Form E-505AC

To Newly Registered Taxpayers:

I. General Provisions

A. Imposition of and Liability for Collecting and Remitting Tax

Sales Tax
Sales tax is levied on retail sales by vendors of tangible personal property; certain digital property; receipts from leases or rentals of tangible personal property; gross receipts derived from rental of an accommodation; and receipts derived from the operation of laundries, dry cleaning plants, or similar businesses. Such transactions are subject to the 4.75% 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 a 2% (2.25% in Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Halifax, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes counties) local sales tax. An additional 0.5% Transit county rate is levied in Mecklenburg County in addition to the 2% local sales tax rate. Sales of qualifying food items are not subject to State tax, but are subject only to the 2% local tax. The additional 0.5% Mecklenburg County Transit tax and the additional 0.25% in the nineteen counties listed above do not apply to such sales.

Sales of aircraft and boats are subject to the 3% State rate of tax up to a maximum tax of $1,500.00 per article. Sales of modular homes are subject to the 2.5% State rate of tax. Sales of manufactured homes are subject to the 2% State rate of tax up to a maximum tax of $300.00 per article. These tax rates should be reported on Form E-500, Sales and Use Tax Return.

Sales of spirituous liquor other than mixed beverages, telecommunications service, ancillary service, and video programming are subject to sales tax at the combined general rate of 7%. Sales of electricity are subject to the 3% State rate of sales tax, except for certain sales of electricity to a commercial laundry or to a pressing and dry cleaning establishment for use in machinery used in the direct performance of the laundering or the pressing and cleaning service and measured by a separate meter or another separate device, which are subject to State sales tax at the rate of 2.83%. Sales of electricity to manufacturers and farmers are exempt. These tax rates should be reported on Form E-500E, Utility and Liquor Sales and Use Tax Return.

Use Tax
A use tax is levied on tangible personal property and certain digital property purchased or received from within or without this State for storage, use, or consumption in this State and on taxable services sourced to this State at the same rate applicable to the sale or lease of the property. A person outside this State who is engaged in business in this State as defined in the Law is required to register with the Department and collect and remit the tax due on all taxable tangible personal property, taxable digital property or taxable services sold or delivered for storage, use, or consumption in this State. A person who purchases from out-of-state vendors any taxable tangible personal property, taxable digital property or taxable services upon which the tax has not been fully paid is liable for the tax due on such purchases. Persons making such purchases for business purposes must register with the Department to report and remit the tax due.

Registrants will be furnished Form E-500, Sales and Use Tax Return, to be used in reporting and remitting tax due. Where retail sales or use tax is due and has already been 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 taxes paid in North Carolina. If the 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 tax due and local tax paid can be credited against the local tax due.

**Machinery and Equipment Tax**

The 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 liable for accruing and remitting the tax to the Department of Revenue. The tax should be reported on Form E-500J, Machinery and Equipment Tax Return.

A machinery and equipment privilege tax is levied on the purchase of 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; recycling equipment by a major recycling facility; and qualifying equipment or attachments or repair parts for equipment purchased by research and development companies under certain conditions.

Machinery or equipment to be located and used at an eligible datacenter that meets certain conditions is subject to the privilege tax. Effective July 1, 2010, machinery or equipment purchased by contractors and subcontractors of an eligible datacenter to be located and used at the eligible datacenter that meets certain conditions is subject to the privilege tax. Effective July 1, 2010, qualifying purchases by contractors and subcontractors of datacenter machinery and equipment to be located and used at the datacenter may be subject to the privilege tax under a contractor option.

Equipment or an attachment or repair part for equipment purchased by a software publishing company that meets certain requirements are subject to the privilege tax.

Effective July 1, 2008, equipment or an attachment or repair part for equipment purchased by an industrial machinery refurbishing company that meets certain requirements is subject to the privilege tax.

**Wholesale Sales and Exemption Certificates**

Sales of tangible personal property, certain digital property, and certain services to registered merchants for the purpose of resale are wholesale sales. Merchants making wholesale sales exclusively are not required to file returns reflecting such sales, but merchants making both wholesale sales and retail sales must file 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, certain 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) a Streamlined Sales and Use Tax Agreement Certificate of Exemption, Form E-595E, 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 vendor and the vendee 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 is 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, whether within or without the State, engaged in business in this State who makes retail or wholesale sales of tangible personal property must apply for and obtain from the Department a Certificate of Registration. There is no fee for a Certificate of Registration.

D. Records

Vendors 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 for at least three years and shall be open for examination at all reasonable hours of the day by agents of the Secretary of Revenue.

II. Information and Assistance

The Sales and Use Tax Division has created Sales and Use Tax Technical Bulletins reflecting the Department's position on significant tax matters. Bulletins are grouped into Sections by topic. The following is an alphabetical list of Technical Bulletins by Section:

- Advertising and Public Relations Firms - Section 24
- Art Dealers, Photographers, Photo Finishers, Blue Prints, and Photostatic Copies - Section 32
- Barber and Beauty Shops and Shoe and Watch Repairmen - Section 25
- Basis of Reporting - Section 45
- Certain Governmental Entities - The State, Counties, Cities and Other Political Subdivisions - Section 18
- Computers - Hardware, Software, Services, and Maintenance - Section 28
- Containers Used In Wrapping, Packing and Shipping Materials - Section 6
- Contractors and Building Materials - Section 31
- Dentists, Dental Laboratories and Dental Supply Houses - Section 14
- Direct Pay Permit - Section 46
- Disposal Taxes - Section 29
- Drugs and Medical Supplies - Section 11
- Exemption Administration - Section 52
- Eyeglasses, Contact Lens, Ophthalmic Instruments and Supplies, Ophthalmologists, Optometrists and Opticians - Section 15
- Farming - Section 8
- Fertilizer, Seeds, Feed and Insecticides - Section 10
- Florists, Nurserymen and Greenhouse Operators - Section 9
- Food and Food Products - Section 19
- Forms Used For Sales and Use Tax Purposes - Section 47
- Fuel - Section 39
- Funerals, Monument Manufacturers and Memorial Stone and Monument Dealers - Section 22
- Furniture and Storage Warehousemen - Section 30
- General Provisions of Article 5F of Chapter 105 of the General Statutes - Section 56
- General Provisions of Articles 5, 5A, 5B, 5C, and 5D of Chapter 105 of the General Statutes - Section 1
- Hospitals, Sanitariums, Nursing Homes, and Rest Homes - Section 12
- Hotels, Motels, Inns, Tourist Homes, Tourist Camps and Cabins and Private Residences and Cottages Rented To Transients - Section 27
- Incentive Refunds - Section 50
- Interstate Carriers - Section 43
- Laundries, Dry-Cleaning Plants, Launderettes, Linen Rentals and Solicitors For Such Businesses - Section 33
- Lease or Rental - Section 23
• Local Government Public Transportation Sales Tax Act - Section 49
• Local Government Sales and Use Tax - Section 48
• Lubricants, Oils and Greases - Section 36
• Machinists, Foundrymen and Pattern Makers - Section 5
• Manufacturing and Industrial Processing - Section 57
• Manufacturing and Processing Machinery, Accessories and Materials - Section 58
• Miscellaneous Topics - Section 34
• Motor Vehicles, Boats, Aircraft, Manufactured Homes, Etc. - Section 35
• Nonprofit Entities - Hospitals, Educational Institutions, Churches, Orphanages and Other Charitable or Religious Institutions and Organizations and Qualified Retirement Facilities Whose Property Is Excluded From Property Tax Under G.S. 105-278.6A - Section 17
• Premiums, Gifts, Trading Stamps and Sales and Gifts By Employers To Employees - Section 44
• Printers, Newspaper or Magazine Publishers and Bookbinders - Section 7
• Prosthetic, Mobility Enhancing Equipment, Durable Medical Equipment, and Durable Medical Supplies - Section 13
• Radio, Television and Cable Television Stations, Motion Picture Theatres, Video Programming Providers, and Satellite Digital Audio Radio Service Providers - Section 20
• Sales In Interstate and Foreign Commerce, Sales To Out-Of-State Merchants For Resale and Third Party Drop Shipments - Section 42
• Sourcing - Section 51
• Specific Industries - Section 59
• Telecommunications, Telegraph and Cellular Telephone Companies - Section 21
• The United States Government or Agencies Thereof - Section 37
• Tires - Section 26
• Trade-Ins, Repossessions, Returned Merchandise and Used or Secondhand Merchandise - Section 40
• Transportation or Delivery Charges - Section 38
• Veterinarians - Section 16
• Warranties, Fabricated Articles, Installation Labor, Repairs and Alterations and Certain Services - Section 41

The above Sections of the 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 by accessing the Department's website at www.dornc.com or by writing to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001.

In addition, recorded information on many commonly asked sales and use tax questions is available 24 hours a day, seven days a week, by calling N.C. Tax Talk at 1-877-252-3052 (toll-free). If you have questions about the information in this document or about sales and use tax, you may call the Taxpayer Assistance and Collection Center at 1-877-252-3052 (toll-free). Forms may also be ordered by telephone using the toll-free number listed above.