# Taxability Issues on Service Contracts and Repairs

Provided by the office of the Texas Comptroller

# Extended Warranties, Service Contracts, Maintenance Contracts, Repair Parts and Accessories

In the normal course of business, a dealer may need to determine whether tax is due on the sale of an extended warranty, service contract or maintenance contract for the repair or maintenance of a motor vehicle. The sale of an extended warranty, service contract or maintenance contract covering the repair or maintenance of a motor vehicle after the manufacturer’s warranty expires, is not taxable. (This is in contrast to service contracts covering tangible personal property, such as refrigerators and computers, which are subject to sales tax.) Labor charges to repair or maintain a motor vehicle are not taxable, whether or not the labor is performed under an extended warranty, service contract or maintenance contract. However, all parts, supplies and materials used or consumed in the repair or maintenance are taxable. The type of contract used by the repairperson determines who pays the tax.

# Motor Vehicle Sold With an Extended Warranty, Service Contract or Maintenance Contract

## Extended Warranty, Service Contract or Maintenance Contract Included in the Purchase Price

When a dealer sells a motor vehicle with an extended warranty, service contract, or maintenance contract without separately stating the cost on the invoice, motor vehicle sales tax is computed on the total sales price of the vehicle, which may include the amount the dealer paid for the extended warranty, service contract or maintenance contract.

For example, if a dealer sells a motor vehicle with an extended warranty for $22,000 but the cost of the warranty is not separately stated on the invoice, motor vehicle sales tax is calculated on $22,000.

## Extended Warranty, Service Contract or Maintenance Contract Separately Stated from the Purchase Price

When a dealer sells a motor vehicle and the invoice separately states the charge for an extended warranty, service contract or maintenance contract, motor vehicle tax is due only on the sales price of the motor vehicle. Motor vehicle sales tax is not imposed on the separately stated price of the extended warranty, service contract or maintenance contract.

For example, if a dealer sells a motor vehicle for $20,000 and itemizes a $2,000 charge for a service contract, motor vehicle sales tax is calculated only on the $20,000 charged for the motor vehicle. The purchaser of the vehicle does not owe motor vehicle sales tax on the $2,000 charge for the service contract.

# Repairs

Labor to repair or maintain a motor vehicle is not taxable, but the parts, supplies and materials used in its repair are taxable. The party responsible for paying the tax depends on whether the repairs are performed under a lump-sum contract or under a separated contract. A separated contract separately states the sales price of parts and materials from the charge for labor; a lump-sum contract states a single price for both.

## Repairs Performed under a Lump-Sum Contract

When the repairman states a single charge for parts, materials and labor, the repairman is considered the consumer or end user of the parts and materials and must pay sales tax to his supplier on his purchase price of the parts and materials. The repairman does not collect tax from his customer. (The repairman’s customer for repairs under an extended warranty, service contract or maintenance contract is usually not the vehicle owner, but the company providing the extended warranty, service contract or maintenance contract.)

## Repairs Performed under a Separated Contract

When the repairman separates the charges for parts and materials from the labor charge, the repairman is selling the parts and materials. The repairman must collect tax on the charge for parts and materials from the customer. (Again, the customer in these instances is usually the company providing the extended warranty, service contract or maintenance contract.)

# Goodwill Repairs and Repairs under an Implied Warranty

Repairs that are not covered by any [warranty](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=warranty&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0), either written or implied, are "goodwill repairs" and the parts used to make such repairs are taxable to the dealer.

For example, if a dealer sells a [vehicle](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=vehicle&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0) "as is", "with all faults" or using other language that alerts the buyer that there is no [warranty](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=warranty&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0) of any kind, but makes free repairs, the dealer is responsible for paying sales tax on the parts used to make the “goodwill repair.”

However, if within seven calendar days of the sale, a dealer makes free repairs to a [motor](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=motor+vehicle&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0) [vehicle](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=vehicle&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0) that the dealer sold, and the repair is not covered by any written [warranty](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=warranty&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0), the repair is deemed to be a repair under an implied [warranty](http://cpastar1.cpa.state.tx.us/highlight/index.html?url=http%3A//taxstar.cpa.state.tx.us/confdocs/conf34/201006825l.html&term=motor&term=motor+vehicle&term=service&term=vehicle&term=warranty&fterm=warranty&la=en&charset=iso-8859-1&search=../query.html%3Fcol%3Dconfstar%26qt%3Dmotor%2Bvehicle%252C%2Bwarranty%252C%2Bservice#ultraseek_hlt_0) and no tax is due on the parts used in the repair.

# Repairs to Vehicles Held for Resale

A dealer can purchase parts used to repair motor vehicles held for resale tax free. This also applies to accessories purchased to be installed on motor vehicles held for resale. Again, repair labor is not taxable. The dealer must hold a sales tax permit with the Comptroller and provide the seller of the parts or accessories with a *Texas Sales and Use Tax Resale Certificate*, Form 01-339 (front) at the time of purchase.

# Promised Items

Occasionally, a component or accessory, such as specialty wheels or a missing handle, may not be available for installation when the dealer delivers a motor vehicle to the buyer. The dealer can purchase the component or accessory tax free for resale as long as the item is described in the original sales contract or as an addendum to the sales contract. Motor vehicle sales tax is calculated on the total sales price including any charge for the item to be installed.

For more information, see Sales Tax Rule 3.290, ***Motor Vehicle Repair and Maintenance; Accessories and Equipment Added to Motor Vehicles; Moveable Specialized Equipment* and Sales Tax Rule 3.285, *Resale Certificates; Sales for Resale*, which are available on the Comptroller’s website at www.window.state.tx.us.**

If you have questions, email us using the form found at **www.cpa.state.tx.us/taxhelp** orcall a tax specialist at 1-800-252-5555.