

# Refund of Sales & Use Taxes

By Dennis Walsh CPA

Good stewardship demands staying current with the filing of claims for refund of NC State sales and use taxes paid by your nonprofit. Our elected representatives could make life easier for North Carolina nonprofits by exempting taxable purchases at the point of sale, as is the law in some states, rather than imposing an additional recordkeeping and filing burden on the sector.

But since this is not the case, this article will hopefully provide you with a helpful overview of the current rules attendant to the sales tax refund provisions of the NC General Statutes. Review your systems, assign responsibility, and avoid overspending on purchases subject to the tax.

Who is eligible to receive refund of sales taxes paid?

NC G.S. 105-164.14(b), effective July 1, 2008, was rewritten to clarify the types of organizations that are eligible to receive refund and to simplify the process of establishing eligibility as well. Under the new law, all nonprofits with an IRS Section 501(c)(3) determination letter will automatically qualify, except for an organization properly classified within one of the following 3 National Taxonomy of Exempt Organizations (NTEE) categories:

- Community Improvement and Capacity Building
- Public and Societal Benefit.
- Mutual and Membership Benefit.

To help determine if your organization falls within one of these groups, refer to the NTEE [core code summary](#).

Even if you do not have a federal determination letter, however, (e.g. you are a church or your annual gross receipts average less than \$5,000) you may still qualify if you fall within the separate Statutory class of “Churches, orphanages, and other charitable or religious institutions and organizations not operated for profit.” In such case, the Department of Revenue will decide whether your purposes satisfy the intent of the Statute based on the provisions contained in your articles of incorporation and bylaws.

How does a nonprofit establish eligibility?

You should send a copy of your articles of incorporation, bylaws, and federal determination letter (if you have one) to the NC Department of Revenue along with a cover letter requesting a determination as an organization eligible for refund of sales and use tax under NC G.S. 105-164.14(b). These documents

should be mailed to: NC Department of Revenue, P.O. Box 871, Raleigh, NC, 27640.

What tax is refundable?

General NC State and county sales and use taxes paid on direct purchases by your nonprofit are refundable, with the exception of tax paid on purchases of electricity and telecommunications services. Taxes paid for food, occupancy, or on the lease or purchase of a motor vehicle are not refundable. A “direct” purchase does not include a reimbursement for a taxable purchase made from the personal funds of an employee or volunteer. Accordingly, be sure that debit and credit card accounts are set up in the name of your nonprofit.

When are refund claims due?

Claims for refund are filed semiannually using NC Department of Revenue [Form E-585](#). The claim for refund of sales and use taxes paid during the first semiannual period (January 1 through June 30) is due to be filed by October 15th of the same year. The claim for refund for the second semiannual period (July 1 through December 31) is due by April 15th of the following year.

Take heart if you're behind – you have 3 years from the original due date to file a claim. Claims for refund which are filed more than three years after the due date are barred by Statute.

How long must records be kept?

Receipts and invoices should be kept for a period of 3 years beyond the date the refund claim is due to be filed or 3 years beyond the date the claim is filed, whichever is later.

Accounting considerations

Since State and county taxes paid must be entered separately on Form E-585, you should enter State and county taxes on refundable purchases separately in your accounting software. Refundable taxes should be charged to a current asset account such as “Sales tax refund receivable.” This provides an important check and balance on the amount and status of accrued sales tax refunds. Conversely, taxes paid on nonrefundable purchases should be included as part of cost and need not be broken out separately.

For more information ...

For questions on sales tax refund issues, contact the NC Department of Revenue at 1-877-252-3052. Guilford Nonprofit Consortium members may also contact the [Financial Management HelpDesk](#).

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