

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

IMPORTANT NOTICE

This document includes important information regarding law changes affecting taxes administered by the Sales and Use Tax Division that take effect on or before October 1, 2008. Additional explanation of these changes and notification of additional legislation enacted by the 2008 Session of the General Assembly will be provided in Form E-505. Form E-505 will be mailed to all registered taxpayers and will be available on the Department's website at www.dornnc.com; it will not be included with the annual supply of sales and use tax returns.

Change in State and Local Rates

Effective October 1, 2008, the general State rate of tax increases from 4.25% to 4.5%. The third one-half percent (0.5%) local tax under Article 44 decreases to one-quarter percent (0.25%). The total of the State and local rates of tax does not change as a result of the simultaneous changes in the State and local rates. In addition, the "combined general rate" that applies only to telecommunications and ancillary services, video programming, and spirituous liquor other than mixed beverages remains at 7%.

Additional Local Sales and Use Tax

Cumberland and Haywood Counties levied an additional 0.25% local sales and use tax **effective October 1, 2008**. The tax applies to sales of tangible personal property by merchants located in those counties and to sales of tangible personal property delivered into Cumberland and Haywood Counties by merchants in other counties. While the additional levy would result in an increase in the total local sales and use tax in those counties to 2.75%, the simultaneous changes in the State and local rates, which is also effective October 1, 2008, result in the local rate remaining at 2.5%. The general State rate increases to 4.5%, for a total combined State and local rate of 7% in Cumberland and Haywood Counties.

Exemption for Disaster Assistance Debit Card Purchases – G.S. 105-164.13(58)

Effective August 1, 2008, an exemption is added for tangible personal property purchased with a client assistance debit card issued for disaster assistance relief by a State agency or a federal agency or instrumentality such as the Federal Emergency Management Administration (FEMA) or the American Red Cross. Prior to August 1, 2008, such purchases are subject to the applicable State and local sales and use tax.

Exemption for Interior Designers – G.S. 105-164.13(59)

Effective August 1, 2008, an exemption is added for interior design services provided in conjunction with the sale of tangible personal property. In order to qualify for the exemption, the charge representing the interior design services must be separately stated from the sales price of the tangible personal property.

Refunds for Certain Nonprofits – G.S. 105-164.14(b)

The statute authorizing refunds for certain nonprofit organizations is amended to clarify the types of organizations that are eligible for semiannual refunds. As amended, an organization is eligible for refunds if it is exempt from income tax under section 501(c)(3) of the Internal Revenue Code and is **not** classified in any of the following three major group areas of the National Taxonomy of Exempt Entities: Community Improvement and Capacity Building, Public and Societal Benefit, or Mutual and Membership Benefit. The change is **effective July 1, 2008 for purchases made on or after that date**. Additional information will be provided prior to January 1, 2009. The provisions related to nonprofit hospitals and qualified retirement facilities are unchanged.

Privilege Tax on Equipment Purchased by Machinery Refurbishers – G.S. 105-187.51B

Effective July 1, 2008, the 1% privilege tax with a maximum tax of \$80.00 per article applies to purchases of equipment or an attachment or repair part for equipment by an industrial machinery refurbishing company that is included in industry group 811310 of NAICS. In order to be subject to the privilege tax, the equipment (or attachment to, or repair part for) must be capitalized by the company for tax purposes under the Internal Revenue Code, used by the company in repairing or refurbishing tangible personal property, and considered mill machinery if it were purchased by a manufacturer and used to manufacture tangible personal property.

Energy Star Qualified Products Sales Tax Holiday – G.S. 105-164.13D

G.S. 105-164.13D authorizes a new sales and use tax holiday for specific Energy Star qualified products sold during the **first weekend in November**. "Energy Star qualified product" is defined in G.S. 105-164.3(8g) as "A product that meets the energy efficient guidelines set by the United States Environmental Protection Agency and the United States Department of Energy and is authorized to carry the Energy Star label." Qualified products are exempt from all State and local sales and use taxes if sold between 12:01 A.M. on the first Friday of November and 11:59 P.M. the following Sunday. For 2008, the dates are Friday, November 7th through Sunday, November 9th. Only the following Energy Star qualified products will be exempt from tax during the holiday period: clothes washers, freezers, refrigerators, central air conditioners, room air conditioners, air-source heat pumps, geothermal heat pumps, ceiling fans, dehumidifiers, and programmable thermostats. **The exemption does not apply to rentals of qualified products and to sales of qualified products for use in a trade or business, including sales to contractors of products that will be installed in buildings or structures.** Rentals of qualified products and sales of qualified products for use in a trade or business, such as sales to contractors, are subject to sales and use tax even when rented or sold during the holiday period.

The following changes are included in legislation that has been ratified and presented to the Governor for his signature. As of July 29, 2008, the legislation had not been signed; however, the following provisions will become law unless the Governor vetoes the bills.

Solid Waste Disposal Tax Changes – G.S. 105-187.62

Article 5G, which imposes a tax of \$2.00 per ton on the disposal of municipal solid waste and construction and demolition debris in a landfill permitted under Article 9 of Chapter 130A of the General Statutes and on the transfer of such waste and debris to a transfer station permitted under the same Article for disposal outside the State, is amended to provide that returns and payments of the tax are due quarterly. A return and payment for a calendar quarter are due by the last day of the month following the end of the quarter. The tax was effective July 1, 2008; the first return will be due October 31, 2008 for taxes due for the period July 1 through September 30. A bad debt deduction provision is also added that allows an owner or operator to recover tax paid on tonnage it received but for which it was never compensated. The changes are **effective on the date the bill is signed by the Governor or the date the bill becomes law as a result of inaction by the Governor.**

Refunds for University Affiliated Nonprofit Organizations – G.S. 105-164.14(b)

The statute authorizing refunds for certain nonprofit organizations is amended to add a new type of nonprofit entity that is eligible for semiannual refunds. **Effective January 1, 2004 for purchases made on or after that date**, the refund provisions apply to a university affiliated nonprofit organization that procures, designs, constructs, or provides facilities to, or for use by, a constituent institution of The University of North Carolina. For purposes of the refund, a nonprofit organization includes an entity exempt from taxation as a disregarded entity of the nonprofit organization. Notwithstanding the due dates and deadlines set out in the statute, a request for a refund of tax paid for the period January 1, 2004 through December 21, 2007 is considered timely filed if it is submitted by October 15, 2008.

If you have questions about the information in this document, you may contact the Taxpayer Assistance and Collection Center at 1-877-252-3052 (toll-free) or write to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001.