

North Carolina Department of Revenue
Post Office Box 25000
Raleigh, North Carolina 27640-00

IMPORTANT NOTICE: STATE AND LOCAL RATES FOR CONSTRUCTION CONTRACTS

Effective October 1, 2009, the general State rate of tax increases from 5.5% to 5.75%. The local rate decreases from 2.25% to 2% in all counties except Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry where the county rate decreases from 2.5% to 2.25%. Mecklenburg County continues to impose an additional 0.5% Transit rate. The third one-half cent local tax previously reduced to a quarter cent (0.25%) under Article 44 will decrease to zero. The combined State and local rate will continue to be 7.75% in ninety-one counties, 8% in Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry Counties and 8.25% in Mecklenburg County. These changes occur as the State continues assuming Medicaid responsibilities for the counties. **The following applies to purchases of "construction material" effective October 1, 2009.**

Lump-sum or unit-price contracts awarded, bid on, or entered into prior to September 1, 2009

"Construction materials" purchased to fulfill a lump-sum or unit-price contract entered into or awarded before September 1, 2009 or entered into or awarded pursuant to a bid made before September 1, 2009, are subject to 4.75% State tax and applicable county tax. Form E-589E, Affidavit to Exempt Contractors from the Additional 1% State Tax, must be executed to registered vendors to obtain the 4.75% State rate. A properly completed affidavit should be executed in connection with each purchase and copies thereof should be maintained in the records of the seller and purchaser. Applicable county tax rates are 2% in ninety-one counties, 2.25% in Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry Counties and 2.5% in Mecklenburg County. If the vendor is not registered to collect North Carolina tax, the purchaser is responsible for reporting the 4.75% State tax and applicable county use tax to the Department.

Lump-sum or unit-price contracts awarded, bid on, or entered into during September 2009

"Construction materials" purchased to fulfill a lump-sum or unit-price contract entered into or awarded during September 2009 or entered into or awarded pursuant to a bid made during September 2009 are subject to the 5.75% State tax and applicable county tax. Applicable county tax rates are 2% in ninety-one counties, 2.25% in Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry Counties and 2.5% in Mecklenburg County. If the vendor is not registered to collect North Carolina tax, the purchaser is responsible for reporting the 5.75% State and applicable county use tax to the Department.

Lump-sum or unit-price contracts awarded, bid on, or entered into on or after October 1, 2009

"Construction materials" purchased to fulfill a lump-sum or unit-price contract entered into or awarded on or after October 1, 2009, or entered into or awarded pursuant to a bid made on or after October 1, 2009, are subject to the 5.75% State tax and applicable county tax. Applicable county tax rates are 2% in ninety-one counties, 2.25% in Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry Counties and 2.5% in Mecklenburg County. If the vendor is not registered to collect North Carolina tax, the purchaser is responsible for reporting the 5.75% State and applicable county use tax to the Department.

Subcontractors' purchases in conjunction with General Contractors' Contracts

"Construction materials" purchased by subcontractors in conjunction with general contractors are subject to the rates applicable to the lump-sum or unit price contracts. The subcontractor should obtain written documentation from the general contractor and attach a copy of such to Form E-589E, Affidavit to Exempt Contractors from the Additional 1% State Tax, for purchases in conjunction with contracts

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entered into or awarded before September 1, 2009 or entered into or awarded pursuant to a bid made before September 1, 2009. A properly completed affidavit should be executed in connection with each purchase and copies thereof should be maintained in the records of the seller and purchaser. If the vendor is not registered to collect North Carolina tax, the purchaser is responsible for reporting the applicable use tax to the Department.

Change orders

“Construction materials” purchased for change orders in conjunction with lump-sum or unit-price contracts are subject to the rates applicable to the general contractor.

Construction materials include the following:

- lumber, doors, siding, fasteners (nails and screws), plaster, gypsum board, and windows.
- steel beams, concrete, asphalt, rebar, stone, brick, and mortar.
- pipes, plumbing fixtures such as sinks, faucets, tubs, wash basins, and tile.
- conduit, light fixtures and switches, electrical outlets, coaxial cable, central heating and air conditioning systems, and central intercom systems.
- architectural millwork, cabinets, and countertop materials.
- parts to fire sprinkler systems, fireplace units, and other items that become a part of a structure such as commercial range hoods, freezer lockers that are built into a building, built-in ovens, cook tops, and stoves.

Construction materials do not include the following:

- movable refrigerators and ranges, free-standing freezers, portable heaters or air conditioning units, portable dishwashers, clothes washers and dryers, toaster ovens, dehumidifiers, and similar small household or commercial appliances.
- supply items such as:
 - mechanical and hand tools, parts and accessories to mechanical and hand tools.
 - gloves, boots, harnesses, and safety equipment.
 - scaffolding, ladders, lifts, electrical power cords, and generators.
 - air compressors and tanks, paint sprayers, welders, power washers, and fuels.

Questions about this notice can be directed to the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free) or in writing to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001.