

June 2006

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

IMPORTANT NOTICE: Exemption for Commercial Loggers

Effective January 1, 2006, purchases of mill machinery or mill machinery parts or accessories and manufacturing fuel became exempt from the sales and use tax and subject to a privilege tax. The new privilege tax is imposed on the purchaser of qualifying property, and the purchaser is liable for accruing and remitting the tax to the Department of Revenue. A commercial logger operating as a contract-manufacturer, subcontract-manufacturer, or producer was considered to be a "manufacturer" for purposes of administering the privilege tax.

The North Carolina General Assembly has enacted legislation to exempt certain purchases by commercial loggers from the privilege tax. The exemption is **effective July 1, 2006** and applies to items purchased on or after that date. All commercial loggers who have been remitting the 1% privilege tax on Form E-500J, Machinery, Equipment, and Fuel Tax Return, should complete the Out-of-Business Notification, Form NC-BN, which was mailed with their blank returns and write in "Machinery, Equipment, and Fuel Tax" in the "Other" account category in order to cancel their privilege tax account. The form is also available on the Department's website at www.dornc.com.

Effective July 1, 2006, G.S. 105-164.13 is amended to add new subdivision (4f) that exempts "Sales of the following to a person who is engaged in the commercial logging business:

- a. Logging machinery. Logging machinery is machinery used to harvest raw forest products for transport to first market.
- b. Attachments and repair parts for logging machinery.
- c. Lubricants applied to logging machinery.
- d. Fuel used to operate logging machinery."

In addition, Article 5F, which levies the privilege tax, is amended to add a new section that provides an exemption from the privilege tax for the items listed above. Consequently, those items are exempt from the sales and use tax and from the privilege tax.

Items previously considered "mill machinery" will be considered "logging machinery" for purposes of the exemption when purchased by commercial loggers for use in harvesting timber or other raw forest products. Examples of qualifying logging machinery are log skidders, log carts, tree shears, feller bunchers,

winches, chain saws, tractors, axes, and mallets when such items are used to harvest timber and “snake” it or transport it from the woods to the first market.

Retailers should not collect any tax on sales to commercial loggers of logging machinery as defined above, attachments and repair parts for logging machinery, lubricants applied to logging machinery, and fuel used to operate logging machinery 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.

A commercial logger who has not received a logging exemption number must complete Form E-595EA, Application for Exemption Number for Qualified Purchases, to obtain an Exemption ID number. A logger that is already registered to remit sales and use taxes will use the previously assigned Account ID number. The application is available on the Department’s website at www.dornc.com or can be obtained by calling the Department’s Forms Line at telephone number 1-877-252-3052 (toll-free).

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