

October 2005

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

**IMPORTANT NOTICE: Sales Tax On Cable Service and Cable Broadcasting Equipment**

Effective January 1, 2006

***Cable Service***

Effective January 1, 2006, the gross receipts from providing cable service are subject to sales tax at the combined general rate of 7%. Cable service is defined as the one-way transmission to subscribers of video programming or other programming service and any subscriber interaction required to select or use the service. Taxable cable services include basic, extended, premium, digital, and pay-per-view movie and special event program service. Gross receipts from providing cable service do not include receipts from advertising, commissions, program carriage fees, billing and collection services, charges for bad checks, late fees, uncollected debts, information services, or internet access charges. Charges for the sale or rental of tangible personal property are subject to the general State and applicable local rate of sales and use tax and are not subject to the 7% tax on cable services. Separately stated charges for installation, repair, or maintenance of tangible personal property are not subject to sales or use tax.

The billing period of the cable service determines when the 7% tax on cable services is to be first applied. On billings made on or after February 1, 2006, the 7% sales tax will be due on charges for prepaid services for periods beginning on or after February 1, 2006 and on charges for non-prepaid services delivered on or after January 1, 2006.

A cable service provider is allowed a credit against the 7% sales tax for the amount of local franchise tax payable on the gross receipts for cable service that are subject to sales tax. A cable service provider may comply with its obligation to collect and remit the sales tax on cable service by collecting the tax from its subscribers at a rate equal to the difference in the combined general rate of sales tax of 7% and the rate of local franchise tax.

Cable service providers will remit sales tax due on the gross receipts from cable service on Form E-500E, Utility and Liquor Sales and Use Tax Return. Firms should report the total amount of receipts and tax due at the 7% rate on line 12 of the return and take credit for any local franchise taxes payable on Line 16 of the return.

The Department is in the process of identifying firms that are liable for the sales tax on cable service. Accounts for remitting the new levy will be established for those firms currently registered for remitting sales and use taxes and not currently remitting sales tax reported on Form E-500E for other items, such as the sales tax due on telecommunications services. A notice will be sent to these taxpayers by October 31, 2005 advising that an account has been established for them to report and remit the tax due on charges for cable services. If a taxpayer receives such a notice and will not be liable for the tax on cable services, the firm should immediately return the appropriate section of the notice indicating that the firm will not be liable. Firms that are currently remitting sales tax on Form E-500E for other taxable items will not receive any additional notification and should begin reporting and remitting the applicable tax due after the effective date of the imposition of tax on cable services.

Any firm that is not registered to remit sales and use tax will need to complete an Application for Registration, Form AS/RP1, and obtain a registration number. The application is available on the Department's website at [www.dornc.com](http://www.dornc.com) and can be obtained by calling the Department's Forms Line at toll free telephone number 1-877-252-2052.

***Cable Broadcasting Equipment***

Effective January 1, 2006, sales of broadcasting equipment and parts and accessories attached to the equipment to a cable service provider are exempt from State and local sales and use tax. The new exemption statute specifically provides that broadcasting equipment does not include cable. Therefore, effective January 1, 2006, sales of antenna cable, transmission cable, and trunk, feeder, and drop cable to cable service providers for use in broadcasting are subject to the general State and applicable local rate of sales and use tax. Prior to January 1, 2006, sales of broadcasting equipment to commercial cable television companies are subject to a 1% State rate of sales or use tax with a maximum tax of \$80.00 per article.

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.