

N. C. SALES TAX CHANGES EFFECTIVE JANUARY 1, 2017

History – Prior to 3/1/2016, sales of products were generally taxable and sales of labor (including repair, maintenance and installation services) were not taxable. Effective 3/1/2016, sales of repair, maintenance and installation “RMI” services became taxable sales with some exclusions for real property contracting (i.e. HVAC, plumbing, etc.) and businesses that only provided RMI services without selling any products.

NEW DEVELOPMENT EFFECTIVE 1/1/2017

Taxation of service sales are now expanded to tax ALL sales of repair, maintenance and installation services UNLESS the service is specifically excluded from taxation (list to follow). Taxation of RMI service sales is expanded to reach real property services (i.e. HVAC, plumbing, etc.) and services of digital property (i.e. getting computer software to work properly).

If you provide any repair, maintenance or installation service that is not specifically exempted from sales tax, then the sale is TAXABLE and you are required to register with the NCDR, collect sales tax on the full sale price, and remit tax.

Here is a partial list of service items that are generally taxed or not taxed as indicated.

TAXABLE RMI SALE	NON-TAXABLE RMI SALE (with conditions)
<ul style="list-style-type: none"> -HVAC repair -Rekeying locks -Repair of water pump motor -Repair jammed garage door -Electric repair to switch or receptacle -Plumbing service to find/fix leak or unclog drain -Roofing repair of a leak -Replace exterior damaged bricks -Repair or replace countertops -Replace or reface kitchen cabinet doors -Repair or replace water heater -Repair or replace a single light fixture -Carpet or linoleum for a single room -Repair or replace a single plumbing fixture -Replacement of a plate glass window -Repair or tune-up of car, motorcycle, bicycle, etc. -Calibrate watch, medical equipment, instruments -Restore furniture and reupholster service -Patch tires -Sharpen blades -Polish jewelry -Troubleshoot any problem with tangible property -Troubleshoot prewritten software -Re-string or re-grip service (racquets & clubs) -Tuning pianos -Repair computers, phones, remove virus, etc. -Painting tangible property -Window tinting for motor vehicles -Any single RMI service (not a remodel) -Replacement of building fixture unless it is part of a remodeling and is or becomes property of the land owner. -A real property contract done without form E589CI 	<ul style="list-style-type: none"> -Items exempt under NCGS 105-164.13 or 13E: includes sales to utilities companies and farms -Transmission, distribution or network asset on utility owned land, right of way or easement -Items subject to 1% privilege tax -Gov’t required safety inspections (i.e. autos) -Cleaning of real property -Service on roads, driveways, parking lots, sidewalks -Removal of waste, trash, debris from tangible property -Home inspections in preparation of a sale -Landscaping service -Pest control -Moving services -Self-service car wash -Services for RESALE if form E595E is obtained -Services to a qualifying farmer -*REAL PROPERTY CONTRACT SERVICE defined as:* <ul style="list-style-type: none"> New construction service Reconstruction service Remodeling (Capital Improvement Remodeling) The following are Capital Improvements: <ul style="list-style-type: none"> -An addition or alteration that is permanently applied -Removal of debris, construction materials -Work requiring permits (except water heaters, etc.) -Underground utilities -Painting or wallpapering of real property -Replacement of full HVAC, roofing, septic tank system, plumbing, electrical, irrigation, and sprinkler systems -Install/replace road, driveway, parking lot, sidewalks *Form E589CI must be obtained for capital improvements to avoid sales tax to the customer. Service provider is liable for uncollected sales tax.*

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WHAT TO DO NOW?

If you have any Capital Improvement sales (HVAC or roofing replacements, remodels, etc.), then you will need to collect **form E589CI** from your customers to substantiate that the work performed is a capital improvement job. **Failure to obtain this form will cause the capital improvement sales to be fully taxable.**

Here's a link to the new E589CI form. <http://www.dor.state.nc.us/headlines/2016/e589ci.html>

If you are a contractor and you hire subcontractors to work on capital improvement jobs, then you must issue them a form E589CI (either a blanket use form or form per job) so that those contractors do not charge you sales tax.

If you will have taxable sales and are not already registered with the NCDR, then you need to register as a retailer, start charging sales tax as appropriate and remit the sales tax along with filing a monthly sales tax report. Also, if making taxable sales, you should likely provide form E595E to your suppliers so that you can purchase your materials and supplies without paying sales tax.

If some of your sales will be real property contracting and other sales will be retail RMI sales, then there are special rules that apply to you. You should buy your materials without paying sales tax. Then, you will remit sales tax collected on RMI sales and you will pay USE TAX (same rate as sales tax) to the NCDR on your material PURCHASES that were used on real property contracting jobs. This will require you to maintain a separate account of materials used for taxable and non-taxable jobs.

If you have questions on how these new rules apply to your business, please contact us for assistance! Misapplying sales tax laws can create large liabilities very quickly. Intentionally disregarding or avoiding sales and use tax is a class H felony. The penalty for fraud related to sales tax is 50% of the tax deficiency.

This document is an attempt to reduce many pages of regulations to a manageable size. Therefore many details are intentionally omitted. Here are links to the more detailed information.

http://www.dor.state.nc.us/taxes/sales/itemspublished_e505.pdf

<http://www.dor.state.nc.us/headlines/2016/e589ci.html>

<http://www.dor.state.nc.us/taxes/sales/contractorletter2016.pdf>

<http://www.dor.state.nc.us/practitioner/sales/directives/SD-16-3.pdf>

<http://www.dor.state.nc.us/practitioner/sales/directives/SD-16-4.pdf>

Disclaimer: This information is intended to assist clients in understanding and applying sales tax regulations. However, this information is NOT comprehensive and cannot be relied upon to account for every unique client and transaction. Our office is available to discuss your specific situation. We do not accept any financial responsibility for errors in the information contained above, or for the misinterpretation or misapplication of it.

**SALES TAX COMPLIANCE CHECKLIST REGARDING
REPAIR, MAINTENANCE AND INSTALLATION SERVICES
EFFECTIVE 1/1/2017**

- Determine if any of your taxable sales will be taxed as **Real Property Contracts (Capital Improvements)** and establish a system to ensure getting a NCDR **form E-589CI from your customers that covers EVERY real property contract** (capital improvement) sale. **Failure to obtain this form will cause you to be liable for sales tax on the full price of the real property contract (capital improvement) sale.**
- If you pay subcontractors for services on real property contracts (capital improvements), establish a system where you issue form E-589CI to your subcontractors so they do not charge sales tax to you.
- **Determine if you will have any taxable repair and maintenance sales after 1/1/17.**
 - a. If yes, register with NCDR as a retailer to obtain a sales tax number (unless you are already registered).
 - b. Download form E-595E, fill out and submit a copy to EVERY VENDOR used to purchase products that are used or sold when performing repair, maintenance and installation services. **This action will allow you to purchase products without paying sales tax to your vendors.** This sales tax exemption form should only be used for material and supplies that are used/sold to customers. This sales tax exemption should NOT be used when purchasing tools or equipment that you own and use while performing services.
- Establish a system of charging and tracking sales tax on repair, maintenance, installation service and all other taxable sales. A report on these sales will be needed to meet the monthly sales tax filing and remittance requirement.
- Establish a system for tracking the Cost of all materials and supplies used/sold on real property contracts (capital improvements). You will need this monthly total for remitting use tax on these items each month.
- Establish a plan for monthly filing and remitting the following taxes as applicable:
 - a. Sales tax charged to customers on taxable sales
 - b. Use tax on purchases of items sold as part of a real property contract (capital improvement)
- Consider if your job costing/quoting procedures should be altered due to changes in how you pay sales tax on purchases or how you charge sales tax to customers.