

# IV. ACCOUNTING

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**Effective Date: April 21, 2008**

## B. SALES AND USE TAXES

A not-for-profit organization is required to pay sales/use tax when taxable personal property is purchased for use or consumption. Also, sales of building materials, supplies, fixtures, and equipment to contractors who are performing contract work for nonprofit organizations are subject to the sales/use tax.

When taxable purchases are made from out-of-state suppliers who do not collect the applicable state and local sales/use tax, the not-for-profit organization is required to register with the North Carolina Department of Revenue and file returns monthly with remittance of the tax due on such purchases. In the case of a month during which no purchases have been made from out-of-state suppliers, the monthly report should be filed to indicate no tax due.

General Statute 105-164-14 states that nonprofit hospitals and educational institutions, churches, orphanages and 501 (c)(3) charitable or religious not-for-profit organizations are entitled to semi-annual refunds of sales/use taxes paid in North Carolina on the direct purchase of taxable personal property. This refund provision also applies to purchases by contractors who build, alter, or repair buildings or structures used by the above referenced organizations.

The refund provision does not apply to taxes incurred in the following situations:

1. Purchases of fuel, lodging, and other travel expenses by employees of eligible organizations even though the employees receive reimbursement from the employer for such travel expenses.
2. Charges by a utility for electricity, piped natural gas, and telecommunication services.
3. Occupancy tax levied and administered by certain counties and cities here in North Carolina.
4. Highway use tax paid on the purchase, lease, or rental of motor vehicles.
5. Scrap tire disposal fee levied on new motor vehicle tires.
6. Sales / use taxes paid to states other than North Carolina.

The organization's financial records must clearly document the amount of sales/use tax which is eligible for refund. Therefore, it is suggested that the chart of accounts include balance sheet accounts entitled "Sales/Use Tax Receivable - State" and "Sales/Use Tax Receivable - Local".

When an invoice is processed and a check is issued for payment of an obligation which includes a refundable sales/use tax amount, the payment would be coded as follows.

	<b>Debit</b>	<b>Credit</b>
Cash in Bank – checking		106.00
Sales/Use Tax Receivable – State	5.00	
Sales/Use Tax Receivable – Local	1.00	
Supplies and Materials	100.00	

The process of identifying refundable sales/use tax amounts at the time of payment should facilitate preparation of the **CLAIM FOR REFUND OF STATE AND COUNTY SALES AND USE TAXES - NC FORM E-585** [http://www.dor.state.nc.us/downloads/fillin/E585\\_2003.pdf](http://www.dor.state.nc.us/downloads/fillin/E585_2003.pdf)

In order for an organization to be entitled to 100% of the refundable taxes, the refund claim for the first six months of the calendar year (January 1 through June 30) must be submitted to the Department of Revenue on or before the 15th of October while the claim for the second six months (July 1 through December 31) is due by April 15<sup>th</sup> of the following year. Effective July 2006, there are no late filing penalties on claims for refund which are filed within three years after the due date. Claims for refund filed more than three years after the due date are barred by statute.

All refund claims must be supported by proper documentation and should reflect a separate breakdown as to state and local taxes. In the case of purchases made by an organization for its own use or consumption, the date of purchase and the amount of state and local sales/use taxes paid will normally constitute sufficient documentation.

If an organization is entitled to file a claim with the Department of Revenue for refundable sales/use tax, the Department of Health and Human Services funding agency will reduce total program or project costs by the amount, eligible for refund when calculating costs for state participation purposes.

#### CLAIM FOR REFUND OF STATE AND COUNTY SALES AND USE TAXES

#### FORMS MAY BE OBTAINED FROM:

**North Carolina Department of Revenue**

**Central Examination Section**

**Sales and Use Tax Unit**

**PO Box 871**

**Raleigh, NC 27602**

**1- 877- 252-3052**

**Taxpayer Assistance and Collection**

Center [http://www.dor.state.nc.us/downloads/fillin/e585s\\_webfill.pdf](http://www.dor.state.nc.us/downloads/fillin/e585s_webfill.pdf)