

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

IMPORTANT NOTICE: Sales Tax on Video Programming Services

Effective January 1, 2007, Session Law 2006-151 of the 2006 General Assembly makes several changes to the application of sales tax on charges for video programming services. This notice provides information on the material changes.

Prior to January 1, 2007, sales tax at the combined general rate is imposed on cable service and direct-to-home satellite service. Effective January 1, 2007, a new term "video programming" is enacted and is defined under G.S. 105-164.3(50c) as "Programming provided by, or generally considered comparable to programming provided by, a television broadcast station, regardless of the method of delivery." Sales tax at the combined general rate is imposed under G.S. 105-164.4(a)(6) on the gross receipts derived from providing video programming to a subscriber in the State. A cable service provider, a direct-to-home satellite service provider, and any other person engaged in the business of providing video programming is considered to be a retailer.

Video programming services that were not previously considered to be cable service or direct-to-home satellite service, such as on-demand hotel movie rentals and private, self-contained video programming in housing complexes, constitute video programming and are subject to the combined general rate of sales tax effective January 1, 2007. Providers of these services that are not currently registered to remit sales tax should complete and submit a Business Registration Application, Form NC-BR. This form is available on the Department's website at www.dornc.com and can be obtained by calling the Department's Forms Line at telephone number 1-877-252-3052 (toll-free).

In conjunction with the imposition of sales tax on video programming services effective January 1, 2007, local governments will no longer impose franchise taxes on video programming services taxed under G.S. 105-164.4(a)(6). Under the law in effect prior to January 1, 2007, a credit was allowed against the sales tax due on cable service receipts for local franchise taxes paid. Effective January 1, 2007, the credit provisions for local franchise taxes are repealed.

A video programming service provider that bundles a taxable service with a non-taxable service, such as Internet access service, for a single charge is liable for tax on the gross receipts applicable to the taxable service. If a provider offers all the services in the bundle on an unbundled basis, tax is due on the unbundled price of the taxable service, less the discount resulting from the bundling. If a provider does not offer one or more of the services in the bundle on an unbundled basis, tax is due on the taxable service based on a reasonable allocation of revenue to that service.

The combined general rate of tax will decrease from 7% to 6.75% effective December 1, 2006 and will decrease again effective July 1, 2007 from 6.75% to 6.5%. Form E-500E, Utility and Liquor Sales and Use Tax Return, for the period October 2006 through September 2007 has been designed to allow a taxpayer to enter the applicable rate for the appropriate period to compute the amount of tax due on taxable receipts.

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.