

October 2005

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

IMPORTANT NOTICE: Farm Related Property

Law Changes

Effective January 1, 2006, sales of various farm related items are fully exempt from State and local sales and use tax. Prior to this date, this property is subject to the 1% State rate of tax with a maximum tax of \$80.00 per article or a 1% rate of tax with no maximum tax.

Sales of the following items subject to the 1% rate of sales or use tax with a maximum tax of \$80.00 per article prior to January 1, 2006 are exempt from sales and use tax on or after this date:

1. Farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery when sold to a farmer for use by the farmer in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs or animals. The term "machinery" includes implements that have moving parts or are operated or drawn by an animal. The term does not include implements operated wholly by hand or motor vehicles required to be registered with the Division of Motor Vehicles.
2. A container sold to a farmer used for one of the purposes set out in (1) or in the packaging and transporting of a farmer's products for sale.
3. A metal flue sold for use in curing tobacco, whether the flue is attached to a handfired furnace or used in connection with a mechanical burner.
4. A bulk tobacco barn or rack, parts and accessories attached to the tobacco barn or rack, and any similar apparatus, part, or accessory used to cure or dry tobacco or another crop.
5. A grain, feed, or soybean storage facility, and parts and accessories attached to the facility.

Sales of the following items subject to the 1% rate of tax with no maximum tax prior to January 1, 2006 are exempt from sales and use tax on or after this date:

1. Sales of a horse or mule to a farmer for use in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals.
2. Sales of fuel other than electricity to a farmer for use in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals. Electricity sold to a farmer to be used for any farm purposes other than preparing food, heating dwellings, and other

household purposes is subject to a 2.83% rate of sales or use tax; electricity used for household purposes is subject to a 3% rate of tax.

3. Sales of semen purchased for use on animals held or produced for commercial purposes.

A new exemption is effective January 1, 2006 for sales of potting soil sold to a farmer for use in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals.

Exemption Certificate

An eligible farmer should complete and submit Form E-595E, Streamlined Sales Tax Agreement Certificate of Exemption, to vendors in order to document that the property being purchased is exempt from sales and use tax. Vendors who have exemption certificates on file from customers for transactions occurring prior to January 1, 2006 are not required to obtain new certificates from customers. However, vendors are encouraged to update their records since the property being sold will be fully exempt from sales and use tax rather than subject to a 1% sales or use tax. For additional information on the use of exemption certificates please refer to Sales and Use Tax Directive SD-04-1 which is available on the Department's website at www.dorn.com.

Farmers are reminded that the issuance of Form E-595E requires that the purchaser enter an exemption number on the certificate that is furnished to a vendor. Farmers in need of obtaining a number should complete and forward to the Department Form E-595EA, Application for Exemption Number for Qualified Purchases. Copies of Forms E-595E and E-595EA are available on the Department's website or can be ordered from the Department's Forms Line at toll free telephone number 1-877-252-3052.

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