



Automobile Dealers Association of Indiana, Inc.

BULLETIN

Bulletin #1302 – March 20, 2013

**IDOR Information Bulletin #2
Extended Service, Maintenance and Optional Warranty Contracts
AMENDED**

March 1, 2013

In order to clarify its position with regard to the captioned agreements, and to correct confusion that arose after the issuance of the revised Bulletin #2 effective January 1, 2013, the Indiana Department of Revenue ("IDOR") issued a revised bulletin clarifying certain questions that arose in the interpretation of the January 1, 2013 bulletin. The effective date of this bulletin is March 1, 2013. A copy of the bulletin is attached. The following are the noteworthy changes made by this bulletin:

1. Paragraph IV is clarified to cover the period of time, prior to January 1, 2013, when sales tax was required to be collected on the entire purchase price of the extended service contract or optional warranty contract. Under the prior bulletin, it was not clear about the taxability on parts sales for repairs done after January 1, 2013. The revised bulletin clarifies that the dealer does not need to collect sales tax on repairs made pursuant to contracts entered into prior to January 1, 2013, **if** sales tax was collected on the entire value of the contract. Of course, in order to be safe, a dealer should check the records to make sure: (a) the contract was entered into prior to January 1, 2013, and (b) that sales tax was collected on the entire amount. If, for some reason, sales tax was not collected on the entire amount, then sales tax should be collected on the parts and other taxable consumables used in the repair.
2. In Paragraph III of the bulletin in the seventh and eighth line on Page 4, if the extended service contract or warranty contains a deductible to be paid by the customer, no part of the taxable portion of the repair (parts and other taxable consumables) need be charged to the deductible. Typically, the tax is refunded to the dealership by the third party provider that underwrote the extended service contract. We believe that most, if not all, third party providers are on board with reimbursing the tax to the dealer. The revenue department, at the bottom of Page 4, adds another example which should be helpful to dealers.
3. One note, which may create some issues: In an example on Page 5 of the bulletin (at the bottom of paragraph 3), the department gives an example of an optional warranty/extended service contract that is included in the lease of a vehicle. Should the customer roll a third party optional warranty/extended service contract into the lease, provided that the charge for the warranty is separately stated from the lease payment, there is no sales tax calculated on the cost of the warranty/extended service contract. Again, sales tax would be collected at the time of the repair on the parts and taxable consumables used in the repair. This will involve some education to your F&I people concerning that calculation. This can, however, be used as a selling tool.

If you have questions, or need further information, please feel free to contact our retained attorneys, Ron Smith and Donn Wray at (317) 639-5454.