

ADMINISTRATIVE GUIDELINES
WARRANTY
Procedure 438

(38) Sales of goods and services provided under a warranty or service contract, whether performed by the manufacturer or authorized representative of the manufacturer, and charged to a third party warrantor for repairs, major maintenance, or both. Major maintenance does not include routine or scheduled maintenance attributable to normal operation of the warranted item.

A manufacturer's warranty is deemed to be the explicit warranty which the manufacturer extends to the purchaser as part of the purchase price of new property. An extended warranty is a warranty that a buyer purchases at the time of purchase of an item of personal property for a separate purchase price. It is usually in addition to and subsequent in time to the manufacturer's warranty. It is sometimes referred to as an extended service contract.

Repair or major maintenance involving parts and labor furnished by a dealer to fulfill a warranty obligation of the manufacturer is not subject to sales tax. The dealer would not be required to collect the sales tax from the manufacturer for warranty work performed.

If a customer pays a deductible amount under the warranty, that payment is subject to sales tax. Charges for parts or services rendered which are not covered by the warranty are taxable.

Rentals do not qualify under this exemption. Charges for a loaner/rental vehicle either to the customer or the manufacturer are subject to the sales tax.

Premiums paid for insurance policies sold by independent insurance agents are not considered service or warranty contracts. All charges made to the insurance company for parts and labor are subject to sales tax.

Dealer's Warranty

A dealer's warranty is an explicit warranty the seller of an item extends to the purchaser of the item as part of the purchase price of the item. If the item is defective, the warranty allows the purchaser to return the item and receive either a replacement for the defective item or the repair of the defective item. This type of warranty normally occurs when there is no manufacturer's warranty. In this instance, a third party vendor will not be charged for the replacement or repair of the defective item and the application of the sales tax would be as follows:

If the dealer charges the purchaser for the replacement item or the repair parts, sales or use tax is due on the amount paid for the replacement item or repair parts. If the dealer does not charge the purchaser for the replacement item or the repair parts, no tax is due on the cost of the replacement item or on the cost of repair parts.