

**North Carolina Department of Revenue
Post Office Box 25000
Raleigh, North Carolina 27640-0001**

IMPORTANT NOTICE – PENDING LEGISLATIVE CHANGES AND REMINDERS

This document serves as a notice of possible changes by the 2005 General Assembly and as a reminder of previously enacted legislation affecting North Carolina sales and use taxes.

State Tax Rate Change

Effective July 1, 2005, the general State rate of sales and use tax is scheduled to decrease from 4.5% to 4%. At the time this notice was prepared, legislation had been introduced in the 2005 General Assembly to permanently extend the additional .5% State tax. Additional information will be provided if the additional .5% tax is extended. Taxpayers who may be affected by this change should access the Department's website for information pertaining to a possible rate change.

Sales Tax Holiday

G.S. 105-164.13C authorizes a sales tax holiday in North Carolina. For 2005, the sales tax holiday will begin at 12:01 a.m. on Friday, August 5th and will end at 12:00 midnight on Sunday, August 7th. During the sales tax holiday period, retail sales of the following items are exempt from all State and local sales or use taxes, including the Mecklenburg Public Transportation Tax: clothing with a sales price of one hundred dollars (\$100.00) or less per item; school supplies with a sales price of one hundred dollars (\$100.00) or less per item; computers with a sales price of three thousand five hundred dollars (\$3,500.00) or less per item; and sport or recreational equipment with a sales price of fifty dollars (\$50.00) or less per item.

There have been several changes from the 2004 holiday. Form E-599H, North Carolina Sales Tax Holiday Exemption Certificate, is no longer required to document the sale of a computer with a sales price of \$1,000 or more. There is now an all-inclusive list of items that qualify as "school supplies." Only items included on the list will be exempt from tax as school supplies during the holiday. The list of school supplies and other information on the holiday is contained in a document entitled "Important Information Regarding the Sales Tax Holiday" that is available on the Department's website.

Mill Machinery

As a result of legislation enacted in 2001, mill machinery and mill machinery parts and accessories will be exempt from the sales and use tax effective January 1, 2006 and will become subject to a new privilege tax. However, legislation is under consideration in the 2005 General Assembly that would change the effective date to October 1, 2005. The Department will issue additional information to taxpayers affected by this legislation at a later date.

The rate (1% with a maximum tax of \$80.00 per article) and the application of the new privilege tax are the same as under current law. However, the new tax is imposed on a qualified purchaser of mill machinery and mill machinery parts and accessories, and the purchaser will pay the tax directly to the Department instead of to the retailer. Purchasers of this equipment will issue an exemption certificate or a direct pay permit at the time of the purchase. The tax will be reported on a separate return which is currently being developed and which will be mailed to taxpayers responsible for reporting and paying the tax to the Department.

Exemption for Free Distribution Periodicals

A prior exemption for free circulation publications was reenacted and rewritten. The exemption is effective July 1, 2005 and applies to sales of paper, ink, and other tangible personal property to commercial printers and commercial publishers for use as ingredients or component parts of free distribution periodicals and sales by printers of free distribution periodicals to the publishers of these periodicals. A "free distribution periodical" is defined as "a publication that is published on a periodic basis monthly or more frequently, is provided without charge to the recipient, and is distributed in any manner other than by mail."

If you have questions about the information in this document or about sales and use tax, you may contact the Taxpayer Assistance Call Center at 1-877-252-3052 (toll-free) or write to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001. Information is also available on the Department's website at www.dornnc.com.