



Sales and Use Tax Division
North Carolina Department of Revenue
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IMPORTANT NOTICE: DIRECT PAY PERMIT AND USE TAX EXEMPTION FOR CERTAIN BOAT, AIRCRAFT, AND QUALIFIED JET ENGINE CHARGES AND SERVICES

On July 14, 2016, the Governor signed Session Laws 2016-94. Included in the Session Laws is the provision in N.C. Gen. Stat. § 105-164.27A(a3) that provides effective July 1, 2016 “[a] direct pay permit issued under this subsection authorizes its holder to purchase tangible personal property, digital property, or repair, maintenance, and installation services for a boat, an aircraft, or a qualified jet engine without paying tax to the seller and authorizes the seller to not collect any tax on the item or services from the permit holder.” A permit holder is allowed a use tax exemption on one or more of the following:

- (i) The installation charges that are a part of the sales price of tangible personal property or digital property purchased by the permit holder for a boat, an aircraft, or a qualified jet engine, ***provided the installation charges are separately stated and identified as such*** on the invoice or other documentation given to the permit holder at the time of the sale, and
- (ii) The sales price of or gross receipts derived from repair, maintenance, and installation services provided for a boat, an aircraft, or a qualified jet engine.

The **allowable** amount of the use tax exemption is the amount of the installation charges that are part of the sales price of tangible personal property or digital property that exceed twenty-five thousand dollars (\$25,000) and the sales price of or gross receipts derived from the repair, maintenance, and installation services that exceed twenty-five thousand dollars (\$25,000).

Direct Pay Permit Application Process

A person that expects to or will incur qualifying expenses in excess of twenty-five thousand dollars (\$25,000) who wishes to benefit from the use tax exemption discussed herein, must apply to the Secretary for a direct pay permit. To apply to receive a direct pay permit, submit [Form E-595RMI, Application for Direct Pay Permit for Certain Boat, Aircraft, and Qualified Jet Engine Charges and Services](#). Upon receipt and approval, the Department will issue a direct pay permit bearing a direct pay number for use for purposes provided herein. A direct pay permit number will not be issued to a person for an application received by the Department that does not include all required information. To expedite submission of the application to the Department, a person may fax the application to (919) 715-0295.

Issuance of Exemption Certificate

To purchase tangible personal property, digital property, or repair, maintenance, and installation services for a boat, an aircraft, or a qualified jet engine without paying tax to the seller, the purchaser should issue [Form E-595E, Streamlined Sales and Use Tax Agreement Certificate of Exemption](#), or the required data elements pursuant to N.C. Gen. Stat. § 105-164.28 to the seller. The direct pay permit number issued by the Department should be entered for letter “J Direct pay permit #” under “5 Reason for exemption” on Form E-595E.

Rates of Tax

The gross receipts derived from a taxable retail sale or a taxable purchase for storage, use, or consumption in this State of tangible personal property or digital property; or repair, maintenance, and installation services sourced to this State, for a boat, an aircraft, or a qualified jet engine are subject to the general 4.75% State, applicable local (2.00% or 2.25%) and applicable transit (0.50%) rates of sales or use tax.

Reporting Use Tax

An individual, who is not registered to remit sales and use taxes to the Department, should report any use tax due on the purchase price of tangible personal property, digital property, or the purchase price of or taxable gross receipts paid for repair, maintenance, and installation services for a boat, an aircraft, or a qualified jet engine purchased under a direct pay permit number issued by the Department on [Form E-554, Consumer Use Tax Return](#). Form E-554 must be filed and any tax due must be paid by the end of the month following the month in which the property or services are purchased by an individual. A person, who is engaged in business and is registered or is required to register with the Department to report and pay sales or use taxes, should report any use tax due on the purchase price of tangible personal property, digital property, or the purchase price of or taxable gross receipts paid for repair, maintenance, and installation services for a boat, an aircraft, or a qualified jet engine purchased without payment of tax pursuant to a direct pay permit on Form E-500, Sales and Use Tax Return, or through the Department's [online filing and payment system](#).

Penalties

N.C. Gen. Stat. § 105-236(a)(5a) provides that “[f]or misuse of an exemption certificate by a purchaser, the Secretary shall assess a penalty equal to two hundred fifty dollars (\$250.00). An exemption certificate is a certificate issued by the Secretary that authorizes a retailer to sell tangible personal property to the holder of the certificate and either collect tax at a preferential rate or not collect tax on the sale. Examples of an exemption certificate include a certificate of exemption, a direct pay certificate, and a conditional exemption certificate.”

N.C. Gen. Stat. § 105-236(a)(7) provides that “[a]ny person who willfully attempts, or any person who aids or abets any person to attempt in any manner to evade or defeat a tax or its payment, shall, in addition to other penalties provided by law, be guilty of a Class H felony.”

Assistance

General questions regarding this notice should be directed to the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free).

To the extent there is any change in the rate or amount of tax, change to a statute or regulation, or new case law subsequent to the date of this notice, the provisions in this important notice may be superseded or voided. To the extent that any provisions in any other notice, directive, technical bulletin, or published guidance issued prior to the date of this notice conflicts with this important notice, the provisions contained in this important notice supersede.