Sales and Use Tax Workshop
CAUTION

The NC Department of Revenue provides this information as a courtesy to help keep you informed. As tax laws change, the application of the information provided may change as well. This information is general and summary in nature, and should not be construed as advice for your specific situation. If you would like to obtain specific tax advice which is binding on the Department, you may follow the procedure for requesting a letter ruling, which is located at www.dornc.com.
Agenda

• Sales and Use Tax
• Business Registration
• Other Sales & Use Tax Types
• Sales Tax Examples
• Online Filing/Payment
• Common Issues
• Resources
Sales and Use Tax

What is it?
Sales and Use Tax

• First N.C. sales tax charged in 1933
• Privilege tax imposed on retailer and passed on to purchaser
• Retailer make sales at retail
• A “sale at retail” is “The sale, lease or rental for any purpose other than resale, sublease, or subrent.”
• Unless exempt by law, retailers engaged in business in N. C. collect tax from purchasers as trustee for State
• “Engaged in business” is defined in G.S. 105-164.3(9).
• Examples (not all-inclusive):
  – Storefronts and warehouses in N.C.
  – Sales representatives in N.C.
  – Delivery into N.C. when vendor’s vehicles are used
  – Leases of tangible personal property or digital property in N.C.

Businesses must register by completing Form NC-BR
Sales and Use Tax

• Every person engaged in business in North Carolina is required to collect and pay sales or use tax on retail sales or leases of tangible personal property and certain digital property not specifically exempt by law.

• Some services are also taxable.
Definition of Tangible Personal Property:

- Personal property that may be seen, weighed, measured, felt or touched.
  - Includes electricity, water, gas, steam, prewritten computer software
Sales and Use Tax

Sourcing Principles:

• Defined in G.S. 105-164.4B.
• Used to determine where to source the sale of a product.
• Important when transactions are subject to the 4.75% general State and applicable local and transit rates of sales and use tax since all counties do not have the same local and transit rates of sales and use tax.
Sales and Use Tax

Generally, tangible personal property is sourced as follows:

- Over-the-counter. When a purchaser receives a product at a business location of the seller, the sale is sourced to that business location.

- Delivery to a specified address. When a purchaser or purchaser’s donee receives a product at a location specified by the purchaser and the location is not a business location of the seller, the sale is sourced to the location where the purchaser or purchaser’s donee receives the product.

Digital Property Sourcing:

- A purchaser receives digital property when the purchaser takes possession of the property or makes first use of the property, whichever comes first. A sale of digital property is sourced based on G.S. 105-164.4B(a).
Sales and Use Tax

Service Contracts:

• N.C. imposes the 4.75% general State and applicable local and transit rates of sales and use tax to the sales price of a service contract sold at retail by a retailer sourced to this State unless specifically exempt by statute.

• Examples of a service contract include:
  • Warranty agreement other than a manufacturer's warranty
  • Dealer's warranty provided at no charge to the purchaser
  • Extended warranty agreement
  • Maintenance agreement
  • Repair contract
  • Similar agreement or contract
Sales and Use Tax

Tax Rates:

- **General state rate:** 4.75%

- Sales and purchases of tangible personal property not subject to a preferential rate.
- Receipts from leases/rentals of tangible personal property
- Receipts from rentals of hotel/motel rooms, lodgings, etc.
- Receipts from laundries, dry cleaning
- Receipts from satellite digital audio radio service
- Certain digital property that is delivered or accessed electronically, is not considered tangible personal property, and would be taxable under Article 5 if sold in a tangible medium.
Local and transit rates of sales and use tax as of April 1, 2015:

2% - 70 counties

2.25% - Alexander, Anson, Ashe, Buncombe, Cabarrus, Catawba, Cumberland, Davidson, Duplin, Edgecombe, Greene, Halifax, Harnett, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes

2.5% - Mecklenburg County (2% local rate and 0.5% transit rate of sales and use tax)

2.75% - Durham & Orange Counties (2.25% local rate and 0.5% transit rate of sales and use tax)
Sales and Use Tax

Additional State Rates*:

• 3% – Sales of Boats and Aircraft
  - $1,500 per article maximum on boats and aircraft
• 4.75% - Sales of Modular and Manufactured Homes
  - Fifty percent (50%) of the sales price of a modular home or a manufactured home, including all accessories attached when delivered to the purchaser.

*No county tax is due.
Exemptions:

• **There are a limited number of exemptions to sales and use taxes**
  – All gross receipts of wholesale merchants and retailers are subject to the retail sales tax until the contrary is established by proper records
  – Documentation required to support exemptions
  – Burden of proof is on the person or business claiming the exemption

• **E-595E, Streamlined Sales & Use Tax Agreement Certificate of Exemption**
  – Documentation for most exemptions
Wholesale sales:

- Wholesale sales – sales for the purpose of resale.

- Sales made to other businesses for resale are exempt from tax when a properly completed Form E-595E, Streamlined Sales and Use Tax Agreement Certificate of Exemption, is secured by the wholesaler within 90 days of the sale.

- Businesses making wholesale sales must keep a valid Form E-595E on file for each wholesale customer.
Sales and Use Tax

• Use tax first charged in 1939
• Excise tax on purchaser
• Complements the sales tax
• Same rates and exemptions that apply to sales tax unless exempt by law
• Applies to purchases of taxable items unless appropriate NC tax is paid to a vendor
  — For example, purchases by mail order, television shopping networks, or the internet may require use tax to be remitted.
• Applies to purchases of taxable tangible personal property, certain digital property, certain services, and certain electronically downloaded software from out-of-state vendors who do not charge and collect the appropriate North Carolina taxes.
• Use taxes are due by businesses on tangible personal property and certain
digital property purchased or leased inside or outside this State that is
stored, used, or consumed in North Carolina. Use tax is due on taxable
services sourced to North Carolina.
   — For example: A restaurant in N.C. buys an oven from a Virginia vendor. The
     Virginia vendor ships the oven to the restaurant in N.C. and does not charge tax.
     The restaurant in N.C. owes use tax.

• Tax rates are the same as sales tax

• Taxpayer can claim a credit for sales or use tax due and paid to another state
if other state allows a similar credit to NC.

• Businesses report use tax on Form E-500, Sales and Use Tax Return

• Businesses not registered to remit sales and use tax must register by
completing Form NC-BR, Business Registration Application for Income Tax
Withholding, Sales and Use Tax, and Machinery and Equipment Tax.
Business Registration for a Sales & Use Tax Number
Business Registration

• Complete Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax

• Register using one of the following methods:
  
  • Register Online
    • Go to http://www.dornc.com/electronic/registration/index.html

  • Use Web Fill-In Form
    • Go to http://www.dornc.com/downloads/sales.html > NC-BR>web fill-in to enter information online and print a completed form to mail to the Department

  • Fill out Paper Form
    • Order online at http://www.dornc.com/forms/order.html ; or”
    • Pick up Form NC-BR from one of our service centers
Business Registration

Online

Benefits:

• Free
• Easy step-by-step instructions
• Receive account number in minutes

• Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Business Registration

Form NC-BR Sales and Use Tax Section, and Machinery and Equipment Tax Section

Business Registration Application for
Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
North Carolina Department of Revenue

Federal Employer ID No.

When will you start selling or purchasing items subject to N.C. sales or use tax?

Will your sales or gross receipts be...

- Retail (to users or consumers)
- Wholesale (to registered merchants for resale)
- Both Retail and Wholesale

What kind of business are you engaged in? (Be specific)

What accounting method will you use?
- Cash
- Accrual

- Are you registering only to remit use tax on purchases?

- Will you provide and sell telecommunications services?

- Will you provide and sell direct-to-home satellite services?

- Will you provide and sell other video programming services?

- Will you provide and sell prepaid wireless telecommunications services?

Amount of sales tax expected each month:
- Less than $100 (Quarterly)
- $100 - $20,000 (Monthly)
- More than $20,000 (Monthly with Prepayment)

If business is seasonal (six or fewer months), fill in circles for months of sales:
- Jan
- Feb
- Mar
- Apr
- May
- Jun
- Jul
- Aug
- Sep
- Oct
- Nov
- Dec

Sales tax on telecommunications services and electricity must be reported on the accrual basis.

Machinery and Equipment Tax Section - Complete to apply for a number to remit tax on purchases of machinery and equipment.

- Are you registering to remit tax on purchases of machinery and equipment to operate a manufacturing industry or plant, certain recycling purchases by a major recycling facility, or other items subject to tax pursuant to Article 5F?
Business Registration

Filing Frequency:

• **Quarterly:** taxpayers who consistently owes less than $100 per month
  - Reports and payment are due by the last day of the first month after the quarter ends (April, July, October, January)

• **Monthly:** taxpayers who consistently owes $100 but less than $20,000 per month
  - Reports and payment are due by the 20th of the following month

• **Monthly (with Prepayment):** taxpayers who consistently owes at least $20,000 per month or more
  - Reports and balance of tax owed are due by the 20th of the following month
  - Prepayment due on the 20th of each month
    - Taxpayer may choose to pay:
      - 65 percent of the amount of tax owed the previous month
      - 65 percent of the amount of tax owed for the same month in the preceding year
      - 65 percent of the average monthly amount of tax owed in preceding calendar year
Business Registration

- Form E – 500 Sales and Use Tax Return

- A timely return must be filed when due (quarterly or monthly) even if no tax is due.
Business Registration

• Breakdown of county tax required if sales in more than one county or if filing online.
  – Form E – 536 (Schedule of County Sales and Use Taxes)

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<th>County and Code</th>
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<th>County 2.25% Tax</th>
<th>Transit 0.50% Tax</th>
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Other Sales & Use Tax Types
Other Sales Tax Forms

• Form E-500E, Utility and Liquor Sales and Use Tax Return

  - Required for businesses that sell:
    • piped natural gas
    • electricity
    • telecommunications service and ancillary service
    • direct-to-home satellite service
    • video programming (including cable)
    • spirituous liquor (only ABC stores in NC)

  - Register by completing Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Other Sales Tax Forms

• **Form E-500F - Motor Vehicle Lease Rental**
  
  Required for businesses that lease motor vehicles and choose not to pay the highway use tax when applying for a title to a motor vehicle

  
  ![Motor Vehicle Lease and Rental Tax Return](image)

  
  • 8% for short-term leases (less than 365 continuous days to same person)
  • 3% for long-term leases (365 continuous days or more to same person)

  Register by completing Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Other Sales Tax Forms

• Form E-500G - Scrap Tire Disposal Tax

  – An additional tax on the sale or purchase of new tires
  – Rate is 2% on tires with bead diameter of less than 20 inches and 1% on tires with bead diameter of 20 inches or more

  – Register by completing Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Other Sales Tax Forms

• Form E-500H - White Goods Disposal Tax
  – Additional tax on purchase of each “white good” and is collected for the disposal of white goods.
    • Includes refrigerators, washers, freezers, dishwashers, clothes dryers, washing machines, etc…
  – Applies to in-state and out-of-state purchases for use in North Carolina
  – Rate is $3 per item

  – Register by completing Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Other Sales Tax Forms

• **Form E-500 J - Machinery and Equipment Tax Return**
  
  • 1% privilege tax, $80.00 maximum per article, on qualifying purchases of mill machinery or mill machinery parts or accessories used in a manufacturing industry or plant.
  
  • Register by completing Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax
Filing And Paying Sales & Use Tax
Sales Tax Return Exercise

Let's fill out a return!
Sample Problem

• XYZ Enterprise will be filling out their E-500 form for the quarter ending September 2014. They sold $200.00 of widgets which does not include the tax collected; $75.00 of sales were to other businesses for resale. The sales were made in Wake County (6.75%). Please complete the E-500 form.
### Answer

![Sales and Use Tax Return](image)

1. North Carolina Gross Receipts (Do not include tax collected)  | 200.00
2. Sales for Resale (Do not include on Line 3 below)  | 75.00
3. Receipts Exempt From State Tax  | 0.00

Need E-595E from customer
<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Purchases for Use</th>
<th>Receipts</th>
<th>Rate</th>
<th>Tax</th>
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<tr>
<td>6. Modular Homes</td>
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<td>0.00</td>
<td>4.75%</td>
<td>0.00</td>
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<tr>
<td>7. Mfg. Homes</td>
<td>0.00</td>
<td>0.00</td>
<td>4.75%</td>
<td>0.00</td>
</tr>
<tr>
<td>8. 2% Food Rate</td>
<td>0.00</td>
<td>0.00</td>
<td>2%</td>
<td>0.00</td>
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<tr>
<td>9. 2% County Rate</td>
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<td>13. Total State and County Tax</td>
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<td>8.44</td>
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<td>14. Excess Collections</td>
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<td>15. Total Tax</td>
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<td>16. Penalty - State and County</td>
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<td>17. Interest - State and County</td>
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<td>18. Less Prepayment for This Period</td>
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<td>19. Prepayment for Next Period</td>
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<td>20. Less any Credit (Attach Explanation)</td>
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<tr>
<td>21. Total Due (Add Lines 15 - 17 and 19, Minus Lines 18 and 20)</td>
<td></td>
<td></td>
<td></td>
<td>8.44</td>
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</table>

State: 5.94
County: 2.50
Total: 8.44
Sample Problem

- Alpha Inc. is a screen printing business. The company sells creative t-shirts in Raleigh, but ships orders to customers in North Carolina and other states.

- Total sales for the quarter ending December 2014 not including sales tax collected is $2,897.00 and consist of sales in the following locations:
  - $995.00 from the shop in Raleigh, NC (Wake County)
  - $787.00 shipped to Charlotte, NC (Mecklenburg County)
  - $971.00 shipped to Fairfax, Virginia
  - $144.00 shipped to Asheboro, NC (Randolph County)

Please complete Form E-500 and Form E-536 for Alpha Inc.
### Sales and Use Tax Return

**North Carolina Department of Revenue**

<table>
<thead>
<tr>
<th><strong>Legal Name (First 24 Characters)</strong></th>
<th><strong>Period Beginning (MM-DD-YY)</strong></th>
<th><strong>Period Ending (MM-DD-YY)</strong></th>
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<tbody>
<tr>
<td><strong>ALPHA INC.</strong></td>
<td><strong>10-01-14</strong></td>
<td><strong>12-31-14</strong></td>
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<table>
<thead>
<tr>
<th><strong>Street Address</strong></th>
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<tr>
<td><strong>456 Second Street</strong></td>
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<table>
<thead>
<tr>
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<th><strong>State</strong></th>
<th><strong>Zip Code (5 Digits)</strong></th>
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<tbody>
<tr>
<td>RALEIGH</td>
<td>NC</td>
<td>27640</td>
<td>000000002</td>
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</table>

1. **North Carolina Gross Receipts**  
   *Do not include tax collected*  
   2897.00

2. **Sales for Resale**  
   *Do not include on Line 3 below*  
   0.00

3. **Receipts Exempt From State Tax**  
   971.00

---

**Answer**

Sales shipped outside of NC
### Answer Cont’d

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Purchases for Use</th>
<th>Receipts</th>
<th>Rate</th>
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<td>3%</td>
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<tr>
<td>6. Modular Homes</td>
<td>0.00</td>
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<td>4.75%</td>
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<td>7. Mfg. Homes</td>
<td>0.00</td>
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<td>4.75%</td>
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<tr>
<td>8. 2% Food Rate</td>
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<td><strong>Total State and County Tax</strong></td>
<td>(Add Tax From Lines 4 through 12)</td>
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<td>134.31</td>
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</table>

- Line 4 ($995 + $787 + $144) $1,926 * 4.75% = 91.49
- Line 9 ($995 + $787) $1,782 * 2% = 35.64
- Line 10 $144 * 2.25% = 3.24
- Line 11 $787 * 0.5% = 3.94
• Sign and date your return before submitting by mail or in person.
• Include a valid contact number in case there are questions regarding your return.
E-536 County Breakdown

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<th>Account ID</th>
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<td></td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Caldwell 14</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
E-536 County Breakdown

<table>
<thead>
<tr>
<th>County</th>
<th>Total</th>
<th>2%</th>
<th>0.5%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mecklenburg</td>
<td>60</td>
<td>15.74</td>
<td>0.5%</td>
<td>3.94</td>
</tr>
<tr>
<td>Randolph</td>
<td>76</td>
<td>0.00</td>
<td></td>
<td>3.24</td>
</tr>
<tr>
<td>Wake</td>
<td>92</td>
<td>19.90</td>
<td></td>
<td>3.94</td>
</tr>
</tbody>
</table>

Enter Totals
2.00% Food Tax

<table>
<thead>
<tr>
<th>Item</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35.64</td>
</tr>
<tr>
<td></td>
<td>3.24</td>
</tr>
<tr>
<td></td>
<td>3.94</td>
</tr>
</tbody>
</table>

Totals on E-536 equal county breakdown on E-500
Online Filing/Payment
Online Filing and Payments

F-500, Sales and Use Tax Return

What is the F-500 and Why Should You Use It?

The Department's online filing and payment system allows you to electronically file Form E-500, Sales and Use Tax Return, and the accompanying Schedule Form E-550, Schedule of County Sales and Use Taxes. Monthly with Prepayment Taxpayers are required to use the online filing and payment system.

The Department does not mail the paper sales and use tax coupon booklets to users of the online filing and payment system. In addition, the Department will use email to deliver tax documents and tax information to all registered taxpayers who use the online filing and payment system.

Using this system allows us to process your return and/or payment more accurately and efficiently. We strongly encourage you to use the online filing and payment system.

What Are the Benefits?

- It is convenient. It's available 24 hours per day, 7 days a week with the exception of a scheduled maintenance period each Sunday from 4:00 am to 12:00 pm. If you are paying by bank draft, you can select a future draft date.
- It is easy. For most tax types, the online screens are designed to look like the return.
- It is accurate. Some of the online forms calculate the tax for you.
- It is free. Paying by bank draft is free.
- It is safe. The website and the taxpayer’s data are secured with SSL (Secure Socket Layer) with at least 128-bit encryption.

Online Filing

• **Convenient** – Available 24/7
  – Warehousing is offered for some tax payments
  – You can file your return early, make tax payments online and select a future draft date

• **Easy** – For most tax types, the online screens are designed to look like the return

• **Free** – Paying by bank draft is free

• **Safe** – The web site and the taxpayer’s data are secured with SSL (Secure Socket Layer) and 128-bit encryption
Online Payments

• **Bill Paying**
  • You can submit your payment using our online filing and payment system
    • Credit/Debit Card - Convenience fee of $2.00 for every $100.00 increment of your tax payment
    • Bank Draft - no fee

• **Electronic Funds Transfer (EFT)**
  • Transfer the funds directly to the Department from your financial institution
Common Sales and Use Tax Issues
Common Issues

• **Purchases for use from out-of-state vendors:**
  — Many business owners don’t pay *use* tax because they don’t know they should. If the applicable tax is not paid to a vendor then use tax should be paid unless exempt by law.

• **Tax on shipping, transportation, or delivery charges**
  — If the transaction is taxable then the freight, delivery or other transportation charges imposed by a retailer are taxable regardless of whether the charges are separately billed on an invoice.
Common Issues

• Nonprofits
  – Nonprofits must pay sales or use tax on taxable purchases for use.
  – Required to charge sales tax when making retail sales unless specifically exempt by law. Tax collected on retail sales by nonprofits is not eligible for refund.
  – Certain nonprofits qualify for refunds of sales and use tax paid on their direct purchases for use. To learn more go to http://www.dornc.com/downloads/e585_faq.pdf

• Labor Issues
  – Fabrication labor associated with a taxable sale of tangible personal property or digital property is subject to tax even if it is separately stated.
  – Installation labor associated with a taxable sale of tangible personal property is exempt from tax if separately stated.
• **Sales to Federal or state government agencies**
  - Direct sales to Federal agencies under direct federal control are exempt - sales to federal employees may or may not be exempt. To learn more go to [http://www.dornc.com/practitioner/sales/bulletins/section37.pdf](http://www.dornc.com/practitioner/sales/bulletins/section37.pdf)
  - Direct sales to N.C. State agencies may be exempt – sales to N.C. State employees are not exempt. To learn more go to [http://www.dornc.com/practitioner/sales/bulletins/section18.pdf](http://www.dornc.com/practitioner/sales/bulletins/section18.pdf)
  - Sales to other state agencies or their employees are taxable since the law does not provide an exemption.
Common Issues

• Correct tax on food
  – “Food” is subject to a 2% local food tax rate. Many items sold at grocery stores are taxed at the 2% local food tax rate. To learn more go to http://www.dornc.com/practitioner/sales/bulletins/section19.pdf#19-2
  – “Prepared Food” is subject to the 4.75% general State and applicable local and transit rates of sales and use tax. Restaurants and grills sell prepared food. To learn more go to http://www.dornc.com/practitioner/sales/bulletins/section19.pdf#19-2
  – If you are going to sell any kind of food, you may want to contact the Department to get specific advice on the tax rate you should use.
Resources
E-Alerts

Tax Updates Email List

The Department of Revenue publishes information that explains the various taxes imposed by North Carolina. This information is now available by email by subscribing to the Department of Revenue Tax Updates Email List.

Emails through this list will include bulletins, directives, and other important notices about law changes and related tax matters. The email list is a convenient way to receive information. It does not provide a means to send an electronic reply. Each item sent to those on the email list will include a subject line that identifies the type of tax to which the item applies and a telephone number to call for answers to questions about the item.

Make your selection to subscribe or unsubscribe, enter your email address twice, and click submit to complete your request. After submitting your email address, you should receive a confirmation email message with general information about the mailing list. If you do not receive a message within an hour of submission, check your email address for accuracy and re-subscribe.
 Notices and Directives are published online to assist with interpreting the sales and use tax laws.

[Refer to the website: http://www.dornc.com/taxes/sales/references.html]
Resources

- Website www.dorcnc.com
- Taxpayer Assistance and Collection Center:
  - 1-877-252-3052
- Service Centers across the state
  - Asheville
  - Charlotte
  - Durham
  - Elizabeth City
  - Fayetteville
  - Greensboro
  - Greenville
  - Hickory
  - Raleigh
  - Wilmington
  - Winston-Salem