



Automobile Dealers Association of Indiana, Inc.

BULLETIN

Bulletin #1301 - January 8, 2013

IDOR Information Bulletin #2 Extended Service, Maintenance & Optional Warranty Contracts Updated & Effective January 2013

Recently the Indiana Department of Revenue (IDOR) updated their information Bulletin #2 on the collection of sales tax on extended service contracts, maintenance and “optional warranty contracts.” The ADAI asked our retained counsel, Stewart & Irwin, to provide a synopsis of the revised Bulletin. Mr. Ron Smith of Stewart & Irwin provided the following review:

“... This Bulletin replaces the Bulletin issued in November 2011 wherein the Department sought to collect sales tax on the total price of the aftermarket non-manufacturer warranty and service programs. Previously, they did not attempt to break down any portions that would be attributable to parts on which sales tax would be paid and service on which sales tax would not be paid. Prior to November 2011 tax was not collected on the total price of the extended service contracts at the time of sale but was instead collected on the sale of parts furnished to the consumer at the time of the performance of services. At the time the November 2011 Bulletin was issued, our firm and the ADAI took the position that such interpretation was contrary to Indiana law, therefore we are glad to see that the Department of Revenue has adopted the position that existed prior to November 2011.

The bottom line is that under the current Bulletin, which is attached, the following are the salient points:

- 1. Original manufacturer warranties and original dealer warranties on used vehicles not offered as an option when the product is sold is considered to be a part of a “unitary” or “bundled” transaction. Sales tax is calculated on the entire price of the vehicle, which includes these products;** therefore, if a dealer sells a \$20,000 new vehicle, there is no separate sales tax collected on the manufacturer warranty associated with that product or if that product (or a used car) is sold with any sort of dealer warranty that is included in the deal, separate sales tax is not collected on the value of that service contract.
- 2. With regard to separately sold extended service warranties or extended service contracts, sales tax is not collected at the time of sale;** therefore, if an extended service contract sells for \$900.00 as an add-on to the price of the vehicle, sales tax is not collected on that \$900.00 at the time of sale. At the time of the performance of work, **sales tax is collected on the parts involved in any repair. It is not collected on the service or labor charge.**

Dealers should note that if they do not collect sales tax on the parts at the time the work is performed, use tax will be picked up on any subsequent sales tax audit. Therefore, it behooves the dealer to collect the sales tax on the parts used from the customer. ...” *[Emphasis added]*

If you have any questions or wish additional information on this matter, please contact Ron Smith, Stewart & Irwin at (317) 639-5454.