

**SECTION 51 - SOURCING****51-1 SOURCING IN GENERAL**

The determination of the taxing jurisdiction for which a retailer is liable for collecting sales or use tax is referred to as “**sourcing**.” The tax is “sourced to” or due in the jurisdiction where the purchaser or its delivery agent takes delivery of items purchased. When a purchaser or its delivery agent receives a product at the place of business of the retailer, the tax is sourced to (due in) the jurisdiction where the retailer’s business is located. When a retailer has places of business in more than one jurisdiction, the tax is sourced to (collected for) the jurisdiction where the purchaser takes delivery of the items purchased, notwithstanding that the purchaser’s original order might have been submitted to or accepted by the retailer at a business location in another jurisdiction. For property shipped to the purchaser at a location other than the retailer’s place of business, the tax is sourced to the jurisdiction to which the property is shipped (destination).

History Note: Authority G.S. 105-467; 105-264;  
Issued: February 1, 2004.

**51-2 SOURCING PRINCIPLES****A. General Sourcing Principles**

For purposes of sourcing, the terms “receive” and “receipt” mean “taking possession of tangible personal property” or “making first use of services.” In determining where to source the sale of a product, regardless of the nature of the product, the following principles apply:

1. **Over-the-counter.** When a purchaser receives a product at a business location of the seller, the sale is sourced to that business location.
2. **Delivery to a specified address.** When a purchaser 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 receives the product.
3. **Delivery address unknown.** When the seller does not know the address where a product is received, the sale is sourced to the first address or location listed below that is known to the seller:
  - a. The business or home address of the purchaser.
  - b. The billing address of the purchaser or, if the product is prepaid wireless calling service, the location associated with the mobile telephone number.
  - c. The address from which the tangible personal property was shipped or from which the service was provided.

**B. Sourcing Principles for Periodic Rental Payments**

When a lease or rental agreement requires recurring periodic payments, the payments are sourced as follows:

1. For leased or rented property, the first payment is sourced in accordance with the general sourcing principles set out in Sales and Use Tax Technical Bulletin 51-2 A. and each subsequent payment is sourced to the primary location of the leased or rented property for the period covered by the payment. This principle applies to all property

except a motor vehicle, an aircraft, transportation equipment, and, **effective July 1, 2006**, a utility company railway car.

2. For leased or rented property that is a motor vehicle or an aircraft but is not transportation equipment, all payments are sourced to the primary location of the leased or rented property for the period covered by the payment.
3. For leased or rented property that is transportation equipment, all payments are sourced in accordance with the general sourcing principles set out in Sales and Use Tax Technical Bulletin 51-2 A.
4. **Effective July 1, 2006**, for a railway car that is leased or rented by a utility company and would be transportation equipment if it were used in interstate commerce, all payments are sourced in accordance with the general sourcing principles set out in Sales and Use Tax Technical Bulletin 51-2 A.
5. For a lease or rental that does not require recurring periodic payments, the payment is sourced the same as a retail sale in accordance with the principles set out in Section A. of this Bulletin.

#### C. Sourcing Principles for Telecommunications Services

1. The following are general sourcing principles for telecommunications service:
  - a. **Flat Rate.** Telecommunications service that is not sold on a call-by-call basis is sourced to this State if the place of primary use is in this State.
  - b. **General Call-by-Call.** Telecommunications service that is sold on a call-by-call basis and is not a postpaid calling service is sourced to this State if:
    - (1) The call both originates and terminates in this State.
    - (2) The call either originates or terminates in this State and the telecommunications equipment from which the call originates or terminates and to which the call is charged is located in this State. This applies regardless of where the call is billed or paid.
  - c. **Postpaid.** A postpaid calling service is sourced to the origination point of the telecommunications signal as first identified by either the seller's telecommunications system or, if the system used to transport the signal is not the seller's system, by information the seller receives from its service provider.
2. The following are exceptions to the general sourcing principles for telecommunications service:
  - a. Mobile telecommunications service is sourced to the place of primary use, unless the service is authorized by a prepaid wireless calling service or is air-to-ground radiotelephone service. Air-to-ground radiotelephone service is a postpaid calling service that is offered by an aircraft common carrier to passengers on its aircraft and enables a telephone call to be made from the aircraft. This sourcing principle applies to a service provided as an adjunct to mobile telecommunications service if the charge for the service is included within the term "charges for mobile telecommunications services" under the federal Mobile Telecommunications Sourcing Act.

- b. Prepaid telephone calling service is sourced in accordance with the general sourcing principles set out in Sales and Use Tax Technical Bulletin 51-2 A.
- c. Private telecommunications service is sourced as follows:
  - (1) If all the customer's channel termination points are located in this State, the service is sourced to this State.
  - (2) If all the customer's channel termination points are not located in this State and the service is billed on the basis of channel termination points, the charge for each channel termination point located in this State is sourced to this State.
  - (3) If all the customer's channel termination points are not located in this State and the service is billed on the basis of channel mileage, the following applies:
    - (a) A charge for a channel segment between two channel termination points located in this State is sourced to this State.
    - (b) Fifty percent (50%) of a charge for a channel segment between a channel termination point located in this State and a channel termination point located in another state is sourced to this State.
  - (4) If all the customer's channel termination points are not located in this State and the service is not billed on the basis of channel termination points or channel mileage, a percentage of the charge for the service is sourced to this State. The percentage is determined by dividing the number of channel termination points in this State by the total number of channel termination points.

#### D. Sourcing Principles for Direct Mail

Direct mail is sourced to the location where the property is delivered if one of the following conditions is met:

1. Direct mail is purchased pursuant to a direct pay permit. Upon receipt of the **Direct Pay Permit for Sales and Use Taxes on Direct Mail**, the seller is relieved of all obligations to collect, pay, or remit the applicable tax and the purchaser is obligated to pay or remit the applicable tax on a direct pay basis. A Direct Pay Permit for Sales and Use Taxes on Direct Mail shall remain in effect for all future sales of direct mail by the seller to the purchaser until it is revoked in writing.
2. The purchaser provides the seller with information to show the jurisdictions to which the direct mail is to be delivered. Upon receipt of information from the purchaser showing the jurisdictions to which the direct mail is delivered to recipients, the seller shall collect the tax according to the delivery information provided by the purchaser. In the absence of bad faith, the seller is relieved of any further obligation to collect tax on any transaction where the seller has collected tax pursuant to the delivery information provided by the purchaser.
3. In all other cases, direct mail is sourced according to general sourcing principles as reflected in Sales and Use Tax Technical Bulletin 51-2 A.

For additional information on direct mail, refer to Sales and Use Tax Technical Bulletin 7-17.

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