



North Carolina Department of Revenue

Pat McCrory
Governor

Lyons Gray
Secretary

February 1, 2013

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Attention: [REDACTED] Tax Managing Director

Re: [REDACTED]

Dear Mr. [REDACTED]

We have your July 25, 2011 letter requesting a private letter ruling concerning your above-referenced clients' maintenance of imaged purchase invoices in a digital storage system. You ask the Department to advise whether your clients are authorized to use the digital storage system for purposes of compliance with statutory record keeping requirements.

In your letter, you state that [REDACTED] utilizes a paperless invoice storage system for invoices received from vendors. A third-party accounts payable processing provider scans all paper invoices and imports these imaged documents into a digital storage system. The imaged invoices, and not the hard-copy originals, are used during the review and approval process for all invoiced purchases. As a result, the integrity and legibility of each invoice is reviewed and validated by the [REDACTED] employee that approves the payment of a given invoice. There are established document retention requirements such that imaged invoices are retained for the amount of time required by the North Carolina statute of limitations or an extended period of time when necessary. Internal company policy mandates that imaged invoices are retained for a minimum of seven (7) years. No documents are destroyed without explicit approval from [REDACTED] tax and legal departments.

[REDACTED] prescribes specific procedures for the paper-to-digital document conversion process, as well as prescribes explicit ways to identify and preserve the documents in digital format. The imaged invoice storage system is indexed and searchable. Imaged invoices maintained in its storage system have been and will continue to be available for auditors to review upon request.

"The Federation of Tax Administrators ('FTA') promulgated a 'Model Recordkeeping and Retention Regulation' to address the moving trend towards electronic recordkeeping. [REDACTED] believes its document retention practices are consistent with the stringent requirements set forth in the FTA regulation. . . ."

N.G. Gen. Stat. § 105-164.22 provides that “[r]etailers, wholesale merchants, and consumers must keep for a period of three years records that establish their tax liability under [the North Carolina Sales and Use Tax Act (“Act”)]. The Secretary or a person designated by the Secretary may inspect these records at any reasonable time during the day.

“A retailer's records must include records of the retailer's gross income, gross sales, net taxable sales, and all items purchased for resale. Failure of a retailer to keep records that establish that a sale is exempt under this [Act] subjects the retailer to liability for tax on the sale.

“A wholesale merchant's records must include a bill of sale for each customer that contains the name and address of the purchaser, the date of the purchase, the item purchased, and the price at which the wholesale merchant sold the item. Failure of a wholesale merchant to keep these records for the sale of an item subjects the wholesale merchant to liability for tax at the rate that applies to the retail sale of the item.

“A consumer's records must include an invoice or other statement of the purchase price of an item the consumer purchased from outside the state. Failure of the consumer to keep these records subjects the consumer to liability for tax on the purchase price of the item, as determined by the Secretary.”

In addition, N.G. Gen. Stat. § 105-164.26(1) provides “. . .to prevent evasion of the retail sales tax . . . all gross receipts of wholesale merchants and retailers are subject to the retail sales tax until the contrary is established by proper records as required by this [Act].” N.C. Gen. Stat. § 105-164.30 provides “[f]or the purpose of enforcing the collection of the tax levied by this [Act], the Secretary or his duly authorized agent is . . . authorized and empowered to examine . . . the books, papers, records, documents or other data of all retailers or wholesale merchants bearing upon the correctness of any return. . . .”

Since the Act does not specifically require records to be kept in a paper format, your clients may use the paperless invoice storage system to store and maintain its records provided such storage system contains the required data referenced in the foregoing statutes.

This letter ruling is based solely on the facts submitted to the Department of Revenue for consideration of the transactions described. If the facts and circumstances given are not accurate, or if they change, then the taxpayer requesting this ruling may not rely on it. If a taxpayer relies on this letter ruling and the Department discovers, upon examination, that the fact situation of the taxpayer is different in any material aspect from the facts and circumstances given in this letter ruling, the letter ruling will not afford the taxpayer any protection. It should be noted that this letter ruling is not to be cited as precedent and that a change in statute, a regulation, or case law could void this ruling.

If you have any questions, you may reach me at the number listed below.

Very truly yours,

Administration Officer
Sales and Use Tax Division

cc: [REDACTED], Director – Sales and Use Tax Division
[REDACTED], Assistant Director – Sales and Use Tax Division