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## Service Contracts and Extended Warranties

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### Introduction

This bulletin provides information on how sales tax applies to service contracts and extended warranties (referred to collectively in this bulletin as *service contracts*), including:

- the sale of a service contract; and
- the taxability of work performed under a service contract.

*Service, repair, and maintenance* are words that describe work done to keep property in a condition of fitness, readiness, or safety, or generally restore the property to good working order. Service, repair, and maintenance services are subject to sales tax.

A service contract is an agreement between the contract provider and a customer where the provider agrees to repair or replace a product that has had an operational failure after the original manufacturer's warranty has expired. Service contracts may also cover loss or damage not covered under the original manufacturer's warranty.

Sales of service contracts in New York are considered to be sales of taxable repair and maintenance services. Businesses located in New York State that make sales of service contracts must be registered as New York State sales tax vendors. See Tax Bulletin [How to Register for New York State Sales Tax \(TB-ST-360\)](#).

### Sales at retail locations

Many retailers sell service contracts at checkout at the time goods are sold. These sales are subject to sales tax even if the retailer itself:

- is not the contract provider, or
- will not provide any necessary repair work covered under the service contract.

The rate of tax that applies is the combined state and local rate in effect at the location of the retail store, or the rate in effect where the customer takes possession of the item if delivery occurs in a different taxing jurisdiction.

**Example:** *A customer purchases a laptop at Store A and also purchases a service contract offered at checkout. The cost of the service contract is added to the cost of the laptop, and the entire amount is subject to sales tax at the rate in effect where Store A is located.*

**Note:** When a motor vehicle dealer sells a warranty, extended warranty, or service contract, the sale is generally taxable at the tax rate in effect where the customer is a resident. See [Publication 838, A Guide to Sales Tax for Automobile Dealers](#).

## After-market sales

Service contracts can also be sold by third parties directly to consumers after an item has been purchased. Third-party service contracts are often purchased by consumers at the time the original manufacturer's warranty for an item is about to expire.

These sales are also subject to sales tax, and the rate of tax that applies is the combined state and local rate in effect at the location of the property that will be covered by the service contract, not the rate in effect at the seller's location.

**Example:** *Mr. S purchases a washing machine from Store X in County A and has it delivered to his home in County B. Sales tax is due on the purchase at the rate in effect in County B where the washing machine is delivered.*

*Three months after the original purchase, Mr. S purchases a 12-month extended warranty from Service Contract Provider Z. Sales tax is due on the purchase of the extended warranty at the rate in effect in County B where the washing machine covered by the service contract is located.*

## Repairs not covered by a service contract

Consumers will not pay for any repair work covered by a service contract. However, consumers must pay sales tax on any additional charges for repairs not covered under the service contract. Sales tax will be based on the rate in effect in the locality where the customer takes possession of the repaired item, which may be at the location of the repair shop or at the customer's home or business if the repaired item is delivered there.

## Registration for out-of-state service contract providers

If the service contract provider is located outside of New York State and has customers in New York State, the provider may have to register as a vendor for New York State sales tax purposes.

In most cases, an out-of-state contract provider will have retailers or repair centers located in New York State where customers will bring or mail the items covered by a service contract to be repaired or replaced. These New York-based retailers and repair centers are considered to be acting as the representatives or servicemen of the out-of-state contract provider. As a result, the contract provider must register as a sales tax vendor and collect and remit sales tax on its sales of service contracts in New York State.

See Tax Bulletins [Do I Need to Register for Sales Tax? \(TB-ST-175\)](#), and [How to Register for New York State Sales Tax \(TB-ST-360\)](#), and [TSB-M-09\(3\)S, Definition of a Sales Tax Vendor is Expanded to Include Out-of-State Sellers with Related Businesses in New York State](#), for more information.

## Resale certificates

Service contract providers that are registered as New York State vendors can purchase repair services from third-party repair shops without paying New York sales tax by giving the repair shop [Form ST-120, Resale Certificate](#).

However, unregistered service contract providers **cannot** use [Form-ST-120](#) and must pay sales tax on the charge for the work performed.

**Note:** A Tax Bulletin is an informational document designed to provide general guidance in simplified language on a topic of interest to taxpayers. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes in the Tax Law or its interpretation may affect the accuracy of a Tax Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.

#### **References and other useful information**

**Tax Law:** Section 1105(c)(3)

**Regulations:** Sections 527.5 and 527.7

**Memoranda:** [TSB-M-09\(3\)S](#), *Definition of a Sales Tax Vendor is Expanded to Include Out-of-State Sellers with Related Businesses in New York State*

**Publications:** [Publication 838](#), *A Guide to Sales Tax for Automobile Dealers*

**Bulletins:**

[Auto Repair and Body Shops \(TB-ST-40\)](#)

[Do I Need to Register for Sales Tax? \(TB-ST-175\)](#)

[How to Register for New York State Sales Tax \(TB-ST-360\)](#)