

Form E-500 Sales and Use Tax Return
General Instructions

1. Use Form E-500 to file and report your North Carolina State, local and transit sales and use taxes. **Taxpayers who have a filing frequency of Monthly with Prepayment are required to file Form E-500 via our Online Filing and Pay System via our website, www.dorn.com.**
2. A return must be filed for each period by the due date, including the period in which the application for registration was filed, or a delinquent notice for failure to file is mailed to you. The tax shown due must be paid with the return or penalty and interest will be assessed by the Department. If you do not owe any tax for a filing period, you must file a return showing zero (0.00) on Line 21. Please do not write "No Tax Due" or any similar text on the return.
3. Complete the sales and uses tax return in its entirety on your computer and print the return.
4. If you discontinue business operations or sell your business, complete Form NC-BN, Out-of-Business Notification, and mail it separate from any returns to the Department at the address shown on the form.
5. Each return must be completed in full. Total receipts exempt from State tax should be included on Line 3. Retail sales of taxable tangible personal property, services and digital property are subject to sales and use tax unless the sales are specifically exempt from tax by statute or unless proper exemption documentation is provided by the purchaser.
6. **Construction Materials - State Tax** - Purchases to fulfill a lump sum or unit price contract entered into, bid on or awarded prior to July 1, 2011 are subject to the 4.75% general State rate.

Construction Materials - Local Tax - Purchases to fulfill a lump sum or unit price contract entered into, bid on or awarded prior to a local rate increase are subject to the local rate in effect prior to the increase.

Leases - State Tax - The gross receipts derived from the lease or rental of tangible personal property or certain digital property billed on or after July 1, 2011 are subject to the 4.75% State tax rate notwithstanding that the lease agreement may have been entered into prior to July 1, 2011 for a definite, stipulated period of time.

Leases - Local Tax - The gross receipts derived from the lease or rental of tangible personal property or certain digital property billed on or after July 1, 2011 are subject to the applicable local rate in effect as of October 1, 2009 if the lease agreement was entered into prior to October 1, 2009. Gross receipts derived from the lease or rental of tangible personal property or certain digital property billed in conjunction with lease agreements entered into on or after October 1, 2009 are subject to the applicable local rate in effect at the time the lease agreement was entered into.

7. Effective October 1, 2013, the local sales and use tax rate in all counties is 2% except the counties of Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes where the local sales and use tax rate is 2.25%. The Department will publish notification if other counties levy the additional 0.25% local tax.

Mecklenburg County has an additional 0.50% Transit tax for public transportation in addition to the 2% local sales and use tax rate. Durham and Orange Counties have an additional 0.50% Transit tax for public transportation in addition to the 2.25% local sales and use tax rate.

A retailer engaged in business in this State is required to collect the county tax for all counties to which product is sourced in accordance with G.S. 105-164.4B. A retailer must report county tax for all counties to which property is delivered or shipped.

The following principles apply in determining where to source the sale of a product. These principles apply regardless of the nature of the product except as otherwise noted in this section:

- (a) When a purchaser receives a product at a business location of the seller, the sale is sourced to that business location.
- (b) When a purchaser or purchaser's donee 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 or the purchaser's donee receives the product.
- (c) When (a) and (b) do not apply, the sale is sourced to the location indicated by an address for the purchaser that is available from the business records of the seller that are maintained in the ordinary course of the seller's business when use of this address does not constitute bad faith.
- (d) When (a), (b), and (c) do not apply, the sale is sourced to the location indicated by an address for the purchaser obtained during the consummation of the sale, including the address of a purchaser's payment instrument, if no other address is available, when use of this address does not constitute bad faith.
- (e) When (a), (b), (c), and (d) do not apply, including the circumstance in which the seller is without sufficient information to apply the rules, the location will be determined based on the following:

- Address from which tangible personal property was shipped,
- Address from which the digital good or the computer software delivered electronically was first available for transmission by the seller, or
- Address from which the service was provided.

A florist wire sale is sourced to the business location of the florist that takes the order for the sale. Periodic rental payments are sourced in accordance with G.S. 105-164.4B(b). Taxable digital property is sourced to the location where the purchaser takes possession of the property or makes first use of the property, whichever comes first. The rental of an accommodation is sourced to the location of the accommodation.

If you collect county and/or transit tax for one county only, enter the appropriate amounts in the spaces provided on the return. If you collect county and/or transit tax for more than one county, complete Form E-536, Schedule of County Sales and Use Taxes, and mail with your sales and use tax return. Form E-536 is available at the Department's website, www.dornrc.com. The form can be mailed to you upon request.

8. Payment of tax must be made in U.S. dollars by check or money order drawn on a U.S. (domestic) bank payable to the North Carolina Department of Revenue unless you have been previously instructed by the Department to make payments electronically. Do not mail cash, stamps, or post dated checks with your return.

How to Prepare Return

Line 1 - North Carolina Gross Receipts: Enter the gross receipts from your business operations in North Carolina. Do not include any taxes collected in the amount entered on Line 1.

Line 2 - Sales for Resale: Enter the total wholesale sales of tangible personal property, services or certain digital property that your business sold to registered merchants for the purpose of resale. Do not include this amount on Line 3 or elsewhere on the return.

Line 3 - Receipts Exempt From State Tax: Enter the total sales exempt from State tax. Examples of exempt sales in G.S. 105-164.13 include but are not limited to:

- Sales in interstate commerce and direct sales to the U.S. Government
- Vaccines, insecticides, feed, and items for the commercial production of animals or plants
- Labor and installation charges when the charges are separately stated on an invoice or similar billing document given to the purchaser at the time of the sale
- Food exempt under food stamp and supplemental food programs
- Drugs required by federal law to be dispensed only on prescription and over the counter drugs sold on written prescription
- Sales of mill machinery subject to the 1% privilege tax
- Food exempt from the State rate of tax but subject to the 2% local food rate of tax
- Receipts above the maximum taxable receipts subject to the State 3% or 2% rates of tax. (Effective January 1, 2014, the 2% State rate of tax is repealed.)

Lines 4 through 7 - State Tax Calculation:

For the appropriate rate, enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, service, or digital property purchased for storage, use, or consumption in North Carolina from sellers on which the State rate of tax was not collected by the sellers. Do not include tangible personal property, services, or digital property purchased for resale and included in the amount entered on Line 2.

For the appropriate rate, enter under the column "Receipts" total taxable receipts, rentals, and sales subject to the State rate of tax, excluding the tax collected on the transactions. Compute the tax due at the stated rate and enter that amount under the column "Tax."

Line 4- General State Rate: The State levies a 4.75% general rate of tax on the sales price of taxable tangible personal property, services or digital property sold at retail and not subject to a reduced rate of tax. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 4.75% State rate and enter that amount under the column "Tax."

Items subject to the general State rate are also subject to the applicable local sales and use tax rate. See instructions for Lines 9 through 12 for more information.

Line 5 - 3% State Rate: The 3% State rate of tax applies to sales of aircraft or boats with a maximum tax of \$1,500 per article. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 3% State rate and enter that amount under the column "Tax."

EXAMPLE: Since items subject to the 3% rate qualify for a maximum tax of \$1,500 per article, only enter the amount necessary to arrive at the maximum tax. A boat with a purchase price of \$75,000 has a maximum tax of \$1,500. Therefore, enter \$50,000 on Line 5 and include the difference of \$25,000 on Line 3, since \$25,000 of a \$75,000 boat sale is exempt from tax.

Line 6 - Modular Homes: Through December 31, 2013, the 2.5% State rate of tax applies to the sales price of modular homes sold at retail. **Effective January 1, 2014,** the sales price of each modular home sold at retail is subject to the 4.75% State rate of tax only. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Enter 2.5% or 4.75% (as applicable) in the "Rate" column. Compute the tax due on the total "Purchases for Use" and "Receipts" at the applicable State rate and enter that amount under the column "Tax."

Line 7 - Mfg. Homes: Through December 31, 2013, the 2% State tax applies to the sales price of manufactured homes sold at retail with a maximum tax of \$300 per article. **Effective January 1, 2014,** the sales price of each manufactured home sold at retail is subject to the 4.75% State rate of tax only, with no maximum tax. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Enter 2% or 4.75% (as applicable) in the "Rate" column. Compute the tax due on the total "Purchases for Use" and "Receipts" at the applicable State rate and enter that amount under the column "Tax."

Line 8 - 2% Food Rate: A 2% local tax applies to the sales price of food products that are exempt from State tax. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2% Food rate and enter that amount under the column "Tax."

Line 9 - 2% County Rate: See Number 7 under Instructions - General. Items subject to the general State rate (Line 4) are also subject to the 2% local sales and use tax rate in all counties (except Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes) and to the 0.50% Transit County sales and use tax rate if the item is sold or delivered in or sourced to Durham, Mecklenburg, and Orange Counties. The 0.50% Transit County sales and use tax is reported on Line 11. For information regarding the county rate on leases, see Leases – Local Tax under Number 6 under Instructions – General.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, service or digital property which was purchased for storage, use, or consumption in the county from sellers on which the 2% county tax was not collected by the seller. This amount should include the amount in the column "Purchases for Use" on Line 4 except for specific circumstances.

Enter under the column "Receipts" the total taxable receipts, rentals, sales, and gross receipts from rentals of accommodations subject to the 2% rate of county tax excluding the tax collected by the seller. This amount should include those items in the column "Receipts" on Line 4 for sales sourced to all counties except the 26 counties noted above for Line 9 instructions. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2% county rate and enter that amount under the column "Tax."

Line 10 - 2.25% County Rate: See Number 7 under Instructions - General. Items subject to the general rate (Line 4) are subject to the 2.25% county tax effective in the counties of Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes if the item was sold or delivered in or sourced to one of these counties.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, service or digital property purchased for storage, use, or consumption in the county from sellers on which the 2.25% county tax was not collected by the seller. This amount should include the amount in the column "Purchases for Use" on Line 4 except for specific circumstances.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales, which are subject to the 2.25% rate of county tax excluding the tax collected. This amount entered should include those items in the column "Receipts" on Line 4. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 2.25% county rate and enter that amount under the column "Tax."

Line 11 - 0.5% Transit County Rate: See Number 7 under Instructions - General. Items subject to the general State rate (Line 4) are also subject to the 0.50% Transit County sales and use tax rate if the item is sold or delivered in or sourced to Durham, Mecklenburg, and Orange Counties. Three other counties are authorized to levy the 0.50% Transit local rate but have not levied the tax as of October 1, 2013.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, services or digital property purchased for storage, use, or consumption in Durham, Mecklenburg, and Orange counties for which the 0.50% Transit County sales and use tax was not collected by the seller. This amount should include the amount in the column "Purchases for Use" on Line 4 that applies to Durham, Mecklenburg, and Orange Counties.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales which are subject to the 0.50% rate of Transit County sales and use tax excluding the tax collected. Add the amounts entered in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 0.50% rate and enter that amount under the column "Tax."

Line 12 - 0.25% Transit County Rate: As of October 1, 2013, no county has levied a 0.25% Transit County Tax. The Department will publish notification if a county levies a local sales and use tax for public transportation at 0.25%. Ninety-four counties are authorized to levy the 0.25% Transit County rate. Therefore, until notified by the Department, no tax should be remitted on Line 12. Items subject to the general State rate (Line 4) are also subject to the 0.25% Transit County sales and use tax if the item is sold or delivered in an county which levies the tax.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property, services or digital property purchased for storage, use, or consumption in a county which levies the tax but for which the 0.25% Transit sales and use tax was not collected by the seller.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales which are subject to the 0.25% rate of Transit County sales and use tax excluding the tax collected. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the total "Purchases for Use" and "Receipts" at the 0.25% rate and enter that amount under the column "Tax."

Line 13 - Total State and County Tax: Add the amounts in the column "Tax" on Lines 4 through 12 and enter the sum.

Line 14 - Excess Collections: Enter any tax collected in excess of the total amount of tax computed to be due on taxable receipts, rentals, and sales. See G.S. 105-164.11 for more information.

Line 15 - Total Tax: Add the tax on Lines 13 and 14, and enter the sum.

Line 16 - Penalty - State and County: If the return is filed after the due date, add the failure to file return penalty of 5% per month of the tax shown on Line 15 for each month, or fraction thereof, that the return is filed late. The maximum failure to file return penalty is 25% of the State tax due and 25% of the county tax due. **Through December 31, 2013**, the minimum failure to file return penalty is \$5.00 for the State and \$5.00 for the county, for a minimum total of \$10.00 if both State and county tax are due. **Effective January 1, 2014**, there is no minimum failure to file return penalty if a return is filed after the due date.

If the tax was not paid when due, add the failure to pay tax when due penalty of 10% of the tax shown on Line 15. **Through December 31, 2013**, the minimum failure to pay tax penalty is \$5.00 for the State and \$5.00 for the county, for a minimum penalty of \$10.00 for each return after the due date if both State and county tax are due. **Effective January 1, 2014**, there is no minimum failure to pay penalty if tax is paid after the due date.

Line 17 - Interest - State and County: If the return is filed after the due date, compute interest on the total tax shown to be due on Line 15 from the time the taxes were due until paid. The Secretary of Revenue establishes the interest rate on a semiannual basis. The interest rate is 5% per year or .417% per month through December 31, 2013. Check the Department's website or contact the Department for the interest rate in effect on or after January 1, 2014.

Line 18 - Less Prepayment for This Period: *(This line is for use by taxpayers remitting \$20,000 or more in tax per month who have made a prior prepayment for this return period.)* Enter the total amount of any electronic payment made for this period prior to filing this return. If you are required to make a prepayment, you are required to file an electronic return and you should not file a paper return.

Line 19 - Prepayment for Next Period: Taxpayers who are consistently liable for at least \$20,000 a month in State and locals sales and use taxes must make a monthly prepayment of the next month's tax liability. The prepayment is due when the monthly return is due. The prepayment must equal at least 65% of any of the following:

- (1) the amount of tax due for the current month,
- (2) the amount of tax due for the same month in the preceding year, or
- (3) the average monthly amount of tax due in the preceding calendar year.

Penalties or interest will not be due on an underpayment of a prepayment if one of these three calculation methods is used to determine the amount of prepayment.

Enter the amount of payment to be applied to the next monthly period.

Line 20 - Less any Credit: If you are claiming a credit for sales and use tax previously paid in error, subtract the amount of the overpayment from the total tax shown to be due on Line 15. To prevent an assessment, attach a detailed explanation of the credit to your return.

Line 21 - Total Due: Enter the total amount due by adding Lines 15, 16, 17, and 19, and subtracting any prepayment entered on Line 18 and any credit amount on Line 20 and pay this amount. **Do not fold your return or payment.**

Additional sales and use information may be obtained from the Department's website at www.dornrc.com. Questions should be directed to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001, or by contacting the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free).