

Sales Tax-Free Shopping is coming to North Carolina August 7-9, 2009

Are You and Your Employees Ready?

This tax-exempt weekend applies to both state and local sales and use tax.

This form will help you get ready by providing the information you need for a smooth and trouble-free weekend. See the inside of this poster for the Department of Revenue's list of taxed and not-taxed items. Place this poster at your registers to help employees and customers identify tax-free items.

Extra posters are available free to NCRMA members. Just call: (919) 832-0811 to request additional copies.



Time to Prepare for North Carolina's Eighth Annual Sales Tax Holiday August 7-9, 2009

August will be here before you know it and there's never a better time than the present to start planning for what will prove to be a very busy weekend for retailers.

North Carolina's Sales Tax Holiday is one of the biggest shopping weekends of the year and it's time to start thinking about your stock supply as well as preparing your employees to handle the exorbitant sales you'll experience in just a few months time.

During this weekend, certain items are free from sales tax to help consumers with back-to-school shopping. But the shopping doesn't just impact stores; the sales tax holiday also applies to items ordered via mail, telephone and the internet.

The North Carolina General Assembly created the first sales tax holiday in 2002. Since then, there have been some minor changes made to it over the years. The items exempt from sales tax have not experienced any changes this year.

Here are some things to remember that came into question during the 2008 Sales Tax Holiday. Computer parts such as the monitor, keyboard, mouse, speakers and cables are not taxed when sold with the central processing unit (CPU), but are taxed when sold separately. Please note that the exemptions for school supplies, school instructional materials and computer supplies only apply to those items found on the correlating lists herein. (Art supplies

that are not taxed have been specifically referenced rather than placing them in a general "art supply" category.)

What You Need to Know

This issue of **The Retailer provides everything you need** to prepare both you and your employees for the upcoming Sales Tax Holiday. Pages 3 and 4 provide a comprehensive list of taxable and tax-free items, and pages 5-7 provide examples of how the law applies to gift certificates, coupons, layaways and more.

If you have additional questions regarding the Sales Tax Holiday, please feel free to contact us at

(919) 832-0811. We are happy to provide this information in hard copy. □





The following is a list of taxed and not-taxed items for the Sales Tax Holiday August 7-9, 2009

This poster provides information on the application of sales and use tax for the sales holiday period provided by G.S. 105-164.13C. During the sales tax holiday period, retail sales of specified articles of merchandise are exempt from both state and local sales and use tax.

Holiday Period

The sales tax holiday begins immediately after midnight **Thursday**, which is **12:01 a.m.** on **Friday, August 7th** and runs through **11:59 p.m.** on **Sunday, August 9th, 2009.**

Items Are Grouped by Category

Clothing Items Not-Taxed (*\$100 or less per item*)

Aprons (<i>household and shop</i>)	Formal Wear (<i>excludes rentals</i>)	Rubber pants
Athletic supporters	Garters and garter belts	Sandals
Baby receiving blankets	Girdles	Scarves
Bandannas	Gloves and mittens	Shoes and shoelaces
Bathing suits and caps	Hats and caps	Slippers
Beach coverups	Hosiery	Sneakers
Belts and suspenders	Insoles for shoes	Socks and stockings
Boots	Jogging suits	Steel-toed shoes
Coats, jackets, capes, etc.	Lab coats	Sweaters
Costumes	Leotards and tights	Underwear
Diapers (<i>children and adult</i>)	Neckties	Uniforms (<i>athletic, school, scouts, etc.</i>)
Earmuffs	Overshoes	Wedding apparel
Footlets	Pantyhose	
	Rainwear	

Sport or Recreational Equipment Not-Taxed (*\$50 or less per item*)

Ballet and tap shoes	Helmets (<i>bicycle, skating, baseball, etc.</i>)	Shin guards
Cleated or spiked athletic shoes	Life preservers and vests	Shoulder pads
Gloves (<i>baseball, hockey, golf, etc</i>)	Mouth guards	Ski boots
Goggles	Roller and ice skates	Waders
Hand and elbow guards		Wetsuits and fins

Certain School Supplies Not-Taxed
(\$100 or less per item for classroom or home use)



Binders	Folders	Paper
Blackboard chalk	Glue, paste and paste sticks	Pencils (<i>also boxes and sharpeners</i>)
Book bags	Highlighters	Pens
Calculators	Index cards & index card boxes	Protractors
Cellophane tape	Legal pads	Rulers
Clay and glazes	Lunch boxes	Scissors
Compasses	Markers	Sketch and drawing pads
Composition books	Notebooks	Watercolors
Crayons	Paintbrushes for artwork	
Erasers	Paints (<i>acrylic, tempera and oil</i>)	

Certain School Instructional Materials Not-Taxed
(\$300 or less per item for classroom or home use)

Reference Books (Dictionaries, Thesauruses)
 Reference maps and globes

Computers Not-Taxed
(\$3,500 or less per item)

Computers: For purposes of the tax exemption, a computer includes a monitor, keyboard, mouse, speakers and cables when **sold in conjunction** with a central processing unit is **not taxed**.

Certain Computer Accessories Not-Taxed
(\$250 or less per item)

Computer Storage Media (*includes diskettes, compact discs, USB Flash Drives*)

PDA's (*excluding cell phones*)

Printers & Printer Supplies (*includes paper and ink*)

Taxed Items

Clothing Accessories

Cosmetics
 Hair notions
(barrettes, hair bows, hairnets)
 Handbags
 Handkerchiefs
 Jewelry
 Sunglasses (*nonprescription*)
 Umbrellas
 Wallets
 Watches
 Wigs and hair pieces

Computer items: (*monitors, keyboards, speakers, mouse and cables are taxed when not sold with a central processing unit*)

Other

Appliances
 Bedspreads and sheets
 Canned computer software
 Furniture
 Non-educational reading materials (*books, magazines*)

Protective Equipment

Breathing masks
 Ear and hearing protection
 Face shields
 Finger guards
 Hard hats
 Print or dust respirators
 Protective gloves
 Safety and tool belts
 Safety glasses and goggles
 Uniforms (*for business use*)
 Welders' gloves and masks

Overview of Taxed Items

Clothing Over \$ 100	Computers Exceeding \$ 3500	School Supplies Over \$100
Sports/Rec Equipment Over \$ 50	Computer Supplies Over \$ 250	Instructional Materials Over \$300

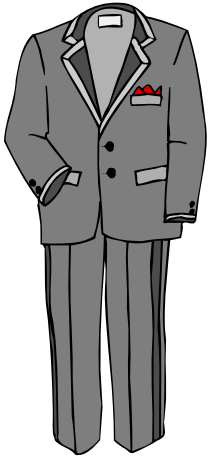
Applying the Law to Sales Transactions During Sales Tax Holiday

ARTICLES NORMALLY SOLD AS A UNIT

Articles that are normally sold as a unit must continue to be sold in that manner; they cannot be separated and sold as individual items, in order to receive tax-free status.

EXAMPLE 1: A pair of shoes normally sells for \$120. The pair cannot be split in order to sell each shoe for \$60.00 to be considered tax-free.

EXAMPLE 2: A suit is normally priced at \$125 on a single price tag. The suit cannot be split into separate articles so that any of the components may be sold for \$100 or less in order to be tax-free. However, components that are normally priced as separate articles may continue to be sold as separate articles and be tax-free if the price of an article is \$100 or less.



BUY ONE, GET ONE FREE SALES

The total price of items advertised as “buy one, get one free,” or “buy one, get one for a reduced price,” cannot be averaged in order for both items to be tax-free.

EXAMPLE 1: A retailer advertises pants as “buy one, get one free.” The first pair of pants is priced at \$110; the second pair of pants is free. Tax is due on \$110. The store cannot sell each pair of pants for \$55 in order for the items to be tax-free. However, the retailer may advertise and

sell the items for 50% off, selling each pair of \$110 pants for \$55, making each pair tax-free.

EXAMPLE 2: A retailer advertises shoes as “buy one pair at the regular price, get a second pair for half price.” The first pair of shoes is sold for \$120; the second pair is sold for \$60 (half price). Tax is due on the \$120 shoes, but not on the \$60 shoes. The store cannot average the price of both pairs and sell each pair of shoes for \$90 in order for the items to be un-taxed. However, a retailer may advertise each pair for 25% off, thereby selling each pair of \$120 shoes for \$90, making each pair tax-free.



EXCHANGING A TAX EXEMPT PURCHASE AFTER AUGUST 9th

When a customer purchases an un-taxed item during the sales tax holiday, then later exchanges the item for the same item (different size, different color, etc.), no additional tax will be due even if the exchange is made after the sales tax holiday.

When a customer purchases an un-taxed item during the sales tax holiday, then later returns the item and receives credit on the purchase of a different item, the appropriate sales tax will apply to the full sales price of the newly purchased item.

EXAMPLE 1: During the sales tax holiday, a customer purchases an \$85 dress that is untaxed. Later, during the sales tax holiday, the customer exchanges the \$85 dress for a \$125 dress. Tax is due on the \$125 dress. The \$85 credit from the returned dress cannot be used to reduce the sales price of the \$125 dress to \$40 for tax-free status.

EXAMPLE 2: A customer purchases a \$35 shirt during the sales tax holiday. After the sales tax holiday, the customer exchanges the shirt for a \$35 jacket. Since the jacket was not purchased during the sales tax holiday, tax is due on the \$35 price of the jacket.

REFUNDS

A customer who pays sales tax to a retailer on a tax-free item when no tax is due must request a refund of the tax from the retailer and not from the Department of Revenue.

LIMIT ON TAX REFUNDS TO CUSTOMERS

For 60 days following the end of the sales tax holiday, when a purchaser returns an item that would have been tax-free if purchased during the holiday weekend, the retailer may not refund or give credit for any sales tax on the item unless the customer either provides a receipt showing payment of the tax or the retailer has other evidence to document payment of the tax.

Applying the Law to Sales Transactions During Sales Tax Holiday



COUPONS, REBATES AND DISCOUNTS

Manufacturer's coupons can not be used to reduce the sales price of an item for the item to be considered tax-free.

EXAMPLE 1: A jacket regularly sells for \$105. The customer has a \$10 manufacturer's coupon good for the purchase of the jacket. The manufacturer's coupon does not reduce the sales price of the jacket. Tax is due on \$105 even though the customer only pays the retailer \$95 for the jacket.



Store coupons and discounts, however, do reduce the sales price of an item. Therefore, a store coupon or discount can be used to reduce the sales price of an item to \$100 or less in order for the item to be untaxed.

EXAMPLE 2: A customer buys a \$400 suit and a \$110 shirt. The retailer is offering a 10% discount. After applying the 10% discount, the final sales price of the suit is \$360, and the sales price of the shirt is \$99.

The suit is taxable since it is over \$100 and the shirt is tax-free since it is less than \$100.

Rebates do not affect the sales price of an item.

EXAMPLE 3: A jacket sells for \$105. The customer receives a \$10 rebate from the manufacturer. Since the rebate occurs after the sale, it does not reduce the sales price of the shirt. Tax is due on \$105.



GIFT CERTIFICATES

The sale of a gift card or gift certificate is not taxable. Eligible tax-free items purchased during the sales tax holiday using a gift card or gift certificate will be tax-free, regardless of when the gift certificate was purchased. If a gift certificate or gift card was purchased during the sales tax holiday but redeemed after the holiday period has ended, the items purchased with the card or certificate are taxed as usual. A gift certificate cannot be used to reduce the selling price of an item to \$100 or less in order for the item to qualify for the exemption.

RAIN CHECKS

Untaxed items purchased during the sales tax holiday using a rain check will be tax-free regardless of when the rain check was originally issued. If a rain check is issued during the sales tax holiday but the item is actually purchased after the holiday period has ended, the items purchased will be subject to sales tax.



LAYAWAYS

An item placed in a layaway or similar deferred payment plan is untaxed if the eligible item is selected by the customer and the order is accepted by the retailer during the sales tax holiday, even if the customer issues the final payment after the holiday period. If a customer issues the final payment during the sales tax holiday on an eligible item that was placed in a layaway plan prior to the sales tax holiday, the item is untaxed.

EXAMPLE 1: A customer shops at your store during the three-day sales tax holiday and chooses to place her purchase in a layaway plan not to be paid until after the sales tax holiday. If the item would be untaxed during the sales tax holiday, the item would be untaxed upon final payment.

Applying the Law to Sales Transactions During Sales Tax Holiday

EXAMPLE 2: A customer shops at your store during the three-day sales tax holiday and chooses to purchase a pair of \$55 pants that she placed on layaway the week before. This sale is untaxed.

RENTALS

Rentals of eligible items **do not** qualify for tax-free status.

MAIL ORDER SALES

Sales of eligible items by mail order, telephone, Internet, or other remote means are untaxed, even if the seller does not have a store within the state of North Carolina. For the purpose of the sales tax holiday, an item is untaxed if the following occurs during the holiday weekend:

- The customer orders and pays for the item. A customer pays for an item when the seller receives a credit or debit card number, a check, or a money order.
- The retailer accepts the order and takes an action to fulfill the order for immediate delivery. The actual delivery can occur after the holiday.



Most retailers are only able to change their tax application systems for an entire day and not for portions of a day. The time zone of the seller's location determines the authorized time period for the holiday when the buyer and seller are located in different time zones.

SHIPPING AND HANDLING

Delivery charges, including shipping, handling, and service charges, are part of the sales price of untaxed merchandise.

For the purpose of determining a sales tax holiday price threshold, if all the merchandise in a shipment qualifies as tax-free and the sales price for each item in the shipment is within the sales tax holiday price threshold, then the seller does not have to allocate the delivery, handling, or service charge to determine if the price threshold is exceeded. The shipment will be considered a sale of untaxed items.

If the shipment includes taxed and untaxed items (including an untaxed item with a sales price in excess of the price threshold), the seller should allocate the delivery charge by using:

- a percentage based on the total sales price of the taxable merchandise compared to the total sales price of all items in the shipment; or
- a percentage based on the total weight of the taxable items compared to the total weight of all merchandise in the shipment.

The seller must tax the percentage of the delivery charge allocated to the taxable items but does not have to tax the percentage allocated to the untaxed items.



THRESHOLD

When the sales price of an item is greater than the threshold amount set for the sales price of an exempt item, whether the threshold is \$50, \$100, \$250, \$300 or \$3,500, sales tax is due on the entire charge for the item. The sales price is not reduced by the threshold amount. For example, if a coat is sold for \$120, the entire sales price of the coat is taxable and not just the amount that exceeds \$100.

RECORDS AND REPORTING

As a reminder, beginning in 2006 and continuing again this year, the form E-599H is no longer required for any item with a sales price of \$1,000 or more. No special record keeping or reporting is necessary. □