disclosure of tax return information.
9. File any amended returns on paper if an electronic return needs to be changed after it has been transmitted.

Please mail amended returns to:
Office of State Tax Commissioner
PO Box 5621
Bismarck, ND 58506-5621

Department Contacts

Electronic Filing (701)328-3102 or (701)328-3129
Internet www.nd.gov/tax
Fax (701)328-3700

Taxpayer Assistance (701)328-1247

Tax Preparer Hotline (701)328-3102

For Telecommunication Device for the Deaf (TDD) users:

Contact our office through North Dakota Relay 1-800-366-6888

North Dakota Office of State Tax Commissioner
600 E. Boulevard Ave., Dept. 127
Bismarck, ND 58505-0599
Attn.: Electronic Filing Unit
