

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

IMPORTANT NOTICE AND REMINDER

Repeal of Additional 1% Dare County Tax

The additional 1% Dare County sales and use tax for beach nourishment, which became effective January 1, 2006, is repealed effective July 1, 2006. The tax was repealed pursuant to the results of an election held on February 7, 2006 on the question of whether to repeal the additional 1% sales and use tax. Effective July 1, 2006, the Dare County sales and use tax will decrease from 3½% to 2½%, resulting in a combined State and county sales and use tax of 7%.

Starting with the sales and use tax returns for periods beginning July 1, 2006, taxpayers who are liable for payment of Dare County sales and use tax should report only the 2½% Dare County tax on line 10 of Form E-500, Sales and Use Tax Return. The "1% Additional County Rate" line (Line 11 on the reverse of the return) will only be used in the following instances: 1) to report lease receipts derived by lessors of tangible personal property in Dare County who entered into lease agreements with lessees from January 1, 2006 through June 30, 2006 for a definite stipulated period of time to lease tangible personal property that is subject to the general State rate of sales or use tax; those leases will continue to be subject to the 3½% county sales and use tax for the term of the lease agreement, and 2) for taxpayers who report and pay sales and use tax on the cash basis of accounting, to report the additional 1% Dare County tax on collections made on or after July 1, 2006 for sales made from January 1, 2006 through June 30, 2006.

Taxpayers who are liable for remitting tax for more than one county and are required to file Form E-536, Schedule of County Sales and Use Taxes, should report the 2½% Dare County tax in the "County 2.5% Tax" column. Except as provided above, the "Dare County Additional 1% Tax" line should not be used for reporting periods beginning July 1, 2006.

Sales of construction materials made on or after July 1, 2006 are not subject to the additional 1% Dare County sales and use tax notwithstanding that a lump-sum or unit-price contract was entered into during the period January 1, 2006 through June 30, 2006.

Rentals of accommodations, such as hotel and motel rooms and vacation homes, for a specific period of time of less than 90 continuous days will be subject to the local tax in effect at the time the occupancy begins regardless of the date of the payment. If a guest entered into an agreement to rent a room or cottage for a period of time and the guest begins occupying the room or cottage on or after July 1, 2006, the additional 1% Dare County tax will not be due. If the guest begins occupying the room or cottage prior to July 1, 2006, the additional 1% Dare County will be due for the entire rental period covered by the rental agreement notwithstanding that the occupancy extends beyond July 1, 2006.

2006 Sales Tax Holiday

G.S. 105-164.13C, which authorizes a sales tax holiday in North Carolina, was amended effective October 1, 2005. The changes will be effective for the 2006 sales tax holiday that will begin at 12:01 a.m. on Friday, August 4th and end at 11:59 p.m. on Sunday, August 6th.

There is a new definition of "school supply" that provides for an all-inclusive list of items considered to be school supplies for purposes of the holiday. There is no substantive change from the list of eligible school supplies that was in effect for the 2005 holiday.

Beginning with the 2006 holiday, sales of computer supplies with a sales price of two hundred fifty dollars (\$250.00) or less per item will be exempt from sales and use tax during the holiday period. There is a new definition of "computer supplies." The definition provides for an all-inclusive list of items considered to be

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computer supplies for purposes of the holiday. Only the following items will be exempt from tax as computer supplies during the holiday if the sales price of each item is two hundred fifty dollars (\$250.00) or less:

- Computer storage media, including diskettes and compact disks;
- Handheld electronic schedulers, except devices that are cellular phones;
- Personal digital assistants, except devices that are cellular phones;
- Computer printers; and
- Printer supplies for computers, including printer paper and printer ink.

Items that will be exempt during the holiday are listed on the Department's website at www.dornrc.com.

Mill Machinery Privilege Tax

Effective January 1, 2006, purchases by manufacturers of mill machinery or mill machinery parts or accessories are exempt from sales and use tax and subject to a 1% privilege tax on certain machinery, equipment, and manufacturing fuel. The privilege tax is paid by the purchaser to the Department of Revenue. A privilege tax is imposed on the following at the rate of 1% with a maximum tax of \$80.00 per article: 1) a manufacturing industry or plant that purchases mill machinery or mill machinery parts or accessories for storage, use, or consumption in this State; 2) a contractor or subcontractor that purchases mill machinery or mill machinery parts or accessories for use in the performance of a contract with a manufacturing industry or plant or in the performance of a contract with a general contractor that has a contract with a manufacturing industry or plant; and 3) a major recycling facility that purchases certain tangible personal property for use in connection with the facility. A privilege tax at the rate of 1% is imposed on a manufacturing industry or plant that purchases fuel to operate the industry or plant.

In addition to traditional manufacturers, other types of businesses that are considered to be manufacturing operations when producing a product for sale and are liable for payment of the new privilege tax include commercial loggers, sawmills, commercial photographers, film production companies, mines, quarries, and water purification plants. Other types of businesses that paid the 1% State sales and use tax to vendors prior to January 1, 2006 may also be liable for the privilege tax.

An eligible business should complete and submit Form E-595E, Streamlined Sales Tax Agreement Certificate of Exemption, to its vendors to document that the property being purchased is exempt from sales and use tax. The business is liable for the new privilege tax, which is reported on Form E-500J, Machinery, Equipment, and Fuel Tax Return. A taxpayer who is liable for payment of this tax and has not received pre-printed forms should complete the appropriate sections of an application for registration, Form AS/RP1, and forward it to the Department. The forms are available on the Department's website, and contact information is set out at the bottom of this notice. Sales and Use Tax Directive SD-05-1, which contains additional information on the privilege tax, is also available on the website.

Exemption for Farmers

Effective January 1, 2006, most farm-related items are fully exempt from State and local sales and use taxes. Prior to this date, this property was subject to a 1% State rate of tax with a maximum tax of \$80.00 per article or a 1% State rate of tax with no maximum tax. An eligible farmer should complete and submit Form E-595E, Streamlined Sales Tax Agreement Certificate of Exemption, to vendors as documentation that the property being purchased is exempt from sales and use tax. The certificate of exemption requires a farmer to have an Agricultural Exemption number issued by the Department. Form E-595EA is used to obtain an exemption number. An Important Notice issued in October 2005 provides additional information pertaining to the farm exemption and the certificate required to document exempt transactions. The notice and the forms referenced above are available on the Department's website.

Additional information pertaining to these topics is available on the Department's website at www.dornrc.com. Questions can be directed by telephone to the Taxpayer Assistance Division at 1-877-252-3052 or by mail to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001.