

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

**IMPORTANT NOTICE**

*This document includes important information regarding law changes that take effect on or before October 1, 2005. Further notification will be provided in Form E-505 of additional legislation enacted by the 2005 General Assembly affecting the sales and use tax. Form E-505 will be included with the mailing of the annual supply of sales and use tax returns to all registered taxpayers and will be available on the Department's website at [www.dornc.com](http://www.dornc.com). Legislative changes supersede any information previously set forth in Sales and Use Tax Administrative Rules or Technical Bulletins relating to any subject matter of the legislation.*

**State Sales and Use Tax Rate Maintained**

The additional .5% State sales and use tax, resulting in a total general State rate of 4.5%, was extended until July 1, 2007. Consequently, the combined State and local tax rate will remain at 7% in all counties except Mecklenburg County, which has a combined State and local tax rate of 7.5%. The additional .5% State tax is repealed for sales made on and after July 1, 2007.

**Change in Taxation of Candy - G.S. 105-164.13B**

Effective October 1, 2005, all sales of candy will be subject to the combined general State and county tax rate of 7% in all counties except Mecklenburg County, which has a combined rate of 7.5%. Currently, candy is exempt from the State sales and use tax and subject only to a 2% local tax unless it meets the definition of "prepared food."

**Rate Change for Telecommunications Service - G.S. 105-164.4(a)(4c)**

The sales and use tax imposed on the gross receipts derived from providing telecommunications service will increase from 6% to the combined general rate of 7% effective October 1, 2005. "Combined general rate" is defined as "the State's general rate of tax set in G.S. 105-164.4(a) plus the sum of the rates of the local sales and use taxes authorized by Subchapter VIII of this Chapter for every county in this State." The new rate applies to the first billing period that starts on or after the effective date. Since bills for telecommunications service may include charges for services that occur both prior to and after the billing date, the "first billing period" is considered to start on or after November 1, 2005.

Voice mail will become taxable as part of the gross receipts derived from providing telecommunications service. Currently, voice mail services are specifically excluded from gross receipts and are therefore exempt from the sales and use tax.

**Rate Change for Direct-to-Home Satellite Service - G.S. 105-164.4(a)(6)**

The sales and use tax imposed on the gross receipts derived from providing direct-to-home satellite service will increase from 5% to the combined general rate of 7% effective October 1, 2005. The new rate applies to the first billing period that starts on or after the effective date. Since bills for satellite service may include charges for services that occur both prior to and after the billing date, the "first billing period" is considered to start on or after November 1, 2005.

**Rate Change for Spirituous Liquor - G.S. 105-164.4(a)(7)**

The sales and use tax imposed on the sales price of spirituous liquor other than mixed beverages will increase from 6% to the combined general rate of 7% effective October 1, 2005.

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If you have questions about the information in this document, you may contact the Taxpayer Assistance Call 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.