



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

**IMPORTANT NOTICE:
GROSS RECEIPTS DERIVED FROM SALES OF PIPED NATURAL GAS**

N.C. Gen. Stat. § 105-164.4(a)(9) imposes the 7.00% combined general rate of sales and use tax to the gross receipts derived from sales of piped natural gas **billed on or after July 1, 2014**. For purposes of the taxes imposed by N.C. Gen. Stat. § 105-164.4(a), the term “gross receipts” has the same meaning as the term “sales price” defined in N.C. Gen. Stat. § 105-164.3(37). Additional information will be published by the Department in the near future to further explain the application of sales and use tax to the gross receipts derived from sales of piped natural gas billed on or after July 1, 2014. The information contained in this notice includes any relevant legislative changes as of July 1, 2014.

Article 5E of Chapter 105, which imposes an excise tax on piped natural gas received for consumption in this State, and N.C. Gen. Stat. § 105-164.13(44), which exempts sales of piped natural gas from sales and use tax, are repealed for sales of piped natural gas billed on or after July 1, 2014.

Retailer of Piped Natural Gas Engaged in Business in the State

A retailer engaged in business in the State of selling piped natural gas at retail in the State is liable for the 7.00% combined general rate of sales and use tax due on the gross receipts from such sales. Sales of piped natural gas sold at retail in the State and billed on or after July 1, 2014 are sourced according to the provisions in N.C. Gen. Stat. § 105-164.4B.

Gas Cities

Effective July 1, 2014, Session Law 2014-39 imposes a 3.50% rate of sales and use tax to the gross receipts derived from sales of piped natural gas **billed on or after July 1, 2014 and before July 1, 2015** for piped natural gas (i) received by a gas city for consumption by that city and (ii) delivered by a gas city to a sales customer or transportation customer of the gas city. Additionally, Session Law 2014-39 provides that a “gas city” is a “[a] city in this State that operated a piped natural gas distribution system as of July 1, 1998. These cities are Bessemer City, Greenville, Kings Mountain, Lexington, Monroe, Rocky Mount, Shelby, and Wilson.” Gas cities engaged in business in this State of selling piped natural gas at retail in the State are liable for the 7.00% combined general rate of sales and use tax due on the gross receipts derived from sales of piped natural gas sold at retail and **billed on or after July 1, 2015**.

Use Tax Due

N.C. Gen. Stat. § 105-164.6(a) provides, in part, that “[a]n excise tax . . . is imposed on . . . tangible personal property . . . purchased inside or outside this State for storage, use, or consumption in this State.” An end user that purchases piped natural gas for storage, use, or consumption from a retailer that does not collect sales tax is liable for accruing and remitting use tax directly to the Department at the 7.00% combined general rate (3.50% for the period and transactions noted herein) of sales and

use tax due on the gross receipts derived from purchases of the piped natural gas billed on or after July 1, 2014 unless such purchases are specifically exempt per N.C. Gen. Stat. §§ 105-164.13 or 105-164.13E.

Sales of Piped Natural Gas from a Producer

N.C. Gen. Stat. § 105-164.13(3) provides the sale at retail and the use, storage, or consumption in this State of products of forests and mines in their original or unmanufactured state when such sales are made by the producer in the capacity of producer are exempt from sales and use tax.

Exemption for Farmers

Effective July 1, 2014, N.C. Gen. Stat. § 105-164.13E(1) provides an exemption from sales and use tax for fuel (including piped natural gas billed on or after July 1, 2014) sold to a qualifying farmer that is measured by a **separate meter or another separate device** and is used by the qualifying farmer in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals, other than preparing food, heating dwellings, and other household purposes. Effective July 1, 2014, a qualifying farmer is a farmer who has an annual gross income for the preceding income tax year of ten thousand dollars (\$10,000) or more from farming operations or who has an average annual gross income for the three preceding income tax years of ten thousand dollars (\$10,000) or more from farming operations and includes a dairy operator, a poultry farmer, an egg producer, a livestock farmer, a farmer of crops, and a farmer of an aquatic species, as defined in N.C. Gen. Stat. § 106-758. A conditional farmer is not a qualifying farmer, but is allowed to purchase piped natural gas exempt from sales and use tax to the same extent as a qualifying farmer.

In order for a qualifying farmer or conditional farmer, as defined effective July 1, 2014, to claim an exemption from sales and use tax for the gross receipts derived from sales of piped natural gas billed on or after July 1, 2014, the qualifying farmer or conditional farmer must issue Form E-595E or other exemption information required per N.C. Gen. Stat. § 105-164.28 to the retailer. Where a qualifying farmer or conditional farmer, as defined effective July 1, 2014, issues or has issued such form or other exemption information consistent with the requirements of N.C. Gen. Stat. § 105-164.28 to a retailer prior to July 1, 2014 claiming an exemption from sales and uses taxes for piped natural gas for farming or agriculture purposes, the retailer may continue to rely on such information to exempt from sales and use tax the gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 and prior to October 1, 2014 to such person, provided the sales of piped natural gas are measured through a **separate meter**, for a qualifying farm purpose, and the retailer has not been notified by the purchaser that the exemption being claimed no longer applies. A qualifying farmer or conditional farmer must issue a new Form E-595E or other exemption information required per N.C. Gen. Stat. § 105-164.28 bearing the qualifying farmer or conditional farmer exemption certificate number issued by the Department, to a retailer on or before October 1, 2014 in order for the retailer to exempt from sales and use tax the gross receipts derived from sales of piped natural gas to such person measured through a separate meter, used for a qualifying farm purpose, and billed on or after October 1, 2014.

A person that does not meet the criteria of a qualifying farmer or conditional farmer as of July 1, 2014, must give notice to a retailer that Form E-595E or other exemption information claiming an exemption from sales and use tax for purchases of piped natural gas for agriculture or farming purposes issued to the retailer by such person prior to July 1, 2014, is no longer applicable to the purchase of piped natural gas billed on or after July 1, 2014. Therefore, the gross receipts derived from such sales of piped natural gas to such persons are subject to sales tax at the 7.00% combined general rate pursuant to N.C. Gen. Stat. § 105-164.4(a)(9) for sales of piped natural gas billed on or after July 1, 2014.

Gross receipts derived from sales of piped natural gas to a qualifying farmer or conditional farmer where the piped natural gas is measured through a **single** meter and used for **both** qualifying farming purposes and for preparing food, heating dwellings, or other household purposes, are subject to the 7.00% combined general rate of sales and use tax for sales of piped natural gas billed on or after July 1, 2014.

Exemption for Manufacturing Facility

N.C. Gen. Stat. § 105-164.13(57) provides the sale at retail and the use, storage, or consumption in this State of fuel (including piped natural gas billed on or after July 1, 2014) sold to a manufacturer for use in connection with the operation of a manufacturing facility is exempt from sales and use tax. For purposes of the exemption, a “facility” is a single building or structure, or a group of buildings or structures that are located on a single parcel of land or on contiguous parcels of land under common ownership and any other related real property contained on the parcel or parcels where manufacturing activity occurs. **At the time of publication of this notice, draft legislation is under consideration by the General Assembly that, if enacted, may amend the exemption for piped natural gas used at a facility at which the primary activity is not manufacturing.**

In order for a manufacturer to claim the exemption from sales and use tax for the gross receipts derived from purchases of piped natural gas billed on or after July 1, 2014, the manufacturer must issue Form E-595E or other exemption information required per N.C. Gen. Stat. § 105-164.28 to the retailer. Where a manufacturer has issued such form or other exemption information consistent with the requirements of N.C. Gen. Stat. § 105-164.28 to a retailer prior to July 1, 2014 for purchases of piped natural gas for use in connection with the operation of a manufacturing facility, the retailer may continue to rely on such to exempt from sales and use tax the gross receipts derived from sales of piped natural gas billed on or after July 1, 2014.

Commercial Laundry and Pressing or Dry-Cleaning Establishment

N.C. Gen. Stat. § 105-164.13(10)c. provides the sale at retail and the use, storage, or consumption in this State to commercial laundries and pressing or dry-cleaning establishments of fuel (including piped natural gas billed on or after July 1, 2014), other than electricity, used in the direct performance of the laundering, pressing or cleaning service are exempt from sales and use tax. The exemption applies provided the sales of piped natural gas to the establishment for use in the direct performance of the laundering, pressing or cleaning service are measured through a **separate meter** and used for a qualifying purpose.

In order for a commercial laundry and pressing or dry-cleaning establishment to claim the exemption from sales and use tax for qualifying purchases of piped natural gas billed on or after July 1, 2014, the commercial laundry and pressing or dry-cleaning establishment must issue Form E-595E or other exemption information required per N.C. Gen. Stat. § 105-164.28 to the retailer.

Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 to a commercial laundry and pressing or dry-cleaning establishment where the piped natural gas is measured through a single meter and used for **both** the direct performance of the laundering, pressing or cleaning service and other non-qualifying purposes at an establishment are subject to the 7.00% combined general rate of sales and use taxes.

Registration

A retailer engaged in business in the State of selling piped natural gas sourced to the State and billed on or after July 1, 2014 and that is not registered to file Form E-500E, Utility and Liquor Sales and Use Tax Return, must complete Form NC-BR, Business Registration Application for Income Tax Withholding, Sales and Use Tax, and Machinery and Equipment Tax. Only the web-fill version of

Form NC-BR can be used to submit an application to register a retailer that makes sales of piped natural gas in this State to file Form E-500E at this time. The application form is available online at the Department's website, www.dornc.com. There is no fee required to register to file Form E-500E and to obtain a certificate of registration. Each newly registered retailer will receive a registration packet that consists of a registration acknowledgment letter, three Form E-500E, Utility and Liquor Sales and Use Tax Returns, three envelopes, and Form E-505AC, Newly Registered Taxpayers. Failure to receive the Utility and Liquor Sales and Use Tax Returns or other information referenced to be included in the packet does not relieve a retailer of the requirement to timely report and pay its tax liability to the Department.

The Department will register retailers to file Form E-500E, Utility and Liquor Sales and Use Tax Returns, that currently sell piped natural gas and that currently file Form CD-312, Excise Tax Return Piped Natural Gas, and Bessemer City, provided such retailers are not currently registered with the Department to file Form E-500E. The filing frequency for Form E-500E, Utility and Liquor Sales and Use Tax Return, is the same as the filing frequency for Form E-500, Sales and Use Tax Return. In the event a retailer is only required to file Form E-500E, the filing frequency will be quarterly, monthly, or monthly with prepayment in accordance with the requirements of N.C. Gen. Stat. § 105-164.16. In addition, a monthly with prepayment filer is required to pay by electronic funds transfer as required by N.C. Gen. Stat. § 105-241(b)(2). Information on how to pay by electronic funds transfer is described below.

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

Effective July 1, 2014, the 7.00% combined general rate of tax that applies to the gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 should be reported on Line 13, Spirituous Liquor, of Form E-500E. The gross receipts from and the tax due on the gross receipts derived from sales of piped natural gas will only be reported on Line 13 for the filing periods of July, August, and September 2014. Beginning with the October 2014 filing period, Form E-500E, Utility and Liquor Sales and Use Tax Return, will be revised to include a separate line to report piped natural gas receipts, purchases, and the applicable tax due thereon.

The rate of 3.50% due on the gross receipts derived from piped natural gas for certain sales or purchases based on Session Law 2014-39 discussed previously is to be reported on Line 13, Spirituous Liquor, of Form E-500E, for the filing periods of July, August, and September 2014. The Department will create and publish a worksheet on its website to assist taxpayers to convert the tax due at 3.50% to 7.00% for reporting purposes only to the Department. Instructions will be included in the coupon booklets for Form E-500E for filing periods beginning October 2014 for purposes of reporting the gross receipts derived from and tax at the rate of 3.50% due on certain sales of piped natural gas.

Paying by Electronic Funds Transfer (ACH credit or ACH debit)

A taxpayer that is not currently enrolled to pay utility and liquor sales and use tax by electronic funds must submit Form EFT-100, Electronic Funds Transfer Authorization Agreement, to establish the EFT payment method at <http://www.dornc.com/downloads/eft.html>. The Utility and Liquor Sales and Use EFT account must be established in order for payment(s) to be received and processed by the Department on or before the due date of the payment. Use Tax Type/TXP code 04001 to make a payment for utility and liquor sales and use tax. For additional assistance, contact the Electronic Payments Unit at 919-814-1501.

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).