



**Sales and Use Tax Division  
North Carolina Department of Revenue  
Post Office Box 25000  
Raleigh, North Carolina 27640-0001  
[www.dornc.com](http://www.dornc.com)**

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**IMPORTANT NOTICE: SALES AND USE TAX ON SERVICE CONTRACTS  
FOR MOTOR VEHICLES SUBJECT TO HIGHWAY USE TAX**

The sales price of a service contract sourced to this State and sold at retail to maintain or repair a motor vehicle is subject to the 4.75% general State and applicable local (2.00% or 2.25%) and transit (0.50%) rates of sales and use tax. The sales price of any such service contract is not part of the gross receipts derived from the lease or rental of a motor vehicle or a part of the retail value of a motor vehicle. Sales tax is due on the sales price of a service contract sold at retail at the time of the sale of the service contract, notwithstanding the sales price of the service contract and applicable sales and use tax may be financed, in whole or in part, as a component of a financing arrangement for the lease, rental or sale of a motor vehicle. N.C. Gen. Stat. § 105-164.3(38b) defines "[s]ervice contract" as "[a] warranty agreement, a maintenance agreement, a repair contract, or a similar agreement or contract by which the seller agrees to maintain or repair tangible personal property."

N.C. Gen. Stat. § 105-187.3 imposes a 3.00% highway use tax of the retail value of a motor vehicle for which a certificate of title is issued. The highway use tax is payable to the North Carolina Division of Motor Vehicles at the time of application for a certificate of title. N.C. Gen. Stat. § 105-187.5(a) provides, in part, "[a] retailer may elect not to pay the tax imposed by [Article 5A, North Carolina Highway Use Tax] . . . when applying for a certificate of title for a motor vehicle purchased by the retailer for lease or rental. A retailer who makes this election shall pay a tax on the gross receipts of the lease or rental of the vehicle." The rate of alternate highway use tax ("motor vehicle lease tax") due on the gross receipts derived from a short-term lease or rental is 8.00%, and the rate of motor vehicle lease tax due on the gross receipts derived from a long-term lease is 3.00%. The motor vehicle lease tax on the gross receipts derived from a lease or rental is payable to the Department of Revenue.

Any portion of a lease or rental payment for a motor vehicle that represents any amount applicable to the sales price of or sales tax on a service contract sold at retail and sourced to this State should not be included in the gross receipts subject to the motor vehicle lease tax. Such amount of the lease or rental payment applicable to the sales price of or sales tax on a service contract sold at retail and sourced to this State should be separately stated on the monthly billing or other documentation given to the purchaser.

**Assistance**

For additional information regarding service contracts subject to sales and use tax see SD-13-5 issued December 23, 2013 and revised January 17, 2014 and Important Notice: Collection of Tax on Service Contracts dated January 23, 2014, both of which are available on the Department's website. Questions about this notice can be directed to the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free).