

February 2006

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

IMPORTANT NOTICE: Commercial Loggers

Effective January 1, 2006, purchases of mill machinery or mill machinery parts or accessories and manufacturing fuel are no longer subject to a sales and use tax, but instead are subject to a privilege tax. The new privilege tax is imposed on the purchaser of qualifying property, and the purchaser will be liable for accruing and remitting the tax to the Department of Revenue. The Department issued Directive SD-05-1, Machinery, Equipment, and Manufacturing Fuel Tax on October 12, 2005; the Directive is available on the Department's website at www.dornrc.com.

For purposes of administering the privilege tax, the term "commercial logger" includes a contract-manufacturer, subcontract-manufacturer, or producer as defined below:

1. A "contract-manufacturer" is a person or firm holding a contract with a wood products manufacturer to cut standing timber owned by or to which timber rights have been acquired by the wood products manufacturer, including the trimming of branches and the cutting of timber to specified lengths or size for the wood products manufacturer.
2. A "subcontract-manufacturer" is a person or firm that subcontracts the cutting of timber for a contract-manufacturer under the conditions described in paragraph (1) above.
3. A "producer" is a person or firm or its contractor or subcontractor that cuts timber from lands owned by or for which timber rights have been acquired by the producer for sale to wood products manufacturers or others.

Effective January 1, 2006, mill machinery or mill machinery parts or accessories purchased by commercial loggers for use directly in the process of cutting timber are subject to the 1% privilege tax with a maximum tax of \$80.00 per article under the provisions of G.S. 105-187.51. Examples of qualifying mill machinery or mill machinery parts or accessories are log skidders, log carts, tree shears, feller bunchers, winches, chain saws, tractors, axes, and mallets when such items are used to cut timber and "snake" it or transport it from the woods to the loading dock. Effective January 1, 2006, fuel purchased by commercial loggers to operate the above machinery and equipment is subject to the 1% privilege tax under the provisions of G.S. 105-187.51A.

Retailers should not collect the 1% tax on sales to commercial loggers of qualifying machinery and fuel when the logger presents a completed Form E-595E, Streamlined Sales Tax Agreement Certificate of Exemption. A completed Form E-595E must include either a logging exemption number or a sales and use tax Account ID number issued by the Department. Even if the retailer incorrectly charges the 1% sales tax, the logger is still liable for payment of the 1% privilege tax to the Department. If a retailer erroneously collects sales tax from a purchaser, the retailer should refund or credit the purchaser for the amount of tax collected in error, and the retailer should file a claim for refund with the Department for the amount of the overpayment.

A commercial logger or other firm that is liable for payment of the privilege tax must complete Sections I and IV of Form AS/RP1, Application for Registration, to obtain an Account ID number. A logger that is already registered to remit sales and use taxes must also complete the application but will not receive a new number; he will use the previously assigned Account ID number for remitting the privilege tax. Once the application has been processed, the commercial logger will receive a supply of Form E-500J, Machinery, Equipment, and Fuel Tax Return, which will be used to report the tax to the Department. The application is available on the Department's website and can be obtained by calling the Department's Forms Line at toll-free telephone number 1-877-252-3052.

Questions about this notice can be directed to the Taxpayer Assistance Division at toll-free telephone number 1-877-252-3052 or in writing to the Taxpayer Assistance Division, North Carolina Department of Revenue, P. O. Box 25000, Raleigh, N.C. 27640-0001.