

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

H

2

HOUSE BILL 257*
Committee Substitute Favorable 4/23/07

Short Title: Streamlined Sales Tax Changes.

(Public)

Sponsors:

Referred to:

February 20, 2007

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE SALES TAX DEFINITIONS TO COMPLY WITH THE
3 STREAMLINED SALES TAX AGREEMENT AND TO MAKE OTHER SALES
4 TAX CHANGES.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 105-164.3 reads as rewritten:

7 "§ 105-164.3. Definitions.

8 The following definitions apply in this Article:

9 (1) Ancillary service. – A service associated with or incidental to the
10 provision of a telecommunications service. The term includes detailed
11 communications billing, directory assistance, vertical service, and
12 voice mail service. A vertical service is a service, such as call
13 forwarding, caller ID, three-way calling, and conference bridging, that
14 allows a customer to identify a caller or manage multiple calls and call
15 connections.

16 (1b) Bundled transaction. – A retail sale of two or more distinct and
17 identifiable products, at least one of which is taxable and one of which
18 is exempt, for one nonitemized price. Products are not sold for one
19 nonitemized price if an invoice or another sales document made
20 available to the purchaser separately identifies the price of each
21 product. A bundled transaction does not include the retail sale of any
22 of the following:

- 23 a. A product and any packaging item that accompanies the product
24 and is exempt under G.S. 105-164.13(23).
25 b. A sale of two or more products whose combined price varies, or
26 is negotiable, depending on the products the purchaser selects.
27 c. A sale of a product accompanied by a transfer of another product
28 with no additional consideration.
29 d. A product and the delivery or installation of the product.

e. A product and any service necessary to complete the sale.

(1a)(1d) Business. – Includes any activity engaged in by any person or caused to be engaged in by him with the object of gain, profit, benefit or advantage, either direct or indirect. The term "business" shall not be construed in this Article to include occasional and isolated sales or transactions by a person who does not hold himself out as engaged in business.

(1b)(1f) Cable service. – The one-way transmission to subscribers of video programming or other programming service and any subscriber interaction required to select or use the service.

...

(12) Gross sales. – The sum total of the sales price of all retail sales of tangible personal property ~~as defined herein, whether for cash or credit without allowance for cash discount and without any deduction on account of the cost of the property sold, the cost of materials used, labor or service costs, interest paid or any other expenses whatsoever and without any deductions of any kind or character except as provided in this Article.~~ and services.

...

(37) Sales price. – The total amount or consideration for which tangible personal property or services are sold, leased, or rented. The consideration may be in the form of cash, credit, property, or services. The sales price must be valued in money, regardless of whether it is received in money.

a. The term includes all of the following:

1. The retailer's cost of the property sold.
2. The cost of materials used, labor or service costs, interest, losses, all costs of transportation to the retailer, all taxes imposed on the retailer, and any other expense of the retailer.
3. Charges by the retailer for any services necessary to complete the sale.
4. Delivery charges.
5. Installation charges.
6. ~~The value of exempt personal property given to the consumer when taxable and exempt personal property are bundled together and sold by the retailer as a single product or piece of merchandise.~~
7. Credit for trade-in.
8. Discounts that are reimbursable by a third party and can be determined at the time of sale through any of the following:
 - I. Presentation by the consumer of a coupon or other documentation.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44

II. Identification of the consumer as a member of a group eligible for a discount.

III. The invoice the retailer gives the consumer.

- b. The term does not include any of the following:
 - 1. ~~Discounts, including cash, term, or coupons, that are not reimbursed~~ Discounts that are not reimbursable by a third party, are allowed by the retailer, and are taken by a consumer on a sale.
 - 2. Interest, financing, and carrying charges from credit extended on the sale, if the amount is separately stated on the invoice, bill of sale, or a similar document given to the consumer.
 - 3. Any taxes imposed directly on the consumer that are separately stated on the invoice, bill of sale, or similar document given to the consumer.

...

(45a) Streamlined Agreement. – The Streamlined Sales and Use Tax Agreement as amended ~~in November 2005~~ as of December 14, 2006."

SECTION 2. G.S. 105-164.4D, as enacted by Section 5 of S.L. 2006-151, reads as rewritten:

"§ 105-164.4D. Bundled services.transactions.

~~When a taxable service is bundled with a service that is not taxable, the tax applies to the gross receipts from the taxable service in the bundle as follows:~~

- (1) ~~If the service provider offers all the services in the bundle on an unbundled basis, tax is due on the unbundled price of the taxable service, less the discount resulting from the bundling. The discount for a service as the result of bundling is the proportionate price decrease of the service, determined on the basis of the total unbundled price of all the services in the bundle compared to the bundled price of the services.~~
- (2) ~~If the service provider does not offer one or more of the services in the bundle on an unbundled basis, tax is due on the taxable service based on a reasonable allocation of revenue to that service. If the service provider maintains an account for revenue from a taxable service, the service provider's allocation of revenue to that service for the purpose of determining the tax due on the service must reflect its accounting allocation of revenue to that service.~~

(a) Tax Application. – Tax applies to the sales price of a bundled transaction unless one of the following applies:

- (1) Fifty percent (50%) test. – All of the products in the bundle are tangible personal property, the bundle includes one or more of the exempt products listed in this subdivision, and the price of the taxable products in the bundle does not exceed fifty percent (50%) of the price of the bundle:

- 1 a. Food exempt under G.S. 105-164.13B.
 2 b. A drug exempt under G.S. 105-164.13(13).
 3 c. Medical devices, equipment, or supplies exempt under
 4 G.S. 105-164.13(12).

5 (2) Allocation. – The bundle includes a service, and the retailer determines
 6 an allocated price for each product in the bundle based on a reasonable
 7 allocation of revenue that is supported by the retailer's business records
 8 kept in the ordinary course of business. In this circumstance, tax
 9 applies to the allocated price of each taxable product in the bundle.

10 (3) Ten percent (10%) test. – The price of the taxable products in the
 11 bundle does not exceed ten percent (10%) of the price of the bundle
 12 and no other subdivision in this subsection applies.

13 (b) Determining Threshold. – A retailer of a bundled transaction subject to this
 14 section may use either the retailer's cost price or the retailer's sales price to determine if
 15 the transaction meets the fifty percent (50%) test or the ten percent (10%) test set out in
 16 subdivisions (a)(1) and (a)(3) of this section. A retailer may not use a combination of
 17 cost price and sales price to make this determination. If a bundled transaction subject to
 18 subdivision (a)(3) of this section includes a service contract, the retailer must use the
 19 full term of the contract in determining whether the transaction meets the threshold set
 20 in the subdivision."

21 **SECTION 3.** G.S. 105-164.12B reads as rewritten:

22 "**§ 105-164.12B. Tangible personal property ~~bundled~~ sold below cost with**
 23 conditional service contract.

24 (a) ~~Bundled Transaction Conditional Service Contract~~ Defined. – A ~~bundled~~
 25 ~~transaction is a transaction~~ conditional service contract is a contract in which all of the
 26 following conditions are met:

27 (1) A seller transfers an item of tangible personal property to a consumer
 28 on the condition that the consumer enter into an agreement to purchase
 29 services on an ongoing basis for a minimum period of at least six
 30 months.

31 (2) The agreement requires the consumer to pay a cancellation fee to the
 32 ~~service provider~~ seller if the consumer cancels the contract for services
 33 within the minimum period.

34 (3) For the item transferred, the seller:

35 a. ~~Does not charge the consumer; or~~

36 b. Charges ~~seller~~ charges the consumer a price that, after any
 37 ~~discount or rebate~~ price reduction the seller gives the consumer,
 38 is below the purchase price the seller paid for the item. The
 39 seller's purchase price is presumed to be no greater than the
 40 price the seller paid, as shown on the seller's purchase invoice,
 41 for the same item within 12 months before the seller entered
 42 into the conditional service contract.

43 (b) ~~Bundled Transaction Is a Sale; Sales Price. Tax.~~ – If a seller transfers an item
 44 of tangible personal property as part of a ~~bundled transaction,~~ conditional service

1 ~~contract, a sale has occurred, and the occurred. The sales price of the item is presumed~~
 2 ~~to be the retail price at which the item would sell if no agreement for services were~~
 3 ~~entered into. Part of this price may be paid by the consumer at the time of the transfer;~~
 4 ~~the remainder of the price is considered paid as part of the price to be paid for the~~
 5 ~~services contracted for. in the absence of the conditional service contract. Sales tax is~~
 6 ~~due on any part of the price paid by the consumer at the time of the transfer.~~
 7 transfer on the following:

8 (1) Any part of the presumed sales price the consumer pays at that time, if
 9 the service in the contract is taxable at the combined general rate.

10 (2) The presumed sales price, if the service in the contract is not taxable at
 11 the combined general rate.

12 ~~(e) No Additional Sales Tax if Services Taxed. — If the services for which the~~
 13 ~~consumer was required to contract are subject to services taxes at a combined rate equal~~
 14 ~~to or greater than the combined State and local general rate of sales and use tax, then no~~
 15 ~~additional sales tax is due on the transfer. However, if the consumer cancels the contract~~
 16 ~~for services before the expiration of the minimum period, sales tax applies to the~~
 17 ~~cancellation fee paid by the consumer.~~

18 ~~(d) Additional Sales Tax if Services Not Taxed. — If the services for which the~~
 19 ~~consumer was required to contract are not subject to services taxes at a combined rate~~
 20 ~~equal to or greater than the combined State and local general rate of sales and use tax,~~
 21 ~~then sales tax is due at the time of the transfer on the remainder of the sales price not~~
 22 ~~paid at that time.~~

23 ~~(e) Services Taxes Defined. — For the purpose of this section, the term "services~~
 24 ~~taxes" means any combination of State franchise tax on gross receipts, State sales tax, or~~
 25 ~~local sales tax levied on the sale of or gross receipts from the services.~~

26 ~~(f) Determination of Purchase Price. — For the purpose of this section, the~~
 27 ~~purchase price a seller paid for an item is presumed to be no greater than the price the~~
 28 ~~seller paid for the same model within 12 months before the bundled transaction, as~~
 29 ~~shown on the seller's invoices."~~

30 **SECTION 4.** G.S. 105-164.13(9) reads as rewritten:

31 **"§ 105-164.13. Retail sales and use tax.**

32 The sale at retail and the use, storage, or consumption in this State of the following
 33 tangible personal property and services are specifically exempted from the tax imposed
 34 by this Article:

35
 36 Agricultural Group.

37
 38 ...

39 (9) ~~Sales of boats, Boats,~~ fuel oil, lubricating oils, machinery, equipment,
 40 nets, rigging, paints, parts, accessories, and supplies sold to persons
 41 any of the following:

42 a. The holder of a standard commercial fishing license issued
 43 under G.S. 113-168.2 for principal use by them principally in
 44 commercial fishing operations within the meaning of

1 G.S. 113-168, ~~except when the property is for use by persons~~
2 ~~principally to take fish for recreation or personal use or~~
3 ~~consumption operations.~~

4 b. The holder of a shellfish license issued under G.S. 113-169.2
5 for principal use in commercial shellfishing operations.

6 c. The operator of a for-hire boat, as defined in G.S. 113-174, for
7 principal use in the commercial use of the boat. ~~As used in this~~
8 subdivision, "fish" is defined as in G.S. 113-129(7)."

9 **SECTION 5.** G.S. 105-164.42L reads as rewritten:

10 **"§ 105-164.42L. Databases on taxing jurisdictions.**

11 The Secretary may develop databases that provide information on the boundaries of
12 taxing jurisdictions and the tax rates applicable to those taxing jurisdictions. A ~~seller~~
13 ~~that person who~~ relies on the information provided in these databases is not liable for
14 underpayments of tax attributable to erroneous information provided by the Secretary in
15 those databases."

16 **SECTION 6.** G.S. 105-467(a) reads as rewritten:

17 **"§ 105-467. Scope of sales tax.**

18 (a) Sales Tax. – The sales tax that may be imposed under this Article is limited to
19 a tax at the rate of one percent (1%) of the transactions listed in this subsection. The
20 sales tax authorized by this Article does not apply to sales that are taxable by the State
21 under G.S. 105-164.4 but are not specifically included in this subsection.

22 (1) The sales price of tangible personal property subject to the general rate
23 of sales tax imposed by the State under G.S. 105-164.4(a)(1) and
24 (a)(4b).

25 (2) The gross receipts derived from the lease or rental of tangible personal
26 property when the lease or rental of the property is subject to the
27 general rate of sales tax imposed by the State under
28 G.S. 105-164.4(a)(2).

29 (3) The gross receipts derived from the rental of any room or other
30 accommodations subject to the general rate of sales tax imposed by the
31 State under G.S. 105-164.4(a)(3).

32 (4) The gross receipts derived from services rendered by laundries, dry
33 cleaners, and other businesses subject to the general rate of sales tax
34 imposed by the State under G.S. 105-164.4(a)(4).

35 (5) The sales price of food that is not otherwise exempt from tax pursuant
36 to G.S. 105-164.13 but is exempt from the State sales and use tax
37 pursuant to G.S. 105-164.13B.

38 (5a) The sales price of a bundled transaction that includes food subject to
39 tax under subdivision (5) of this subsection, if the price of the food
40 exceeds ten percent (10%) of the price of the bundle. A retailer must
41 determine the price of food in a bundled transaction in accordance with
42 G.S. 105-164.4D.

43 (6) The sales price of prepaid telephone calling service taxed as tangible
44 personal property under G.S. 105-164.4(a)(4d).

1 (7) The gross receipts derived from providing satellite digital audio radio
2 service subject to the general rate of tax under G.S. 105-164.4(a)(6a)."

3 **SECTION 7.** The first paragraph of Section 4 of Chapter 1096 of the 1967
4 Session Laws, as amended, is amended by inserting a new subdivision between
5 subdivisions (5) and (6) to read as follows:

6 "(5a) The sales price of a bundled transaction that includes food subject to
7 tax under subdivision (5) of this section, if the price of the food
8 exceeds ten percent (10%) of the price of the bundle. A retailer must
9 determine the price of food in a bundled transaction in accordance with
10 G.S. 105-164.4D."

11 **SECTION 8.** This act becomes effective October 1, 2007.