

August 2008

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

IMPORTANT NOTICE: ADDITIONAL 0.25% LOCAL SALES AND USE TAX

Effective October 1, 2008:

The 2007 North Carolina General Assembly enacted legislation that provides all counties with authority to levy an additional 0.25% local sales and use tax upon the favorable vote by the residents of a county. In accordance with the provisions of the legislation, the following counties have adopted resolutions to levy the additional 0.25% sales and use tax effective October 1, 2008 following affirmative votes to approve the new levy:

Cumberland

Haywood

In addition, separate legislation enacted by the General Assembly changes the State and local sales and use tax rates effective October 1, 2008. The general State rate of sales and use tax increases from 4.25% to 4.5%. The third one-half percent (0.5%) local sales and use tax under Article 44 decreases to one-quarter percent (0.25%).

As a result, effective October 1, 2008, the local rate of tax in the above counties remains at 2.5%, but the combination of the State and local rates increases to 7%. The local rate of tax in Mecklenburg County decreases to 2.75%, but the combination of the State and local rates remains at 7.25%. The local rate of tax in Alexander, Catawba, Martin, Pitt, Sampson, and Surry Counties (counties that imposed the additional 0.25% local tax effective April 1, 2008) decreases to 2.5%, but the combination of the State and local rates for these six counties remains at 7%. The local rate of tax in the other ninety-one counties decreases to 2.25%, but the combination of the State and local rates remains at 6.75%.

The additional 0.25% local tax applies only to sales of tangible personal property and other transactions that are subject to the general State rate of sales and use tax. Sales of food that are subject only to the 2% local rate of tax are not subject to the additional 0.25% tax. All of the provisions of the Local Government Sales and Use Tax Law with respect to a retailer with a place of business in a taxing county and a retailer required to collect use tax in a taxing county and the liability for local tax are applicable to the new levy.

The legislation provides that the additional 0.25% local sales and use tax does not apply to construction materials purchased to fulfill a lump-sum or unit-price contract entered into or awarded before the effective date of the levy or entered into or awarded pursuant to a bid made before the effective date of the levy.

Form E-589D, Affidavit to Exempt Contractors from the $\frac{1}{4}$ % County Sales and Use Tax, is to be used by contractors that are engaged in performing any such contracts or will be awarded contracts pursuant to bids submitted before October 1, 2008. The Affidavit is to be executed by the contractors and provided to the suppliers of building materials, supplies, and fixtures. The contractors and their suppliers should keep a copy of the Affidavit in their files, and the contractors must retain the original or a duplicate of any lump-sum or unit-price contract in their files. Copies of the Affidavit can be obtained by accessing the Department's website or by contacting the Forms Line at 1-877-252-3052 (toll-free).

Legislation was also enacted that provides special rules for reporting tax under the following circumstances: (1) taxpayers who report and pay sales and use tax on the cash basis of accounting for collections on accounts receivable for sales made prior to October 1, 2008 and (2) taxpayers who derive lease receipts from tangible personal property under lease for a definite period of time for agreements entered into prior to October 1, 2008. In both of the above circumstances, the taxpayer is liable for reporting the new State and local rates of tax in effect on October 1, 2008. For the counties increasing the combined rate to 7% effective October 1, 2008, the receipts received on and after October 1, 2008 remain subject to the 6.75% combined State and local rate of tax; the tax is to be reported at the 4.5% State rate and the 2.25% local rate.

A retailer who ships or delivers taxable merchandise sold to a purchaser in a county other than the county in which the retailer's business is located is required to collect and remit tax due for the county to which the property is shipped or delivered. A retailer who has locations in multiple counties or ships or delivers merchandise sold to purchasers in multiple counties is required to complete and submit Form E-536, Schedule of County Sales and Use Taxes. This schedule shows the amount of tax collected for each county, and this information is used to derive the proper amount of tax that is distributed to local jurisdictions. Failure to fulfill this filing requirement can result in compliance action against a retailer, including proceedings to revoke the retailer's certificate of registration. This form includes entries for the combined 2.5% tax for counties that have levied the additional .25% local tax, such as Cumberland and Haywood, and 2.25% tax for counties that have not levied the additional local tax. Taxpayers who currently file Form E-536 will be mailed a supply of the revised forms by November 1, 2008. The revised form will also be available on the Department's website or can be ordered from the Forms Line after October 1, 2008.

Tax charts setting out the combined State and local tax are available on the website or by calling the Forms Line. 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.