

**North Carolina Department of Revenue
Post Office Box 25000
Raleigh, North Carolina 27640-0001**

To Newly Registered Taxpayers:

All registrants, regardless of filing frequency, are furnished with paper forms. However, monthly with prepayment registrants are required to file Form E-500, Sales and Use Tax Return, electronically and make payments electronically; therefore, the blank forms are provided as information only. More detailed information regarding the Department's file and pay options are available at http://www.dornrc.com/taxes/sales/filing_requirements.html.

I. General Provisions

A. Imposition of and Liability for Collecting and Remitting Tax

Sales Tax

Sales tax imposed is intended to be passed on to the purchaser of a taxable item and borne by the purchaser instead of by the retailer or facilitator. A retailer or facilitator engaged in business in the State must collect the tax due on an item when the item is sold at retail. A retailer or facilitator is considered to act as a trustee on behalf of the State when it collects tax from the purchaser of a taxable item. The tax must be stated and charged separately on the invoices or other documents of the retailer or facilitator given to the purchaser at the time of the sale except for either of the following: (1) vending machine sales or (2) where a retailer displays a statement indicating the sales price includes the tax.

The sales price of or the gross receipts derived from the following when sold at retail are subject to sales tax: tangible personal property; certain digital property; lease or rental of tangible personal property; service contract or renewal of a service contract; prepaid meal plan; admission charges to an entertainment activity; rental of an accommodation; prepaid telephone calling service; satellite digital audio radio service; repair, maintenance, and installation services; and operation of laundries, dry cleaning plants, or similar businesses. Such transactions are subject to the 4.75% general State rate of tax unless specifically exempt by statute or taxed at lower rates.

With certain limited exceptions, all items subject to the State general rate are also subject to either a 2.00% or 2.25% local rate of tax. The local sales tax rate is 2.25% in 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 counties; the rate is 2.00% in the remaining sixty-nine counties. An additional 0.50% Transit tax rate is levied in Durham, Mecklenburg, Orange, and Wake Counties. The total general State, local, and transit tax rate is 6.75% in sixty-seven counties; 7.00% in Alexander, Anson, Ashe, Buncombe, Cabarrus, Catawba, Cherokee, Cumberland, Davidson, Duplin, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Lee, Martin, Montgomery, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes Counties; 7.25% in Mecklenburg and Wake Counties; and 7.50% in Durham and Orange Counties.

Sales of qualifying food items at retail are not subject to State tax, but are subject only to the 2.00% food rate. The additional 0.50% Transit tax and the additional 0.25% in the thirty-one counties listed in the second sentence of the paragraph above do not apply to such qualifying food sales. Qualifying food does not include prepared food, candy, dietary supplements, soft drinks, and food sold through a vending machine.

Sales of aircraft at retail are subject to the 4.75% general State rate of tax up to a maximum tax of \$2,500.00 per article. Sales of qualified jet engines at retail are subject to the 4.75% general State rate of tax. Sales of boats at retail are subject to the 3% State rate of tax up to a maximum tax of \$1,500.00

per article. Sales of modular homes at retail are subject to the 4.75% general State rate of tax. Sales of manufactured homes at retail are subject to the 4.75% general State rate of tax. However, fifty percent (50%) of the sales price of a modular home or a manufactured home, including all accessories attached when delivered to the purchaser, is exempt. **Aircraft, qualified jet engines, boats, modular homes and manufactured homes sold at retail are not subject to local and transit sales and use taxes.** Sales taxes on aircraft, qualified jet engines, boats, modular homes and manufactured homes should be reported on Form E-500, Sales and Use Tax Return.

The sales price of or the gross receipts derived from the following sold at retail are subject to the 7% combined general rate of sales and use tax: antique spirituous liquor and spirituous liquor other than mixed beverages; telecommunications service and ancillary service; providing video programming; electricity and piped natural gas; and aviation gasoline and jet fuel. The sales or use tax on items or services subject to the 7% combined general rate in all one hundred counties are reported on Form E-500E, Combined General Rate Sales and Use Tax Return (Utility, Liquor, Gas, and Other).

Use Tax

Use tax is due on the purchase price of tangible personal property (including property that becomes part of a building or another structure) or digital property purchased, leased, or rented inside or outside this State for storage, use, or consumption in North Carolina and on services sourced to this State. Persons making such purchases for business purposes must report and remit the tax due.

An individual **required** to file Form D-400, North Carolina Individual Income Tax Return, must report the use tax liability on non-business purchases of taxable items, other than a boat, an aircraft, and food subject to the reduced rate of tax, on the individual's income tax return. An individual **not required** to file Form D-400, North Carolina Individual Income Tax Return, must report the use tax liability on taxable purchases other than a boat or an aircraft, on Form E-554, Consumer Use Tax Return.

Where retail sales or use tax is legally due and paid in another state, such tax may be credited against the North Carolina use tax due provided the other state allows a similar credit for sales and use taxes paid in North Carolina. If the sales or use tax paid in another state is less than the North Carolina use tax due, the difference must be paid in this State. State tax paid in a taxing jurisdiction outside the State can be credited against the State use tax due and local tax paid outside the State can be credited against the local use tax due.

Certain Machinery and Equipment Tax

A privilege tax rate of 1% with a maximum tax of \$80.00 per article is imposed on the purchaser of qualifying property and the purchaser is required to accrue and remit the tax to the Department. The tax should be reported on Form E-500J, Machinery and Equipment Tax Return.

Purchases of the following are subject to the aforementioned privilege tax:

- Mill machinery or mill machinery parts or accessories by manufacturing industries or plants and contractors and subcontractors for use in the performance of a contract with a manufacturing industry or plant where such item will be used by a manufacturing industry or plant in the production phase.
- Certain equipment by a major recycling facility.
- Qualifying equipment or attachments or repair parts for equipment purchased by research and development companies under certain conditions.
- Equipment or an attachment or repair part for equipment that meets certain requirements purchased by a company primarily engaged in software publishing activities included in industry group 5112 of NAICS.
- Equipment or an attachment or repair part for equipment that meets certain requirements purchased by a company primarily engaged in industrial machinery refurbishing activities included in industry group 811310 of NAICS.

- Qualifying purchases of mill machinery, distribution machinery, or parts or accessories for mill machinery (electricity is not an accessory) or distribution machinery by a qualifying large manufacturing and distribution facility for storage, use, or consumption in North Carolina.

The privilege tax rate of 1% with a maximum tax of \$80.00 per article is also applicable under the following conditions:

Effective retroactively to July 1, 2013, a company located at a ports facility for waterborne commerce that purchases any of the following:

- a. Machinery and equipment that is used at the facility to unload or to facilitate the unloading or processing of bulk cargo to make it suitable for delivery to and use by manufacturing facilities.
- b. Parts, accessories, or attachments used to maintain, repair, replace, upgrade, improve, or otherwise modify such machinery and equipment.

Effective July 1, 2016, a person other than a major recycling facility pursuant to N.C. Gen. Stat. § 105-187.51B(1) that gathers and obtains ferrous metals, nonferrous metals, and items that have served their original economic purpose and that converts them by processes, including sorting, cutting, classifying, cleaning, baling, wrapping, shredding, or shearing into a new or different product for sale consisting of prepared grades for the purchase of equipment, or an attachment or repair part for the equipment, that meets all of the following requirements:

- a. Is capitalized by the person for tax purposes under the Internal Revenue Code.
- b. Is used by the person in a conversion process described above.
- c. Is not a motor vehicle or an attachment or repair part for a motor vehicle.

Effective July 1, 2016, a company primarily engaged at the establishment in processing tangible personal property for the purpose of extracting precious metals, as defined in N.C. Gen. Stat. § 66-406, to determine the value for potential purchase for the purchase of equipment, or an attachment or repair part for the equipment, that meets all of the following requirements:

- a. Is capitalized by the company for tax purposes under the Internal Revenue Code.
- b. Is used by the company in the process described above.

Effective July 1, 2016, a company that is engaged in the fabrication of metal work, that has annual gross receipts, including the gross receipts of all related persons as defined in N.C. Gen. Stat 105-163.010, from the fabrication of metal work of at least eight million dollars (\$8,000,000), and that purchases equipment, or an attachment or repair part for equipment, that meets all of the following requirements:

- a. Is capitalized by the company for tax purposes under the Internal Revenue Code.
- b. Is used by the company at the establishment in the fabrication or manufacture of metal products or used by the company to create equipment for the fabrication or manufacture of metal products.

Wholesale Sales and Exemption Certificates

A wholesale sale is a sale of tangible personal property, digital property, or a service for the purpose of resale. Wholesale sales include sales of digital property for reproduction or tangible personal property offered for resale. Wholesale sales do not include sales to users or consumers not for resale or, in the case of digital property, not for reproduction and sale of the reproduced property.

Persons making wholesale sales exclusively are not required to file returns reflecting such sales, but persons making both wholesale sales and retail sales must file sales and use tax returns reflecting the amount of wholesale sales as well as all retail sales on which tax is due.

The purchase of tangible personal property, digital property, and certain services for resale by a purchaser who is engaged in the business of selling tangible personal property, certain digital property, and certain services at retail or wholesale and is properly registered with the Department for sales and use tax purposes or in a taxing jurisdiction outside this State is not subject to sales or use tax. The purchaser must furnish to vendors as their authority for not collecting the tax either (1) Form E-595E, Streamlined Sales and Use Tax Agreement Certificate of Exemption, or (2) other evidence which is adequate to support the conclusion that the purchaser is registered with the Department of Revenue or in a taxing jurisdiction outside this State for sales and use tax purposes and the property is being purchased for resale. The certificates or any written evidence should be completed in duplicate and a copy retained by both the retailer and the purchaser in their files.

IMPORTANT NOTICE: Exemption certificates issued for the purpose of resale shall not be used to purchase tangible personal property, certain digital property, or certain services which are to be used or consumed by the purchaser. The penalty for misuse of an exemption certificate by a purchaser is \$250.00.

B. Penalties

A person who willfully attempts, or a person who aids or abets a person to attempt in any manner to evade or defeat a tax imposed by the Sales and Use Tax Laws, or the payment thereof, shall be guilty of a Class H felony. If there is a deficiency or delinquency in payment of any tax due to fraud with intent to evade the tax, there shall be assessed a penalty equal to 50% of the total deficiency.

C. Certificate of Registration

Every person engaged in business as a retailer or wholesale merchant in this State or a facilitator liable for remittance of sales and use taxes must obtain a Certificate of Registration. There is no fee for a Certificate of Registration.

D. Records

Retailers, wholesalers, and facilitators must keep adequate and complete records to determine their sales and use tax liability. Separate records should be kept disclosing taxable sales and exempt sales. Records of retail and wholesale transactions must be kept and shall be open for examination at all reasonable hours of the day by agents of the Secretary of Revenue.

II. Information and Assistance

Sign up to receive electronic notifications for bulletins, directives, and other important notices about law changes and related tax matters by subscribing to the Department's Tax Update Email List. Select "Sign up for eAlerts" under "eServices" on the right hand side of the Department's website. Sales and Use Tax Technical Bulletins, State and Local Sales and Use Tax Laws, directives, important notices, forms, and information on the applicable county sales and use tax rates may be obtained from the Department's website at www.dornc.com. A general overview, which provides a list of sales and use tax levies can be reviewed at www.dornc.com/taxes/sales/overview.html.

If you have questions about the information in this document, you may call the Taxpayer Assistance and Collection Center at 1-877-252-3052 (toll-free).