

# Time to Prepare for North Carolina's Ninth Annual Sales Tax Holiday August 6-8, 2010

**A**ugust 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 2009 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. □



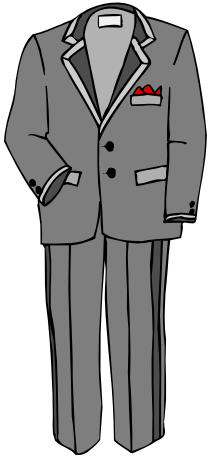
# Applying the Law to Sales Transactions During Sales Tax Holiday

## 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 untaxed 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 untaxed 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.

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## 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.

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**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. □