

Form E-500 Sales and Use Tax Return **General Instructions**

1. Use Form E-500 to file and report your North Carolina state and local sales and use taxes.
2. A return must be filed each period by the due date indicated, including the period in which the application for registration was filed, or a delinquent notice for failure to file will be mailed to you. The tax shown to be due must be paid with the return or penalty and interest will be charged. If you do not owe any tax for a month, you must file a return showing zero (0.00) on Line 20. Please do not write "No Tax Due" or any similar text on the form.
3. Complete the sales and use tax return in its entirety on your computer and print the return.
4. If you discontinue business operations or sell your business, please complete Form NC-BN, Out-of-Business Notification, and mail it separately to the Department at the address shown on the form.
5. The return must be properly completed. Total receipts exempt from State tax should be included on Line 3. All retail sales of tangible personal property are subject to sales and use tax unless the sales are specifically exempt from tax by statute.
6. Operation of more than one place of business at separate locations, which are wholly owned by the reporting taxpayer or are not separately incorporated, requires a breakdown of tax due by each location. Form E-543, Schedule of State Sales and Use Tax by City, is used for this purpose and a supply will be furnished to you by calling 1-877-252-3052 (toll-free).
7. Effective October 1, 2008, the local sales and use tax rate in all counties is 2.25% except the counties of Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry where the local sales and use tax rate is 2.5%. Mecklenburg County has an additional 0.5% local sales and use tax. The Department will notify taxpayers if other counties levy the additional 0.25% tax.

A retailer engaged in business in this State is required to collect the county tax for all counties to which property is shipped. For an over-the-counter sale, the retailer's business location is where the sale is made, and county tax must be collected for the county in which the business is located. If the property is shipped to the purchaser at a place other than the retailer's business location, county tax must be collected for the county to which the property is shipped (destination county). A retailer must report county tax for all counties to which property is delivered or shipped.

If you report county tax for one county only, enter the appropriate amounts in the spaces provided on the return. If you report county tax for more than one county, complete Form E-536, Schedule of County Sales and Use Taxes, and mail with your sales and use tax return. Form E-536 will be sent to you upon request.

8. Payment of tax must be made in U.S. dollars by check or money order drawn on a U.S. (domestic) bank payable to the North Carolina Department of Revenue unless you have been previously instructed by the Department to make payments electronically. Do not mail cash, stamps, or post dated checks with your return.

How to Prepare Return

- Line 1 - North Carolina Gross Receipts:** Enter the gross receipts from your business operations in North Carolina. Do not include any taxes collected.
- Line 2 - Sales for Resale:** Enter the total wholesale sales of tangible personal property that your business sold to registered merchants for the purpose of resale. Do not include this amount on Line 3 or elsewhere on the return.
- Line 3 - Receipts Exempt From State Tax:** Enter the total sales exempt from State tax. Examples of exempt sales in G.S. 105-164.13 include but are not limited to:
- Sales in interstate commerce and direct sales to the U.S. Government
 - Vaccines, insecticides, feed, and items for the commercial production of animals or plants
 - Labor on repair work and installation labor when separately stated

- Food exempt under food stamp and supplemental food programs
- Prescription drugs and medicine sold on written prescription
- Worthless accounts charged off for income tax after sales tax was paid
- Food exempt from the State rate of tax but subject to the local rate of tax
- Receipts above the maximum tax subject to the State 3% or 2% rate

Lines 4 through 7 - State Tax Calculation:

For the appropriate rate, enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property which was purchased for storage, use, or consumption in North Carolina from vendors outside North Carolina on which the State rate of tax was not collected by the vendors. Do not include tangible personal property purchased for resale.

For the appropriate rate, enter under the column "Receipts" total taxable receipts, rentals, and sales which are subject to the State rate of tax excluding the tax collected. Compute the tax due at the stated rate and enter that amount under the column "Tax."

Line 4 - General State Rate: Effective October 1, 2008, the State levies a **4.5%** general rate of tax on the sales price of each item or article of tangible personal property that is sold at retail and is not subject to a reduced rate of tax. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 4.5% State rate and enter that amount under the column "Tax."

Items subject to the general State rate are also subject to the applicable local sales and use tax rate. See instructions for Lines 9 through 11 for more information.

1% State Rate: Prior to January 1, 2006, the State levied a 1% State sales and use tax on the sales price of some machinery or equipment and fuels, other than electricity, sold to farmers, manufacturing industries and plants, commercial laundries, and dry cleaning establishments.

Receipts from lease contracts entered into prior to January 1, 2006 are subject to the 1% State sales and use tax and should be reported on Line 4 also. For these transactions divide the amount of tax due at the 1% rate by .045. Add the result to the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 4.5% State rate and enter that amount under the column "Tax." Effective January 1, 2006, items subject to the 1% rate of tax are to be reported by the purchaser on Form E-500J, Machinery, Equipment, and Fuel Tax Return.

Line 5 - 3% State Rate: The 3% State rate of tax applies to sales of aircraft or boats with a maximum tax of \$1,500 per article. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 3% State rate and enter that amount under the column "Tax."

EXAMPLE: Since items at the 3% rate qualify for a maximum tax of \$1,500 per article, only enter the amount necessary to arrive at the maximum tax. A boat with a purchase price of \$75,000 only has a tax of \$1,500. Therefore, enter \$50,000 on Line 5 and enter the difference of \$25,000 on Line 3, since \$25,000 is exempt from tax.

Line 6 - 2.5% State Rate - Modular Homes: The 2.5% State rate of tax applies to sales of modular homes. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2.5% State rate and enter that amount under the column "Tax."

Line 7 - 2% State Rate: The 2% State tax applies to sales of manufactured homes with a maximum tax of \$300 per article. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2% State rate and enter that amount under the column "Tax."

EXAMPLE: Since items at the 2% rate qualify for a maximum tax of \$300 per article, only enter the amount necessary to arrive at the maximum tax. For example, a singlewide manufactured home with a purchase price of \$20,000 only has a tax of \$300. Therefore,

enter \$15,000 on Line 7 and enter the difference of \$5,000 on Line 3, since \$5,000 is exempt from tax.

Line 8 - 2% Food Rate: A 2% local tax applies to the sales price of food products that are exempt from State tax. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2% Food rate and enter that amount under the column "Tax."

Line 9 - 2.25% County Rate: See Number 7 under Instructions - General. Effective October 1, 2008, items subject to the 4.5% general State rate (Line 4) are also subject to the 2.25% local sales and use tax rate in all counties (except Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry) and to the 0.5% Mecklenburg County Public Transportation sales and use tax rate if the item is sold or delivered in Mecklenburg County. The Mecklenburg County Public Transportation sales and use tax is reported on Line 11.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property which was purchased for storage, use, or consumption in the county from vendors outside North Carolina not required to collect the 2.25% county tax. This amount should include the amount in the column "Purchases for Use" on Line 4.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales which are subject to the 2.25% rate of county tax excluding the tax collected. This amount should include those items in the column "Receipts" on Line 4. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2.25% county rate and enter that amount under the column "Tax."

Line 10 - 2.5% County Rate: See Number 7 under Instructions - General. This line should be used to report the 2.5% county tax effective in the counties of Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry if the item was sold or delivered in one of these counties.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property which was purchased for storage, use, or consumption in the county from vendors outside North Carolina not required to collect the 2.5% county tax. This amount should include the amount in the column "Purchases for Use" on Line 4.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales which are subject to the 2.5% rate of county tax excluding the tax collected. This amount should include those items in the column "Receipts" on Line 4. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2.5% county rate and enter that amount under the column "Tax." Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 2.5% county rate and enter that amount under the column "Tax."

Line 11 - 0.5% Additional County Rate: See Number 7 under Instructions - General. Items subject to the general State rate (Line 4) are also subject to the 0.5% Mecklenburg County Public Transportation sales and use tax rate if the item is sold or delivered in Mecklenburg County.

Enter under the column "Purchases for Use" the total purchase price of any taxable tangible personal property which was purchased for storage, use, or consumption in Mecklenburg County from vendors outside North Carolina or outside Mecklenburg county in which the 0.5% Mecklenburg County Public Transportation sales and use tax was not required to be collected by the vendors. This amount should include the amount in the column "Purchases for Use" on Line 4 that applies to Mecklenburg County.

Enter under the column "Receipts" the total taxable receipts, rentals, and sales which are subject to the 0.5% rate of Mecklenburg County Public Transportation sales and use tax excluding the tax collected. Add the amounts in the columns "Purchases for Use" and "Receipts." Compute the tax due on the combined amount at the 0.5% rate and enter that amount under the column "Tax."

Line 12 - Total State and County Tax: Add the amounts in the column "Tax" on Lines 4 through 11 and enter the sum.

- Line 13 - Excess Collections:** Enter any tax collected in excess of the total amount of tax computed to be due on taxable receipts, rentals, and sales.
- Line 14 - Total Tax:** Add the tax on Lines 12 and 13, and enter the sum.
- Line 15 - Penalty - State and County:** Penalties are computed separately for State and county tax. **If the return is filed after the due date, add the failure to file return penalty** of 5% per month of the State tax and 5% per month of the county tax for each month, or fraction thereof, that the return is filed late. The maximum failure to file return penalty is 25% of the State tax due and 25% of the county tax due. The minimum failure to file return penalty is \$5.00 for the State and \$5.00 for the county, for a total of \$10.00 if both State and county tax are reported.
- If the tax was not paid when due, add the failure to pay tax when due penalty** of 10% of the tax. The minimum failure to pay penalty is \$5.00 for the State and \$5.00 for the county, for a total of \$10.00 if both State and county tax are due. Therefore, if State and county tax are reported on a late filed return and the tax was not paid when due, there is a total minimum penalty of \$20.00.
- Line 16 - Interest - State and County:** If the return is filed after the due date, compute interest on the total tax shown to be due on Line 14 from the time the taxes were due until paid. The Secretary of Revenue establishes the interest rate on a semiannual basis. The interest rate is 5% per year or .417% per month through December 31, 2008. Check the Department's website or contact the Department for the current interest rate.
- Line 17 - Less Prepayment for This Period:** *(This line is for use by taxpayers remitting \$10,000 or more in tax per month who have made a prior prepayment for this period.)* Enter the total amount of any electronic payment made for this period prior to filing this return.
- Line 18 - Prepayment for Next Period:** Taxpayers who are consistently liable for at least \$10,000 a month in State and locals sales and use taxes must make a monthly prepayment of the next month's tax liability. The prepayment is due when the monthly return is due. The prepayment must equal at least 65% of any of the following:
- (1) the amount of tax due for the current month,
 - (2) the amount of tax due for the same month in the preceding year, or
 - (3) the average monthly amount of tax due in the preceding calendar year.
- Penalties or interest will not be due on an underpayment of a prepayment if one of these three calculation methods is used.
- Enter the amount of payment to be applied to the next monthly period.
- Line 19 - Less any Credit:** If you are claiming a credit for sales and use tax previously paid in error, subtract the amount of the overpayment from the total tax shown to be due on Line 14. To prevent an assessment, attach a detailed explanation of the credit to your return.
- Line 20 - Total Due:** Enter the total amount due by adding Lines 14, 15, 16, and 18, and subtracting any prepayment on Line 17 and any credit amount on Line 19 and pay this amount. **Do not fold your return or payment.**

Additional information about sales and use tax may be obtained from the Department's website at www.dornrc.com. Questions should be directed to the Taxpayer Assistance Division, North Carolina Department of Revenue, Post Office Box 25000, Raleigh, North Carolina 27640-0001, telephone number 1-877-252-3052 (toll-free) or to one of the Department's service centers.