

**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 a possible change by the 2007 General Assembly and as a reminder of previously enacted legislation affecting the North Carolina sales and use tax and the privilege tax on manufacturing fuel and certain machinery and equipment.

State Tax Rate Change

Effective July 1, 2007, the general State rate of sales and use tax is scheduled to decrease from 4.25% to 4%. At the time this notice was prepared, legislation had been introduced in the 2007 General Assembly to maintain the general State rate of sales and use tax at 4.25%. Additional information regarding the State rate will be issued if the rate does not decrease.

There are currently no changes to the local rates of tax. The local rate of tax in all counties except Mecklenburg is 2.5%; the rate in Mecklenburg County is 3%. Therefore, if the State rate decrease takes effect July 1, the combined State and local tax will be 6.5% in all counties except Mecklenburg; the combined State and local tax in Mecklenburg will be 7%. The “combined general rate” of tax that applies to sales of telecommunications service, ancillary service, video programming, and spirituous liquor other than mixed beverages will also decrease to 6.5% if the State rate decreases effective July 1, 2007.

Taxpayers who may be affected by the rate decrease should access the Department’s website at www.dornrc.com for information pertaining to a possible rate change. In the event the State rate decrease takes effect July 1, 2007, additional information on rate decreases is available on the Department’s website in the IMPORTANT NOTICE: Decrease in State Sales and Use Tax Rate dated November 2006.

Sales Tax Holiday

G.S. 105-164.13C authorizes a sales tax holiday in North Carolina. For 2007, the sales tax holiday will begin at 12:01 A.M. on Friday, August 3rd and will end at 11:59 P.M. on Sunday, August 5th. 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; computer supplies with a sales price of two hundred fifty dollars (\$250.00) or less per item; and sport or recreational equipment with a sales price of fifty dollars (\$50.00) or less per item.

There are no changes to the types of exempt articles from the 2006 holiday. Additional information is available in a document entitled "List of Items Exempt During the Sales Tax Holiday" dated April 2006. Sales and Use Tax Technical Bulletin 34-24 also contains information related to the sales tax holiday. Both resources are available on the Department's website.

Purchases by Research and Development Companies

Effective July 1, 2007, certain purchases by research and development companies are exempt from sales and use tax and subject to a 1% privilege tax with a maximum tax of \$80.00 per article. G.S. 105-187.51B(a)(2) imposes the privilege tax on a research and development company in the physical, engineering, and life sciences that is included in industry 54171 of NAICS. The privilege tax applies to purchases of qualifying equipment or an attachment or repair part for equipment that is capitalized for income tax purposes, used for research and development of tangible personal property, and would be considered mill machinery if purchased by a manufacturing industry or plant for use in the research and development of tangible personal property manufactured by the industry or plant. The purchaser must remit the privilege tax directly to the Department using Form E-500J, Machinery, Equipment, and Fuel Tax Return. As authority for exempting the sale of eligible property from sales and use tax, a research and development company should complete and provide Form E-595E, Streamlined Sales and Use Tax Exemption Certificate, to a seller. Section 56 of the Sales and Use Tax Technical Bulletins contains information on reporting and remitting the tax. Prior to this date, purchases by research and development companies are subject to the general State and applicable local rates of sales and use tax.

Refunds for Motorsports Racing Teams

Effective July 1, 2007 for purchases made on or after that date, a professional motorsports racing team, as defined in G.S. 105-164.3(30a), is entitled to a refund of fifty percent of the sales and use tax paid by it in this State on certain tangible personal property that comprises any part of a professional motor racing vehicle. The refund provision does not apply to tires or to accessories such as instrumentation, telemetry, consumables, and paint. A refund request is due by December 31 for the prior fiscal year ending June 30 and is barred if applied for after the due date. A request for a refund should be filed on Form E-585S, Incentive Claim for Refund.

If you have questions about the information in this document or about sales and use tax, you may contact the Taxpayer Assistance Division 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.dornc.com.