ALTERNATIVE HIGHWAY USE TAX BULLETIN

Reflecting Changes Made in the 2025 Regular Session of the North Carolina General Assembly

Issued by:

Sales and Use Tax Division
Tax Administration
North Carolina Department of Revenue
501 North Wilmington Street
Raleigh, North Carolina 27604

January 2026

PREFACE

The Alternate Highway Use Tax Bulletin presents the Secretary of Revenue's interpretation of the North Carolina alternate highway use tax laws. This bulletin does not cover all interpretations and applications of the alternate highway use tax laws.

The Alternate Highway Use Tax Bulletin is based on the law in effect as of January 1, 2026 and supersedes any Alternate Highway Use Tax Bulletin published prior to January 1, 2026.

You must consider all facts and circumstances when applying the information contained in these bulletins to particular transactions or situations. Additional changes may result from legislative action, court decisions, and rules amended or adopted under Chapter 150B of the North Carolina General Statutes after these bulletins are published. To the extent there is any change to a statute, administrative rule, or new case law subsequent to the date of this publication, the provisions in these bulletins may be superseded or voided.

To obtain specific binding tax advice refer to the Department's Written Determination Policy.

Date Published: January 1, 2026

AHUTB 1 ALTERNATE HIGHWAY USE TAX AND LIMITED POSSESSION COMMITMENTS OF MOTOR VEHICLES

1-1 DEFINITIONS

G.S. § 105-164.3 and G.S. § 105-187.1 provide the following terms and definitions:

1. **"Commercial motor vehicle"** – Defined in G.S. § 20-4.01.

2. **"Commissioner"** – The Commissioner of Motor Vehicles.

3. **"Division"** – The Division of Motor Vehicles, Department of Transportation.

4. **"Long-term lease or rental"** – A lease or rental made under a written agreement to lease or rent one or more vehicles to the same person for a period of at least 365 continuous days and that is not a vehicle subscription.

5. **"Limited possession commitment" –** Long-term lease or rental, short-term lease or rental, and vehicle subscriptions.

6. **"Mini-truck"** – Defined in G.S. § 20-4.01.

7. **"Motor vehicle"** – A vehicle that is designed primarily for use upon the highways and is either self-propelled or propelled by a self-propelled vehicle, but does not include:

   a. A moped.

   b. Special mobile equipment.

   c. A tow dolly that is exempt from motor vehicle title and registration requirements under G.S. § 20-51(10) or (11).

   d. A farm tractor or other implement of husbandry.

   e. A manufactured home, a mobile office, or a mobile classroom.

   f. Road construction or road maintenance machinery or equipment.

   Notes: A low-speed vehicle and a mini-truck, as the terms are defined in G.S. § 20-4.01, are motor vehicles. A modified utility vehicle, as the term is defined in G.S. § 20-4.01, is <u>not</u> a motor vehicle.

8. **"Park model RV"** – A vehicle that meets all of the following conditions:

   a. Is designed and marketed as temporary living quarters for recreational, camping, travel, or seasonal use.

   b. Is certified by the manufacturer as complying with ANSI A119.5.

   c. Is built on a single chassis mounted on wheels with a gross trailer area not exceeding 400 square feet in the setup mode.

9. **"Recreational vehicle"** – Defined in G.S. § 20-4.01. The term "recreational vehicle" also includes a park model RV. The term does not include a manufactured home.

10. **"Rescue squad"** – An organization that provides rescue services, emergency medical services, or both.

11. **"Retailer"** – A retailer as defined in G.S. § 105-164.3 who is engaged in the business of selling, leasing, renting, or offering vehicle subscriptions for motor vehicles.

12. **"Short-term lease or rental"** – A lease or rental of a motor vehicle or motor vehicles, including a vehicle sharing service, that is not a long-term lease or rental or a vehicle subscription.

13. **"Vehicle sharing service"** – A service for which a person pays a membership fee for the right to use a motor vehicle or motor vehicles upon payment of an additional time-based or mileage based fee.

14. **"Vehicle subscription"** – A written agreement that grants a person the right to use and exchange motor vehicles owned, directly or indirectly, by the person offering the agreement upon payment of a subscription fee, but it does not include a vehicle sharing service. The subscription fee must provide a person exclusive use of an agreed-upon number of motor vehicles at any given time during the full term of the subscription.

1-2 IMPOSITION AND LIABILITY FOR COLLECTING AND REMITTING THE ALTERNATE HIGHWAY USE TAX

A. Alternate Highway Use Tax Imposed

A retailer may elect not to pay the three percent (3%) highway use tax to the Commissioner of Motor Vehicles when applying for a certificate of title for a motor vehicle purchased by the retailer for a limited possession commitment. A retailer who makes this election shall collect and remit the alternate highway use tax on the gross receipts derived from the limited possession commitment of the vehicle to the Secretary of Revenue. To make the election, the retailer must complete a form provided by the North Carolina Division of Motor Vehicles when applying for the certificate of title. Once made, an election is irrevocable.

The portion of a limited possession commitment billing or payment that represents a service contract should not be included in the gross receipts subject to the alternate highway use tax if the charge for the service contract is separately stated on the documentation given to the purchaser at the time the limited possession commitment goes into effect or on the monthly billing statement or other documentation given to the purchaser.

B. Rates of Alternate Highway Use Tax

1. Short-Term Lease or Rental

The rate of alternate highway use tax due on the gross receipts derived from the short- term lease or rental of a motor vehicle is eight percent (8%).

2. Vehicle Subscription

The rate of alternate highway use tax due on the gross receipts derived from a vehicle subscription is five percent (5%).

3. Long-Term Lease or Rental

The rate of alternate highway use tax due on the gross receipts derived from the long-term lease or rental of a motor vehicle is three percent (3%).

4. Maximum Tax

A maximum tax of two thousand dollars ($2,000) is applicable to a continuous limited possession commitment to the same person of a recreational vehicle or Class A or Class B motor vehicle that is a commercial motor vehicle; otherwise, no maximum tax applies.

C. Liability for Collecting and Remitting the Alternate Highway Use Tax

The tax is imposed on the retailer but is to be added to the gross receipts of the limited possession commitment of a motor vehicle and paid by the person who leases or rents the vehicle or who has the vehicle subscription. The tax imposed on the gross receipts derived from a limited possession commitment of motor vehicles is administered in the same manner as sales and use tax. The administrative provisions and powers of the Secretary that apply to sales and use tax apply to the tax imposed on the gross receipts derived from limited possession commitments of motor vehicles.

The alternate highway use tax must be reported to the Secretary of Revenue on Form E-500F, Motor Vehicle Lease and Subscription Tax Return.

Any highway use tax remitted to the North Carolina Division of Motor Vehicles cannot be collected by the retailer from the lessee or subscriber as a separate charge. A charge which is designated in any manner as a tax (i.e. sales, use, or highway use tax) must be remitted to the Department of Revenue notwithstanding any agreement which indicates the charge represents a recoupment of tax paid. The retailer can recoup the highway use tax paid to the North Carolina Division of Motor Vehicles, as well as any other expense incident to the conduct of business, by including such amount in the gross receipts.

1-3 GROSS RECEIPTS DERIVED FROM THE LEASE, RENTAL, OR SUBSCRIPTION OF A MOTOR VEHICLE

A. The following items are part of the gross receipts derived from the lease, rental, or subscription of a motor vehicle and are subject to the alternate highway use tax whether the charges are paid directly to a third party by the lessee or subscriber on behalf of the retailer or are billed by the retailer to the lessee or subscriber. This is not an all-inclusive list.

1. Capital cost reductions/down payments.

2. Security deposits. If a portion of a security deposit is refunded to the lessee or subscriber, any tax collected thereon should also be refunded to the lessee or subscriber. The retailer can reduce the applicable receipts on Form E-500F, Motor Vehicle Lease and Subscription Tax Return, by the amount of the security deposit refunded and attach an explanation thereto.

3. Documentary fees.

4. Personal property taxes. It does not matter if the property taxes are estimated by the retailer and included in the monthly lease or subscription, assessed against the retailer and separately billed to the lessee or subscriber, or if the taxes are paid by the lessee or subscriber directly to the taxing authority on the retailer's behalf.

5. Titling fees/title processing fees.

6. U.C.C. (Uniform Commercial Code) charges - fee charged to the lessee or subscriber but paid by the retailer to the Clerk of Court to record a lien on a motor vehicle being leased or a motor vehicle that is part of a vehicle subscription.

7. Pro rata rental charges.

8. Charges for excess mileage.

9. Attorney's fees for the initial, direct cost of establishing a limited possession commitment (recording fees, preparing agreements or other documents).

10. Fees or charges incurred in collecting delinquent accounts.

11. Extension fees – charged to the lessee or subscriber for extending the lease agreement or subscription. This fee usually represents a month's interest and occurs in situations where the lessee or subscriber is unable to pay the entire lease or subscription payment.

12. Finance charges.

13. Licensing fees.

14. Any portion of a limited possession commitment billing or payment that represents an amount applicable to the sales price of a service contract that is not separately stated.

15. Fuel purchased from the retailer.

16. Administration fees.

17. Any other miscellaneous fees charged at the time the lease or subscription is initiated.

B. The following items are not part of the gross receipts derived from limited possession commitments of motor vehicles and are not subject to the alternate highway use tax. This is not an all-inclusive list.

1. Any allowance for a motor vehicle taken in trade as partial payment on the limited possession commitment amount.

2. Bad check fees which the retailer bills separately to the lessee or subscriber.

3. Penalties charged for late or delinquent lease or subscription payments which the retailer bills separately to the lessee or subscriber.

4. Insurance premiums paid by the lessee or subscriber directly to the insurer, or to the retailer as agent for the insurer, when the premium amounts are separately stated from the limited possession commitment charges.

5. Any portion of a limited possession commitment billing or payment that represents an amount applicable to the sales price of a service contract that is separately stated.

1-4 MOTOR VEHICLE LIMITED POSSESSION COMMITMENT SOLD TO ANOTHER RETAILER THAT INCLUDES A SERVICE CONTRACT

When a motor vehicle limited possession commitment is sold to another retailer, the retailer of the motor vehicle limited possession commitment should provide to the purchaser of the motor vehicle limited possession commitment the documentation showing that the service contract and applicable sales taxes were separately stated at the time the motor vehicle limited possession commitment went into effect and the new retailer must retain the information to support an allocation for tax computed on the gross receipts subject to the alternate highway use tax.

1-5 LIMITED POSSESSION COMMITMENTS OF MOTOR VEHICLES TO OUT-OF-STATE LESSEES OR SUBSCRIBERS FOR USE IN INTERSTATE OPERATIONS

North Carolina retailers who elect to pay the alternate highway use tax to the Secretary of Revenue on motor vehicles leased or subscribed to out-of-state lessees or subscribers to be located, domiciled, or assigned in this State for use in interstate operations must collect and remit the alternate highway use tax on the gross receipts derived from the lease, rental or subscription notwithstanding that the lease or subscription may be negotiated outside North Carolina or that the vehicles are delivered to the lessees or subscribers at a point outside this State. If North Carolina

retailers lease or subscribe motor vehicles to out-of-state lessees or subscribers for use exclusively in a state other than North Carolina and deliver the vehicles to the lessees or subscribers at a point outside this State, the retailers are not liable for the alternate highway use tax on the gross receipts of the lease, rental, or subscription.