

Other Tobacco Products Tax Increase Frequently Asked Questions

1. What is Other Tobacco Products (OTP)?

Any product, other than cigarettes, that contains tobacco and is intended for inhalation or oral use. Examples: cigars, pipe tobacco, chewing tobacco, snuff, etc.

2. When does the tax increase take effect?

The increased tax rate on OTP is effective for reporting periods beginning on or after October 1, 2007.

3. What is an inventory tax?

An inventory tax is a tax based on the amount of OTP inventory on hand. Wholesale or retail dealers must take an actual physical count of all the N.C. excise tax-paid OTP at the business location (or in storage) as of October 1, 2007. The inventory tax is calculated on the cost price of the OTP on hand multiplied by 7% (the difference of the old rate of 3% and the new tax rate of 10%). Invoices must be used to determine the cost price of the products on hand.

If the cost price on the invoices includes the excise tax of 3%, you must subtract the 3% excise tax and then calculate the additional 7% on the net cost price.

If the invoices do not include the excise tax of 3%, use the cost price on the invoice to calculate the additional 7%.

Note. Do not confuse the inventory tax with North Carolina sales tax. The inventory tax is a separate liability and has nothing to do with North Carolina sales tax.

4. Are retailers that do not have an OTP license required to take an inventory and pay the tax increase?

Yes

5. How do non-licensed retailers report the inventory tax?

Non-licensed retailers must use Form B-A-105, Statement of Inventory for 2007 Other Tobacco Products Excise Tax Increase, to report the inventory tax. Form B-A-105 is available on the Department's web site, <http://www.dor.state.nc.us/downloads/tobacco.html>

6. Does the inventory tax apply to all licensed wholesale and retail dealers?

Yes. All licensed OTP dealers are required to complete Form B-A-105 and return it to the Department with payment of the inventory tax. If no tax is due, enter zero on Line 9 of Form B-A-105.

7. Does the inventory tax apply to all licensed wholesale and retail dealers paying on the sales method?

Yes and No

Licensed wholesale and retail detailers that pay OTP excise tax on the sales method and have no tax-paid purchases in inventory are not required to pay the inventory tax. However, Form B-A-105 must be filed with the proper business information. Enter zero on Line 9 of Form B-A-105.

Licensed wholesale and retail detailers that pay OTP excise tax on the sales method but have tax-paid purchases in inventory are required to pay the inventory tax on all N.C. excise tax-paid OTP. File Form B-A-105 and return it to the Department with payment of the inventory tax.

8. Does the inventory tax apply to damaged and/or stale product?

Yes. The inventory tax does apply to damaged and/or stale OTP if on hand as of October 1, 2007.

9. Will there be a penalty for not paying the inventory tax by October 22, 2007?

Yes. All applicable penalties and interest will be assessed if the inventory tax is not paid by October 22, 2007.

10. I don't have access to a computer. How can I get the forms?

Forms can be obtained by calling the Department at 1-877-252-4967.

11. Am I entitled to an extension or a payment plan?

Form B-A-105 must be completed and returned to the Department by October 22, 2007. Taxpayers may attach a letter to the completed return requesting a payment plan.

12. I would like to pay in person instead of mailing my payment. Is this possible?

Yes. However, in order to prevent taxpayers from experiencing extended delays at the Department, we request that you mail your payment to the address printed at the bottom of Form B-A-105.