

Form E-500 Sales and Use Tax Return
General Instructions

1. Use Form E-500 to file and report your State, local and transit sales and use taxes except certain sales and use taxes required to be reported on Form E-500E. **Taxpayers who have a filing frequency of Monthly with Prepayment are required to file Form E-500 via our Online Filing and Pay System via our website, www.dorn.com.**
2. A return must be filed for each return period by the due date indicated or a delinquent notice for failure to file is issued by the Department. The tax shown due must be paid with the return or penalty and interest will be assessed by the Department. **If you do not owe any tax for a filing period, you must file a return showing zero (0.00) on Line 21. Please do not write "No Tax Due" or any similar text on the return.**
3. Complete the sales and use tax return in its entirety on your computer and print the return.
4. **If you discontinue business operations or sell your business, complete Form NC-BN, Out-of-Business Notification and mail it separate from any returns to the Department at the address shown on the form.**
5. Each return must be completed in full. The total amount of receipts exempt from State tax should be included on Line 3. Retail sales of taxable tangible personal property, services and digital property are subject to sales and use tax unless the sales are specifically exempt from tax by statute or unless proper exemption documentation is provided by the purchaser to the seller.
6. **Construction Materials - Local Tax** - Purchases to fulfill a lump sum or unit price contract entered into, bid on, or awarded prior to a local tax rate increase are subject to the local rate in effect prior to the increase.
7. As of October 1, 2016, the local sales and use tax rate in all counties is 2% except the counties of Alexander, Anson, Ashe, Buncombe, Cabarrus, Catawba, Cherokee, Cumberland, Davidson, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes where the local sales and use tax rate is 2.25%. The Department will publish notification if other counties levy the additional 0.25% local tax.

Mecklenburg County has an additional 0.5% Transit tax for public transportation in addition to the 2% local sales and use tax rate. Durham and Orange Counties have an additional 0.5% Transit tax for public transportation in addition to the 2.25% local sales and use tax rate.

A retailer or facilitator, as applicable, that is required to collect county tax should do so in accordance with N.C. Gen. Stat. § 105-164.4B.

The following general principles apply in determining where to source the sale of most products and should be used to determine the local rate of tax due on a retail sale:

- (a) When a purchaser receives a product at a business location of the seller, the sale is sourced to that business location.
- (b) When a purchaser or purchaser's donee receives a product at a location specified by the purchaser and the location is not a business location of the seller, the sale is sourced to the location where the purchaser or the purchaser's donee receives the product.
- (c) When (a) and (b) of this section do not apply, the sale is sourced to the location indicated by an address for the purchaser that is available from the business records of the seller that are maintained in the ordinary course of the seller's business when use of this address does not constitute bad faith.
- (d) When (a), (b), and (c) of this section do not apply, the sale is sourced to the location indicated by an address for the purchaser obtained during the consummation of the sale, including the address of a purchaser's payment instrument, if no other address is available, when use of this address does not constitute bad faith.
- (e) When (a), (b), (c), and (d) of this section do not apply, including the circumstance in which the seller is without sufficient information to apply the rules, the location will be determined based on the following:
 - Address from which tangible personal property was shipped,
 - Address from which the digital good or the computer software delivered electronically was first available for transmission by the seller, or
 - Address from which the service was provided.

A florist wire sale is sourced to the business location of the florist that takes an order for the sale.

Periodic rental payments are sourced in accordance with N.C. Gen. Stat. § 105-164.4B(b).

Taxable digital property is sourced to the county where the purchaser takes possession of the property or makes first use of the property, whichever comes first.

An admission charge to an entertainment activity is sourced to the location where admission to the entertainment activity may be gained by a person. When the location where admission may be gained is not known at the time of the receipt of the gross receipts for an admission charge, the sourcing principles in N.C. Gen. Stat. § 105-164.4B(a) apply.

Purchases and sales of advertising and promotional direct mail and other direct mail are sourced in accordance with N.C. Gen. Stat. § 105-164.4E.

The retail sale of a "service contract" by a retailer or on behalf of a retailer by another person to a purchaser at a location in this State is the location where the sale of the "service contract" is sourced provided the purchaser can potentially first make use of the service at the location. If the purchaser of the "service contract" cannot potentially make first use at the location where the "service contract" is sold, the sale is sourced in accordance with N.C. Gen. Stat. § 105-164.4B(3), (4) or (5) based on the hierarchy and available address.

Prepaid meal plans are sourced to the location where the food or prepared food is available to be consumed by the person.

The rental of an accommodation is sourced to the location of the accommodation.

If you collect county tax for one county and your business is located in the same county, enter the appropriate amounts on the provided return. If you are required to collect county tax for a county that your business is not located in or for more than one county, you must complete Form E-536 and file with your sales and use tax return. Form E-536 is available at the Department's website at www.dornrc.com or may be mailed to you upon request.

8. Payment must be made in U.S. dollars by check or money order drawn on a U.S. (domestic) bank payable to the North Carolina Department of Revenue unless you have been previously instructed by the Department to make payments electronically. Do not mail cash, stamps, or post dated checks with your return.
9. Sign each return and payment, unless you are required to file and pay electronically or you elect to file and pay online.

How to Prepare Return: Specific Line Instructions

Line 1 - NC Gross Receipts: Enter the total amount of gross receipts from your business operations in North Carolina and sourced to North Carolina. Do not include any taxes collected in the amount you enter on Line 1.

Line 2 - Sales for Resale: Enter the total amount of sales of tangible personal property, services or certain digital property sold for the purpose of resale, sublease, or subrent. Do not include this amount on Line 3 or elsewhere on the return.

Line 3 - Receipts Exempt From State Tax: Enter the total amount of sales and gross receipts exempt from State tax. Examples of exempt sales in N.C. Gen. Stat. §§ 105-164.13 and 105.164.13E include but are not limited to:

- Sales in interstate commerce and direct sales to the U.S. Government
- Vaccines, insecticides, feed, and items for animals or plants held or produced for commercial purposes
- Food exempt under food stamp and supplemental food programs
- Drugs required by federal law to be dispensed only on prescription and over the counter drugs sold on prescription
- Sales of mill machinery subject to the 1% privilege tax
- Food exempt from the general State rate of tax but subject to the local 2% rate of tax
- Any receipts above the maximum taxable receipts of certain tangible personal property.
- Fifty percent (50%) of the sales price of a modular home or a manufactured home, including all accessories attached when delivered to the purchaser.

Lines 4 through 7 - State Tax Calculation:

For the appropriate line, enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, service or digital property purchased inside or outside the State for storage, use, or consumption in North Carolina from vendors on which the State rate of tax was not collected by the vendors. Do not include tangible personal property, services or digital property purchased for resale and reported or included in the amount entered on Line 2.

For the appropriate line, enter under the column "Receipts" the total amount of taxable receipts, rentals, and sales which are subject to the State rate of tax, excluding the tax collected.

Compute the tax due at the applicable rate for each line and enter that amount under the column "Tax."

Line 4 - General State Rate: The State levies a 4.75% general rate of tax on the sales price of taxable tangible personal property, certain services, or digital property sold at retail and not subject to a reduced rate of tax. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 4.75% State rate and enter that amount under the column "Tax."

Items subject to the general State rate are generally subject to the applicable local sales and use tax rate. See instructions for Lines 9 through 12 for more information on the applicable local and transit rates of tax.

Line 5 – 3% State Rate: The 3% State rate of tax with a maximum tax of \$1,500 applies to the sales price of each boat sold at retail, including all accessories attached to the boat when it is delivered to the purchaser. Add the amounts entered in the columns "Purchases for Use" and "Receipts" and compute the tax due on the total at the 3% rate and enter that amount under the column "Tax."

Line 6 - Modular Homes: Fifty percent (50%) of the sales price of each modular home, including all accessories attached when delivered to purchaser, sold at retail is subject to the 4.75% State rate of tax only (not subject to the local and transit rates of sales and use tax). Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 4.75% State rate and enter that amount under the column "Tax."

Line 7 - Mfg. Homes: Fifty percent (50%) of the sales price of each manufactured home, including all accessories attached when delivered to purchaser, sold at retail is subject to the 4.75% State rate of tax only (not subject to the local and transit rates of sales and use tax). Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 4.75% State rate and enter that amount under the column "Tax."

Line 8 - 2% Food Rate: A 2% local rate of tax applies to the sales price of food products that are exempt from State tax. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 2% Food rate and enter that amount under the column "Tax."

Line 9 - 2% County Rate: See Number 7 under "Instructions - General." Items subject to the general State rate (Line 4) are also generally subject to the local rate of sales and use tax. The local sales and use tax rate in all counties as of October 1, 2016 is 2% (except Alexander, Anson, Ashe, Buncombe, Cabarrus, Catawba, Cherokee, Cumberland, Davidson, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes) and to the 0.5% Mecklenburg Transit County sales and use tax rate if the item is sourced to or for storage, use, or consumption in Mecklenburg County. The 0.5% Transit County sales and use tax is reported on Line 11.

Under the column "Purchases for Use," enter the total purchase price of any taxable tangible personal property, services or digital property purchased for storage, use, or consumption in the county on which the 2% county tax is due and was not due. This amount should include the amount in the column "Purchases for Use" on Line 4 except for specific circumstances.

Under the column "Receipts," enter the total amount of taxable receipts, rentals, and sales subject to the 2% rate of county tax excluding the amount of tax collected. This amount entered should include those items in the column "Receipts" on Line 4 except for special circumstances. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total amount of "Purchases for Use" and "Receipts" at the 2% county rate and enter that amount under the column "Tax."

Line 10 - 2.25% County Rate: See Number 7 under "Instructions - General." Items subject to the general state rate (Line 4) are also generally subject to the local rate of sales and use tax. This line should be used to report the 2.25% county tax effective in the counties of Alexander, Anson, Ashe, Buncombe, Cabarrus, Catawba, Cherokee, Cumberland, Davidson, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes if the item is sourced to or for storage, use, or consumption in one of these counties. The 0.5% Transit County sales and use tax due on an item sourced to or for storage, use, or consumption in Durham or Orange Counties is reported on Line 11.

Under the column "Purchases for Use," enter the total purchase price of any taxable tangible personal property, service or digital property purchased for storage, use, or consumption in the county on which the 2.25% county tax is due and was not paid. This amount should generally include the amount in the column "Purchases for Use" on Line 4 except for specific circumstances.

Under the column "Receipts," enter the total amount of taxable receipts, rentals, and sales subject to the 2.25% rate of county tax excluding the tax amount collected. This amount should include those items in the column "Receipts" on Line 4 except for special circumstances. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 2.25% county rate and enter that amount under the column "Tax."

Line 11 - 0.5% Transit County Rate: See Number 7 under "Instructions - General." Items subject to the general State rate (Line 4) are also subject to the 0.5% Transit County sales and use tax rate if the item is sourced to or for storage, use, or consumption in Durham, Mecklenburg, and Orange Counties. Three other counties are authorized to levy the 0.5% Transit local rate but have not levied the tax as of October 1, 2016.

Under the column "Purchases for Use," enter the total purchase price of any taxable tangible personal property, services or digital property purchased for storage, use, or consumption in Durham, Mecklenburg, and Orange Counties in which the 0.5% Transit County sales and use tax is due and was not paid. This amount generally should include the amount entered in the column "Purchases for Use" on Line 4 that applies to Durham, Mecklenburg, and Orange Counties and on Line 9 or 10, as applicable.

Under the column "Receipts," enter the amount of total taxable receipts, rentals, and sales which are subject to the 0.5% rate of Transit County sales and use tax excluding the amount of tax collected. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 0.5% rate and enter that amount under the column "Tax."

Line 12 - 0.25% Transit County Rate: As of October 1, 2016, no county has levied a 0.25% Transit County Tax. The Department will publish notification if a county levies such. Therefore, no amount should be entered on Line 12 unless the Department publishes notification that a county levies such tax. In the event a county levies the 0.25% local sales and use tax, Line 12 should be completed in like manner as Line 11.

Line 13 - Total State and County Tax: Add the amounts in the column "Tax" on Lines 4 through 12 and enter the sum.

Line 14 - Excess Collections: Enter any tax collected in excess of the total amount of tax computed to be due on taxable receipts, rentals, and sales. See N.C. Gen. Stat. § 105-164.11 for more information.

Line 15 - Total Tax: Add the tax amounts on Lines 13 and 14, and enter the sum.

Line 16 - Penalty: **If a return is filed after the due date, add the failure to file return penalty** of 5% per month of the tax amount shown on Line 15 for each month, or fraction thereof, that the return is filed late. The maximum failure to file return penalty is 25% of the tax amount shown on Line 15.

If the tax was not paid when due, add the failure to pay tax when due penalty of 10% of the tax amount shown on Line 15.

Line 17 - Interest - State and County: If a return is filed after the due date, compute interest on the total tax amount on Line 15 from the time the taxes were due until paid. The Secretary of Revenue establishes the interest rate on a semiannual basis. The interest rate is 5% per year or .417% per month through December 31, 2016. Check the Department's website or contact the Department for the interest rate in effect on or after January 1, 2017.

Line 18 - Less Prepayment for This Period: *(This line is for use by taxpayers remitting \$20,000 or more in tax per month who have made a prior prepayment for this period.)* If you are required to make a prepayment, you are required to file an electronic return and you should not file a paper return.

Line 19 - Prepayment for Next Period: Taxpayers who are consistently liable for at least \$20,000 a month in State and local sales and use taxes must make a monthly prepayment of the next month's tax liability. The prepayment is due when the monthly return is due. The prepayment must equal at least 65% of any of the following:

- (1) the amount of tax due for the current month,
- (2) the amount of tax due for the same month in the preceding year, or
- (3) the average monthly amount of tax due in the preceding calendar year.

Penalties or interest will not be due on an underpayment of a prepayment if one of these three calculation methods is used.

Line 20 - Less any Credit: If you are claiming a credit for sales and use tax previously paid, enter the amount of tax to be credited on Line 15. To prevent an assessment being issued disallowing the amount of credit claimed, attach a detailed explanation of the credit to your return. If you are requesting a refund of an overpayment of tax, you are encouraged to file Form E-588, Business Claim for Refund, in lieu of taking a credit on a sales and use tax return, but you will be required to pay any tax shown due on the return.

Line 21 - Total Due: Enter the total amount due by adding Lines 15, 16, 17, and 19, and subtracting any prepayment amount on Line 18 and any credit amount on Line 20 and pay this amount. **Do not fold your return or payment.**

Additional information about sales and use tax may be obtained from the Department's website at www.dorncc.com.