

SECTION 46 - DIRECT PAY PERMIT**46-1 DIRECT PAY PERMIT – TANGIBLE PERSONAL PROPERTY****A. Eligibility**

A direct pay permit can be issued to a taxpayer that makes purchases of tangible personal property when the tax application cannot be determined at the time of purchase for one of the following reasons:

1. The place of business where the property will be used is not known at the time of the purchase and a different tax consequence applies depending on where the property is used.
2. The manner in which the property will be used is not known at the time of the purchase and one or more of the potential uses are taxable but others are not taxable.

Businesses such as manufacturers that purchase tangible personal property that could be either subject to tax or exempt from tax are eligible for a direct pay permit. Multistate taxpayers that use the same type property in various locations inside and outside the State are also eligible. A taxpayer's annual purchases of tangible personal property should exceed \$5 million to obtain a permit. Retail and wholesale businesses with locations only in North Carolina whose exempt purchases are for resale purposes are not eligible for a direct pay permit and should use a **Streamlined Sales and Use Tax Agreement Certificate of Exemption, Form E-595E**, when applicable.

B. Application

Form E-595A, Application for Direct Pay Permit for Sales and Use Taxes on Tangible Personal Property, must be completed and submitted to the Sales and Use Tax Division. A copy of the application can be requested by calling the Department's Forms Line at 1-877-252-3052. A copy of the application is also available on the Department's website at www.dornc.com.

C. Issuance of Permit**1. Traditional Commerce**

When an application is approved, the Department will issue a numbered direct pay permit. The permit holder should issue a copy of the permit to a vendor of tangible personal property. Once received, a vendor is relieved of the liability from collecting and remitting sales or use tax on its sales of tangible personal property to the purchaser. The permit holder is liable for accruing and remitting the applicable use tax directly to the Department.

A vendor must maintain documentation in its records in support of the exemption from tax. Proper documentation includes a copy of the direct pay permit or a Certificate of Exemption in either written or electronic format. A registry of direct pay permit holders is available on the Department's website.

2. Electronic Commerce

If a vendor has the capability of retaining records electronically, the vendor may retain direct pay permit information in a digitized format in lieu of obtaining a paper copy of the permit. The information must include the following: direct pay permit number, name and address of the purchaser, and date of issue of the permit.

D. Use of Permit

A permit holder is responsible for accruing and remitting use tax for all purchases of tangible personal property from vendors except those purchases specifically excluded below. A permit holder is responsible for accruing and remitting the applicable tax on its purchases of tangible personal property notwithstanding that it may have failed to provide a copy of its permit to a vendor.

A permit cannot be used by a subsidiary or an affiliate of an entity; only the entity to which the permit is issued by the Department is entitled to submit the permit to vendors. If a permit holder undergoes reorganization and forms a new business entity, the new entity must apply for a permit of its own.

A permit holder should maintain the records necessary to verify the accrual of tax in an electronic format.

E. Prohibited Uses

A direct pay permit is not to be issued for the purchases or the taxes listed below. The permit holder must pay these taxes directly to vendors who are registered with the Department or other authorities to collect and remit the taxes.

1. State and local sales taxes levied on sales of prepared meals and beverages.
2. State and local sales taxes levied on hotel, motel or other accommodation rentals.
3. State sales taxes levied on electricity, telecommunications services or ancillary services.
4. Highway use taxes paid on the purchase, lease or rental of motor vehicles.
5. Scrap tire disposal tax levied on new tires.
6. Occupancy taxes levied and administered by various local governments in the State.
7. Prepared food and beverage taxes levied by various local governments in the State.
8. White goods disposal tax levied on new white goods.
9. Dry-cleaning solvent tax levied on dry-cleaning solvent purchased by a dry-cleaning facility.
10. Excise tax on piped natural gas.

F. Revocation

The Department may revoke a direct pay permit if the holder of the permit does not file a sales and use tax return timely, does not pay sales or use tax on time, or otherwise fails to comply with the Sales and Use Tax Laws.

History Note: Authority G.S. 105-164.4; 105-164.6; 105-164.27A;
105-187.3; 105-187.5; 105-187.16; 105-264;
Issued: June 1, 1996;
Revised: April 1, 2007; July 1, 2005; February 1, 2004;
November 15, 2000; October 15, 1998; March 1, 1997.

46-2 DIRECT PAY PERMIT – TELECOMMUNICATIONS SERVICE AND ANCILLARY SERVICE**A. Eligibility**

A direct pay permit can be issued to a call center that purchases telecommunications service and ancillary service if the call center complies with the sales and use tax laws and if its compliance burden will be greatly reduced by use of the permit. The permit issued for telecommunications service and ancillary service does not apply to any purchase other than the purchase of telecommunications service and ancillary service. A call center is a business that is primarily

engaged in providing support services to customers by telephone to support products or services of the business. A business is primarily engaged in providing support services by telephone if at least 60% of its calls are incoming.

B. Application

Form E-595B, Application for Direct Pay Permit for Sales and Use Taxes on Telecommunications Service, must be completed and submitted to the Sales and Use Tax Division. A copy of the application can be requested by calling the Department's Forms Line at 1-877-252-3052. A copy of the application is also available on the Department's website at www.dornrc.com.

C. Issuance of Permit

1. Traditional Commerce

When an application is approved, the Department will issue a numbered direct pay permit. The permit holder should issue a copy of the permit to a vendor of telecommunications service and ancillary service. Once received, a vendor is relieved of the liability from collecting and remitting sales or use tax on its sales of telecommunications service and ancillary service to the purchaser. The permit holder is liable for accruing and remitting the applicable use tax directly to the Department.

A vendor must maintain documentation in its records in support of the exemption from tax. Proper documentation includes a copy of the direct pay permit or a **Streamlined Sales and Use Tax Agreement Certificate of Exemption, Form E-595E**, in either written or electronic format. A registry of direct pay permit holders is available on the Department's website.

2. Electronic Commerce

If a vendor has the capability of retaining records electronically, the vendor may retain direct pay permit information in a digitized format in lieu of obtaining a paper copy of the permit. The information must include the following: direct pay permit number, name and address of the purchaser and date of issue of the permit.

D. Use of Permit

A permit holder is responsible for accruing and remitting use tax for all purchases of telecommunications service and ancillary service from vendors. A permit holder is responsible for accruing and remitting the applicable tax on its purchases of telecommunications service and ancillary service notwithstanding that it may have failed to provide a copy of its permit to a vendor.

The tax on telecommunications service and ancillary service that originates outside North Carolina, terminates in North Carolina, and is provided to a call center that has a direct pay permit may not exceed \$50,000 a year. This cap applies separately to each legal entity. There is no cap on other types of telecommunications service and ancillary service.

A permit cannot be used by a subsidiary or an affiliate of an entity; only the entity to which the permit is issued by the Department is entitled to submit the permit to vendors. If a permit holder undergoes reorganization and forms a new business entity, the new entity must apply for a permit of its own.

A permit holder should maintain the records necessary to verify the accrual of tax in an electronic format.

E. Revocation

The Department may revoke a direct pay permit if the holder of the permit does not file a sales and use tax return timely, does not pay sales or use tax on time, or otherwise fails to comply with the Sales and Use Tax Laws.

History Note: Authority G.S. 105-164.4; 105-164.4C; 105-164.6;
105-164.27A; 105-264;
Issued: February 1, 2004;
Revised: April 1, 2007; July 1, 2005.

46-3 DIRECT PAY PERMIT – DIRECT MAIL

A. Eligibility

A direct pay permit can be issued to a person who purchases direct mail. The permit issued for direct mail does not apply to any purchase other than the purchase of direct mail. “**Direct mail**” is defined as “printed material delivered or distributed by the United States Postal Service or other delivery service to a mass audience or to addresses on a mailing list provided by the purchaser or at the direction of the purchaser when the cost of the items is not billed directly to the recipients. The term includes tangible personal property supplied directly or indirectly by the purchaser to the direct mail seller for inclusion in the package containing the printed material. The term does not include multiple items of printed material delivered to a single address.”

B. Application

Form E-595C, Application for Direct Pay Permit for Sales and Use Taxes on Direct Mail, must be completed and submitted to the Sales and Use Tax Division. A copy of the application can be requested by calling the Department’s Forms Line at 1-877-252-3052. A copy of the application is also available on the Department’s website at www.dorn.com.

C. Issuance of Permit

1. Traditional Commerce

When an application is approved, the Department will issue a numbered direct pay permit. The permit holder should issue a copy of the permit to a vendor of tangible personal property. Once received, a vendor is relieved of the liability from collecting and remitting sales or use tax on its sales of tangible personal property to the purchaser. The permit holder is liable for accruing and remitting the applicable use tax directly to the Department.

A vendor must maintain documentation in its records in support of the exemption from tax. Proper documentation includes a copy of the direct pay permit or a **Streamlined Sales and Use Tax Agreement Certificate of Exemption, Form E-595E**, in either written or electronic format. A registry of direct pay permit holders is available on the Department’s website.

2. Electronic Commerce

If a vendor has the capability of retaining records electronically, the vendor may retain direct pay permit information in a digitized format in lieu of obtaining a paper copy of the permit. The information must include the following: direct pay permit number, name and address of the purchaser and date of issue of the permit.

D. Use of Permit

A permit holder is responsible for accruing and remitting use tax for all purchases of direct mail from vendors. A permit holder is responsible for accruing and remitting any applicable tax on its purchases of direct mail notwithstanding that it may have failed to provide a copy of its permit to a vendor.

A permit cannot be used by a subsidiary or an affiliate of an entity; only the entity to which the permit is issued by the Department is entitled to submit the permit to vendors. If a permit holder undergoes reorganization and forms a new business entity, the new entity must apply for a permit of its own.

A permit holder should maintain the records necessary to verify the accrual of tax in an electronic format.

E. Revocation

The Department may revoke a direct pay permit if the holder of the permit does not file a sales and use tax return timely, does not pay sales or use tax on time, or otherwise fails to comply with the Sales and Use Tax Laws.

History Note: Authority G.S. 105-164.3; 105-164.4; 105-164.6;
105-164.27A; 105-264;
Issued: February 1, 2004;
Revised: April 1, 2007; July 1, 2005.