

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

To Registered Taxpayers:

Part I of this document lists the changes made by the 1999 General Assembly to the taxes administered by the Sales and Use Tax Division. Legislative changes supersede any information previously set forth in Sales and Use Tax Administrative Rules or Technical Bulletins relating to any subject matter of the legislation. The changes are cited in order of effective date. Part II of this document contains information relating to the redesigned sales and use tax forms.

I. Legislative Changes

Effective for Taxable Year Beginning January 1, 1999

Consumer Use Tax

A North Carolina resident owes use tax on items such as computers, books, clothing, and jewelry which are purchased outside this State from retailers who do not collect North Carolina sales tax. G.S. 105-164.16(d) was amended to provide that use tax on purchases of tangible personal property outside North Carolina for a nonbusiness purpose is due on an annual basis. An individual who is not required to file an individual income tax return must file a use tax return by April 15th of the following year. An individual who is required to file an income tax return must pay use tax on out-of-state purchases on the income tax return. A line has been added to the 1999 Individual Income Tax Return for payment of use tax. Complete instructions will be included in the Individual Income Tax Instructions.

Effective May 1, 1999

Interstate Passenger Air Carriers and Interstate Air Couriers

G.S. 105-164.3 was amended to change the definition of "hub" to include hubs for interstate passenger air carriers as well as interstate air couriers. The effective date was changed from January 1, 2001 to May 1, 1999. The statute was also amended to add new subdivision (6e) that defines "interstate passenger air carrier."

G.S. 105-164.4A, as recodified, was amended to add new subdivision (12) that extends the 1% State rate of tax with a maximum tax of \$80.00 to sales of aircraft simulators for flight crew training to an interstate passenger air carrier or an interstate air courier. The aircraft simulators must be used at the air carrier or air courier hub.

Interstate Passenger Air Carriers

G.S. 105-164.13 was amended by adding new subdivision (45) that exempts sales of aircraft lubricants, aircraft repair parts, and aircraft accessories to an interstate passenger air carrier for use at its hub.

Refunds for Nonprofit Insurance Companies

G.S. 105-164.14(i) provides for an annual refund of sales and use taxes paid by an eligible nonprofit insurance company on building materials, building supplies, fixtures, and equipment that become a part of its real property and on computer systems hardware and software it capitalizes for tax purposes under the Code. Effective January 1, 2004, the refund provision will apply only to building materials, building supplies, fixtures, and equipment. Effective January 1, 2008, the entire refund provision is repealed.

Effective July 1, 1999

Laundry Equipment

G.S. 105-164.4(a)(4) was amended to add "card-operated" to the types of laundry equipment whose receipts are exempt from sales tax.

Refunds for Governmental Entities

G.S. 105-164.14(c)(16) was amended to remove certain requirements that airport authorities must meet in order to be eligible for refunds; the amendment allows any airport authority created pursuant to an act of the General Assembly to receive refunds.

Secrecy Provisions of Officials

G.S. 105-259(b) was amended by adding new subdivision (22) that allows the Department to provide the Secretary of Administration with a list of vendors and their affiliates who meet at least one condition in G.S. 105-164.8(b) but refuse to collect this State's tax. Additional legislation provides that the State of North Carolina shall no longer contract for goods or services with such vendors.

Effective July 22, 1999

Definitions of "Moped" and "Special Mobile Equipment"

G.S. 105-164.3(8b) was recodified as .3(8c). The definitions of "moped" and "special mobile equipment" were moved from the Motor Vehicle Laws to the Sales and Use Tax Laws under G.S. 105-164.3(8b) and (16b), respectively.

Certificate of Registration

G.S. 105-164.4(c) was amended to clarify that a certificate issued to a retailer who only makes taxable sales becomes void when he has filed no returns or shows no sales for a period of 18 months. Consequently, the certificates of wholesale merchants or merchants making only exempt sales will not become void after 18 months.

Exemption for Tobacco Sheets

G.S. 105-164.13(4d) was amended to delete the word "burlap," thereby exempting the lease or rental of all tobacco sheets used for the purposes stated in the statute.

Effective August 10, 1999

Definition of Utility

G.S. 105-164.3(25), which defines "utility," was amended to include any business entity that sells electric power.

Statute of Limitations

G.S. 105-266(c)(1) was amended to provide that an agreement by a taxpayer to extend the time in which the Department can assess the taxpayer for an underpayment automatically extends the time in which the taxpayer can request a refund.

Effective October 1, 1999

Exemptions

G.S. 105-164.13(12) was amended to include durable medical equipment and related supplies covered under the Medicare or Medicaid program and sold either on a certificate of medical necessity or a written prescription of a physician, dentist, or other professional person licensed to prescribe. This portion of the exemption applies to any purchaser regardless of whether the person is a Medicare or Medicaid beneficiary.

G.S. 105-164.13(13) was amended to exempt all prescription drugs. Drugs sold on written prescriptions to patients continue to be exempt from the tax. Effective October 1, 1999, prescription drugs used by physicians in administering treatment to patients will be exempt from tax. The exemption also includes the constituent elements and ingredients used in producing the drugs, packaging materials, and instructions or information about the product included in the package with the drugs. As amended, the exemption continues to include insulin and drug samples.

G.S. 105-164.13(16)a., which exempted the sale of a used article taken in trade as a credit on the sale of a new article, was repealed. Tax will continue to be due on the full sales price of the new article, and the subsequent sale of an article taken in trade will also be taxable.

G.S. 105-164.13(35) was amended to delete the requirement that organizations must be continuously chartered or incorporated in North Carolina for at least two years for their sales to be exempt from sales tax.

G.S. 105-164.13(39), which exempted sales to commercial printers and commercial publishers of items used as ingredient or component parts of free circulation publications and sales by printers of free circulation publications to the publishers of the publications, was repealed.

G.S. 105-164.13(42) was amended to provide that property withdrawn from inventory by a retailer or wholesale merchant may be donated to a governmental entity as well as a nonprofit organization and still be exempt from sales or use tax.

G.S. 105-164.13A was amended to provide that a service charge on food, beverages, or meals is exempt if it does not exceed 20% (previously 15%) of the sales price and meets the other conditions stated in the statute.

Interstate Carrier Refunds

G.S. 105-164.14(a) was amended to add sales and use tax paid on fuel to the list of items refundable to interstate carriers. The amendment applies to taxes paid on or after October 1, 1999.

Effective January 1, 2000

Certificate of Registration

G.S. 105-164.4(c) and .6(f) were amended to repeal the \$15.00 fee for a Certificate of Registration. Every retailer and wholesale merchant will still be required to obtain a certificate of registration.

Refunds for Low Enterprise Tier Businesses

G.S. 105-164.14(h) provides for annual refunds to eligible taxpayers of taxes paid at the general rate on qualifying machinery and equipment purchased for use in an enterprise tier one area or an enterprise tier two area, as defined in G.S. 105-129.3. The provision applies to taxes paid by the eligible businesses on or after January 1, 2000. A request for refund is due within six months after the end of the State's fiscal year. Additional information will be furnished by the Department before the end of the year.

Effective January 1, 2001

Interstate Air Couriers

G.S. 105-164.13(45) was amended to extend the exemption for aircraft lubricants, aircraft repair parts, and aircraft accessories to an interstate air courier for use at its hub.

REMINDER

The 1998 General Assembly amended G.S. 105-164.4(a)(4a) to add a new sales and use tax exemption for local pay phone receipts. Effective January 1, 2000, receipts from local calls made at pay phones and paid for by coin are exempt from the tax; local calls made at pay phones and billed to a number continue to be taxable.

II. Forms Redesign

Sales and use tax forms have been redesigned for processing on the Department's scanning and imaging equipment. Payment booklets for the period October 1, 1999 through September 30, 2000 will contain the new forms and descriptions of the changes. All returns filed for periods beginning October 1, 1999 must be submitted using the new forms.

If you have questions about the information in this document or about sales and use tax, you may call (919) 733-3661 or write to: Taxpayer Assistance Section, Office Services Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001.