



**Sales and Use Tax Division  
North Carolina Department of Revenue  
Post Office Box 25000  
Raleigh, North Carolina 27640-0001**

[www.ncdor.gov](http://www.ncdor.gov)

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## **IMPORTANT NOTICE: REPEAL OF INSTALLATION CHARGES EXEMPTION**

*Note: The expansion of the sales and use tax base to impose tax on "repair, maintenance, and installation services" on or after March 1, 2016, will be addressed in a separate publication issued by the Department.*

### **Overview**

**Effective March 1, 2016**, "installation charges" by a retailer to a purchaser as part of the retail sale of tangible personal property, certain digital property, and taxable services are subject to the applicable rate of sales and use tax for the item as set forth in N.C. Gen. Stat. § 105-164.4(a), no matter that the installation charges may be separately stated by the retailer. The term "installation charges" is part of the definition of "sales price" as defined in N.C. Gen. Stat. § 105-164.3(37). N.C. Gen. Stat. § 105-164.3(33) defines the term "purchase price," in part, as "has the same meaning as the term 'sales price' when applied to an item subject to use tax."

**Example:** An auto parts store makes a retail sale of an automobile battery to a customer on March 2, 2016. The point of sale receipt issued by the auto parts store to its customer reflects a charge of \$75.00 for the battery and a separate charge of \$25.00 for installation of the battery. The sales price of the installed battery is \$100.00 and is the taxable retail sales price on which the auto parts store is liable for the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax.

For sales prior to March 1, 2016, N.C. Gen. Stat. § 105-164.13(49) provides an exemption from sales and use tax for the portion of the sales price or purchase price for installation charges separately stated on an invoice or similar billing document given to the purchaser at the time of sale. Effective March 1, 2016, the exemption in N.C. Gen. Stat. § 105-164.13(49) is repealed.

### **Applicable Sales and Use Tax Rates and Other Applicable Taxes and Rates**

The following is not an all inclusive list:

- Installation charges that are part of the sales price of tangible personal property, certain digital property, and taxable services, sold at retail, are generally subject to the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax. Some exceptions apply.
- Installation charges that are part of the gross receipts from the lease or rental of tangible personal property are subject to the applicable rate of sales and use tax, and maximum tax if any.
- Installation charges that are part of the sales price of each manufactured home or modular home sold at retail, including all accessories attached to the manufactured home or modular home when it is delivered to the purchaser, are subject to only the general 4.75% State rate of sales and use tax.
- Installation charges that are part of the sales price of each boat sold at retail, including all accessories attached to the item when it is delivered to the purchaser, are subject to the 3.00% State rate of sales and use tax, with a maximum tax of \$1,500 per article.
- Installation charges that are part of the sales price of an aircraft sold at retail, including all accessories attached to the item when it is delivered to the purchaser, are only subject to the general 4.75% State rate of sales and use tax, with a maximum tax of \$2,500 per article.

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- Installation charges by a retailer to provide telecommunications service and ancillary service, video programming service, piped natural gas, and electricity are subject to the 7.00% combined general rate of sales and use tax.
  - Installation charges that are part of the purchase price of mill machinery, mill machinery parts or accessories, and other items subject to tax under Article 5F, are subject to the 1.00% certain machinery and equipment privilege tax, with a maximum tax of \$80.00 per article.
  - Installation charges by a retailer to install a new tire, sold at retail in this State, with a tire bead diameter of less than 20 inches, are subject to the 2.00% scrap tire disposal tax. Additionally, any installation charges by a retailer to install a new tire, sold at retail in this State, with a tire bead diameter of at least 20 inches, are subject to the 1.00% scrap tire disposal tax. The sales price of each new tire sold at retail or purchased for storage, use, or consumption in this State and subject to the scrap tire disposal tax is also subject to the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax.

### **Effective Date of Repeal of Exemption - Certain Transactions**

*General Rate Items (4.75% State and Applicable 2.00 or 2.25% Local or Applicable 0.50% Transit) – Other than to Fulfill Certain Lump-Sum or Unit-Price Contracts*

N.C. Gen. Stat. § 105-164.15A(a) provides the effective date of a tax change for tangible personal property, digital property, or taxable services. The following apply to installation charges on or after March 1, 2016, that are part of the retail sale price of tangible personal property, certain digital property, and taxable services:

- Installation charges for an item not billed on a monthly or other periodic basis, such charges on or after March 1, 2016, are subject to the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax.
- Installation charges for an item that is billed on a monthly or other periodic basis, such charges included in the first billing period that starts on or after March 1, 2016, are subject to the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax.

### *Combined General Rate Items (7.00%)*

N.C. Gen. Stat. § 105-164.20(b) provides taxable installation charges for the sale or purchase of electricity, piped natural gas, or telecommunications service are applicable to bills rendered on or after March 1, 2016.

### *Certain Purchases to Fulfill Certain Lump-Sum or Unit-Price Contracts*

A contractor (subcontractor, if applicable) that purchases an item to fulfill a lump-sum or unit-price contract where such contract was entered into, awarded, or entered into or awarded pursuant to a bid made prior to March 1, 2016, may purchase such item without payment of the sales or use tax on installation charges provided the retailer can separately identify the installation charges on the invoice or similar document given to the purchaser at the time of the sale. To purchase such qualifying items without payment of sales or use tax on the portion of the sales price for installation charges, [Form E-589J](#), Affidavit to Exempt from Sales and Use Tax Installation Charges for Certain Purchases of Tangible Personal Property by Contractors to Fulfill a Lump-Sum or Unit-Price Contract, must be fully completed by a contractor (subcontractor, if applicable) and submitted to a retailer. Form E-589J is available on the Department's website, [www.ncdor.gov](http://www.ncdor.gov).

### **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 that there is any change in 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 regarding sales and use tax issued prior to the date of this notice conflicts with this important notice, the provisions contained in this important notice supersede.*