

September 15th Deadline for Taxpayer Participation in North Carolina Transfer Pricing Resolution Initiative

August 24, 2020

Overview

On August 1, 2020, North Carolina announced its first formal voluntary disclosure initiative aimed specifically at resolving corporate transfer pricing liabilities. Transactions between related parties have long been subject to scrutiny in North Carolina and can often result in significant audit adjustments and potentially costly litigation.

In an effort to encourage resolution of intercompany transactions that may not meet requisite arm's length standards or lack economic substance, North Carolina is encouraging affected taxpayers to participate in a voluntary program set to conclude by December 1, 2020. In exchange for participation, the Department will waive penalties for agreed upon issues.

Important program terms to be aware of include:

- The deadline to agree in writing to participate in the program is September 15th, 2020.
- Unlike most other state disclosure programs, taxpayers may participate even if currently under audit. This includes taxpayers that have received a request for review, are currently under audit, and those taxpayers who have not yet been identified by the state.
- Tax periods eligible for disclosure and resolution include all tax years where the corporate taxpayer filed income tax returns that still have an open statute of limitations.
- After meeting the September 15th, 2020 participation deadline, taxpayers will have until October 16th, 2020 to provide all required documentation for review by the state.

It is not yet certain whether failing to participate will lead to increased penalties in the future, but what is clear is that North Carolina is prioritizing transfer pricing as an area of focus. Thus, taxpayers that decline to participate should expect more challenging audits with less flexibility for negotiation in the future.

Action Steps

No later than September 15, 2020 all North Carolina corporate taxpayers should review their related party transactions to determine if participation in the North Carolina transfer pricing resolution initiative is beneficial.

Please contact [Caplin & Drysdale](#) if you would like to discuss participation in the North Carolina disclosure program.

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