

**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 an initial paper tax return; however, new sales and use tax registrants required to file a Form E-500, Sales and Use Tax Return are not automatically sent preprinted coupon booklets. Monthly with prepayment sales and use tax registrants are required to file Form E-500, Sales and Use Tax Return, [electronically](#) and make payments electronically. Monthly and quarterly sales and use tax registrants have the option to file Form E-500, Sales and Use Tax Return, [electronically](#) and make payments electronically, or they may request a coupon booklet with preprinted returns by contacting the Department at 1-877-252-3052.

Upon registration, the following tax types listed in Part II of this document are automatically sent a coupon booklet with preprinted returns: scrap tire disposal tax, motor vehicle limited possession commitment tax (alternate highway use tax), white goods disposal tax, and 911 service charge for prepaid wireless telecommunications service.

I. General Provisions

A. Imposition of and Liability for Collecting and Remitting Tax

Sales Tax – Subject to the General 4.75% State, Applicable Local and Transit Tax Rates

A retailer or facilitator, as applicable, engaged in business in the State must collect the sales and use tax due on an item or service 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 on a retail sale. Sales tax imposed is intended to be passed on to the purchaser of a taxable item or service and borne by the purchaser instead of by the retailer or facilitator. 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. Failure by a retailer or facilitator, as applicable, to charge tax does not extinguish the liability of the retailer or facilitator.

The sales price of or the gross receipts derived from the following when sold at retail are subject to general 4.75% State, applicable local and transit rates of sales and use 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, including such services provided by a real property manager under a property management contract in certain circumstances;
- Operation of laundries, drycleaning plants, or similar businesses; and
- Alcoholic beverages, tobacco products, prepared food, candy, dietary supplements, soft drinks, and food sold through a vending machine.

The above listed items and services that are subject to the State general rate are also subject to either a 2.00% or 2.25% local rate of tax. Currently, the local sales tax rate is 2.25% in Alexander, Anson, Ashe, Bertie, Buncombe, Cabarrus, Catawba, Chatham, Cherokee, Clay, Cumberland, Davidson, Duplin, Durham, Edgecombe, Forsyth, Gaston, Graham, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Jones, Lee, Lincoln, Madison, Martin, Montgomery, Moore, New Hanover, Onslow, Orange, Pasquotank, Pitt, Randolph, Robeson, Rockingham, Rowan, Rutherford, Sampson, Stanly, Surry, Swain, and Wilkes counties; the rate is 2.00% in the remaining fifty-four counties. An additional 0.50% Transit tax rate is levied in Durham, Mecklenburg, Orange, and Wake Counties on a retail sale. The total general State, local, and transit tax rate is 6.75% in fifty-two counties; 7.00% in Alexander, Anson, Ashe, Bertie, Buncombe, Cabarrus, Catawba, Chatham, Cherokee, Clay, Cumberland, Davidson, Duplin, Edgecombe, Forsyth, Gaston, Graham, Greene, Halifax, Harnett, Haywood, Hertford, Jackson, Jones, Lee, Lincoln, Madison, Martin, Montgomery, Moore, New Hanover, Onslow, Pasquotank, Pitt, Randolph, Robeson, Rockingham,

Rowan, Rutherford, Sampson, Stanly, Surry, Swain, and Wilkes Counties; 7.25% in Mecklenburg and Wake Counties; and 7.50% in Durham and Orange Counties.

Sales Tax – Items Subject to Various Tax Rates

Retail sales of or the gross receipts derived from the following items are subject to the rate of tax as noted for each:

- Qualifying food items are subject to the 2.00% food rate. Qualifying food does not include alcoholic beverages, tobacco products, prepared food, candy, dietary supplements, soft drinks, and food sold through a vending machine.
- Aircraft 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 are subject to the 4.75% general State rate of tax.
- Boats including accessories attached to the boat at the time of delivery to the purchaser are subject to the 3% State rate of tax up to a maximum tax of \$1,500.00 per article.
- Modular homes and manufactured homes are subject to the 4.75% general State rate of tax. However, fifty percent (50%) of the sales price of a modular or 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.

Sales Tax – Subject to the 7% Combined General Rate of Tax

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;
- Video programming;
- Electricity;
- 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 taxes due on the purchase price of tangible personal property (including property that becomes part of a building or another structure) purchased, leased, or rented inside or outside this State for storage, use, or consumption in North Carolina, certain digital property delivered or accessed electronically, and on services sourced to this State. Persons making such purchases for business purposes must report and remit the tax due on Form E-500 or Form E-500E as applicable.

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 only be credited against the North Carolina State use tax due and local tax paid outside the State can only be credited against the North Carolina local use tax due.

B. 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 into digital or tangible personal property offered for sale. 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 sales and use tax 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, 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) [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.

A purchaser who does not resell an item purchased under a certificate of exemption is liable for any use tax subsequently determined to be due on the purchase. The penalty for misuse of an exemption certificate by a purchaser is \$250.00.

C. Penalties

If a return is filed after the due date, a Failure to File Return penalty of 5% per month or fraction thereof with a maximum of 25% is due. If tax is not paid by the due date of a return, a Failure to Pay Tax When Due penalty of 10% is also due. Interest is due on the amount of tax liability from the date the tax was due until it is paid.

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.

D. 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.

E. 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. The Secretary of Revenue or agents duly authorized by the Secretary of Revenue may inspect these records at all reasonable hours of the day.

A retailer's records must include records of the retailer's gross income, gross sales, net taxable sales, and all items purchased for resale. Failure of a retailer to keep records that establish that a sale is exempt subjects the retailer to liability for tax on the sale.

F. Statute of Limitations for Assessments Proposed by the Secretary of Revenue

The statute of limitations when proposing an assessment for an underpayment of tax is the later of the following: (1) Three years after the due date of the return or (2) Three years after the taxpayer filed the return. Furthermore, if a taxpayer, as a trustee, collects taxes on behalf of North Carolina, but fails to remit all of the taxes held in trust when due, the period for proposing an assessment for underpayment of tax is the later of the following: (1) Ten years after the due date of the return or (2) Ten years after the taxpayer filed the return. There is no statute of limitations when proposing an assessment for an underpayment of tax when the following applies: (1) The taxpayer did not file a return; (2) The taxpayer filed a fraudulent return; (3) The taxpayer attempted in any manner to fraudulently evade or defeat the tax.

II. Other Taxes and Levies Administered by the Sales and Use Tax Division

Scrap Tire Disposal Tax

Scrap tire disposal tax is imposed on a tire retailer and on a tire wholesale merchant on the sales price of each new tire sold by the retailer or wholesale merchant for placement on a vehicle offered for sale (exception for tires sold for placement on newly manufactured vehicles), lease or rental. The scrap tire disposal tax rate is 2% on tires with a bead diameter of less than 20 inches. The tax rate is 1% on tires with a bead diameter of 20 inches or more. The bead diameter is the diameter of the hole in the center of the tire or the diameter of the rim. The scrap tire disposal tax is in addition to all other taxes and is to be reported separately to the Department of Revenue on the [Form E-500G, Scrap Tire Disposal Tax Return](#). Additionally, the scrap tire disposal tax is imposed on a purchaser of a new tire where the tax is not paid to the retailer or tire wholesale merchant. The exemptions to the tax are set forth in N.C. Gen. Stat. § 105-187.18.

Motor Vehicle Limited Possession Commitment Tax (Alternate Highway Use Tax)

When applying for a North Carolina Certificate of Title for a motor vehicle purchased by a lessor for a limited possession commitment, the lessor may elect to pay the highway use tax to the Commissioner of Motor Vehicles or a person may elect to collect and remit the tax to the Secretary of Revenue on the limited possession commitment receipts derived from the vehicle. The rate of tax on the gross receipts from a short term (to the same person for less than 365 continuous days) lease or rental of a motor vehicle is 8%. The tax rate on a vehicle subscription as defined in N.C. Gen. Stat. § 105-187.1(a)(9) is 5%. The tax rate on a long term (to the same person for at least 365 continuous days) lease or rental of a motor vehicle is 3%. A maximum tax may apply in some instances for a continuous limited possession commitment of a motor vehicle to the same person. The motor vehicle limited possession commitment tax is to be reported to the Department on [Form E-500F, Motor Vehicle Lease & Subscription Tax Return](#).

White Goods Disposal Tax

White goods disposal tax is imposed on a retailer on the retail sale for the disposal of white goods. White goods include refrigerators, ranges, water heaters, freezers, unit air conditioners, washing machines, dishwashers, clothes dryers, and other similar domestic and commercial large appliances. The white goods disposal tax is \$3.00 and is applicable to all new white goods sold by a retailer or purchased for storage, use, or consumption in North Carolina. The white goods disposal tax is in addition to all other taxes. The white goods disposal tax is to be reported separately to the Department on the [Form E-500H, White Goods Disposal Tax Return](#).

911 Service Charge for Prepaid Wireless Telecommunications Service

A 911 service charge is imposed on each retail purchase of prepaid wireless telecommunications service occurring in this State. Sellers of prepaid wireless telecommunications service shall collect the 911 service charge for prepaid wireless telecommunications service at the rate of sixty-five cents (0.65¢), from the consumer on each retail transaction occurring in this State. The 911 service charge for prepaid wireless telecommunications service is in addition to the sales tax imposed on the sale or recharge of prepaid telephone calling service under N.C. Gen. Stat. § 105-164.4(4d). Sellers may deduct and retain from the 911 service charges they collect from consumers and remit to the Department of Revenue an administrative allowance of five percent (5%). Sellers are permitted to retain 100% of the service charge for the first 3 months of registration only. N.C. Gen. Stat. § 143B-1400 defines "prepaid wireless telecommunications service" as "[a] wireless telecommunications service that allows a caller to dial 911 to access the 911 system, which service must be paid for in advance and is sold in predetermined units or dollars of which the number declines with use in a known amount." N.C. Gen. Stat. § 143B-1400 defines "retail transaction" as "[t]he sale of prepaid wireless telecommunications service for any purpose other than resale." The 911 service charges are to be reported to the Department on the [Form E-500L, 911 Service Charge Prepaid Wireless Telecommunications Return](#).

III. Information and Assistance

Sales and Use Tax Bulletins, State and Local Sales and Use Tax Laws, directives, important notices, forms, and information on the applicable local sales and use tax rates may be obtained from the Department's website, www.ncdor.gov. 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 (E-Alerts). To subscribe to E-Alerts, visit www.ncdor.gov.

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