



Sales and Use Tax Division  
North Carolina Department of Revenue  
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**IMPORTANT NOTICE: ALTERNATE HIGHWAY USE TAX ON A LEASE OR RENTAL CONTRACT SOLD TO ANOTHER RETAILER**

**The information herein is applicable to the alternate highway use tax due on the lease or rental of a motor vehicle subject to tax pursuant to N.C. Gen. Stat. § 105-187.5(a), where a retailer elects not to pay the highway use tax when applying for a certificate of title for a motor vehicle purchased by the retailer for lease or rental.**

**Effective January 1, 2017**, N.C. Gen. Stat. § 105-187.5(a) is amended to provide “[w]hen a lease or rental contract [for a motor vehicle] is sold to another retailer, the seller of the lease or rental contract should provide to the purchaser [another retailer] of the lease or rental contract the documentation showing that the service contract and applicable sales taxes were separately stated at the time the lease or rental went into effect and the new retailer must retain the information to support an allocation for tax computed on the gross receipts subject to [the alternate] highway use tax.” The amendment to N.C. Gen. Stat. § 105-187.5(a) effective January 1, 2017, further provides “[t]he portion of a lease or rental billing or payment . . . applicable to the sales price of a service contract as defined in [N.C. Gen. Stat. §] 105-164.3 . . . must be separately stated on documentation given to the purchaser at the time the lease or rental agreement goes into effect, or on the monthly billing statement or other documentation given to the purchaser.”

Another retailer who purchases a lease or rental contract for a motor vehicle from a seller of the lease or rental contract, and who does not retain the appropriate documentation required per N.C. Gen. Stat. § 105-187.5(a) discussed above, is liable for remitting the alternate highway use tax imposed in N.C. Gen. Stat. § 105-187.5(b) on any amount applicable to the gross receipts derived from the sales price of a service contract sourced to this State and any taxes that may originally have been charged thereon.

The sales price of or the gross receipts derived from a motor vehicle service contract on or after January 1, 2017 is exempt from sales and use tax as discussed in [Form E-505](#) issued by the Department. For the application of the sales and use tax laws to the sales price of or the gross receipts derived from a service contract for a motor vehicle sold on or after March 1, 2016 and prior to January 1, 2017, see the [Important Notice: Motor Vehicles \(Installation Charges; Repair, Maintenance, and Installation Services; and Service Contracts\)](#) issued February 11, 2016 and the [Important Notice: Service Contract for One or More Components, Systems, or Accessories for a Motor Vehicle – Taxable](#) issued February 19, 2016.

**Assistance**

General questions regarding this notice should be directed to the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free).

*To the extent there is any change in the rate or amount of tax, change to a statute or regulation, or new case law subsequent to the date of this notice, the provisions in this important notice may be superseded or voided. To the extent that any provisions in any other notice, directive, technical bulletin, or published guidance issued prior to the date of this notice conflicts with this important notice, the provisions contained in this important notice supersede.*