

Third-party service contracts and/or warranty contracts sold with motor vehicle sales or leases

Many auto dealers sell maintenance agreements (service contracts) and warranties with vehicle sales and leases. If a customer purchases or leases a vehicle and purchases a service contract or warranty, the customer may pay for the contract or warranty upfront or finance those charges.

This article explains how sales tax applies to sales of service contracts and warranties.

Are service contracts or warranty sales to the customer subject to sales tax at the time of sale?

Yes. Retail sales tax applies to a service contract or warranty sold to a consumer.

For sales tax purposes, where do auto dealers source the sale of the service contract or warranty?

Service contract and warranty sales are sourced to where the buyer receives the documents, typically the auto dealer's location.

Is a service contract or warranty subject to the motor vehicle sales and lease tax of 0.3%?

If the charges for the service contract or warranty amount are stated separately from the vehicle lease or purchase amount, motor vehicle sales and lease tax does not apply to the amount related to the service contract or warranty.

If the service contract or warranty price is included in the monthly lease payment, is the full monthly payment subject to sales tax?

If the lease agreement separately states the service contract or warranty amount from the vehicle lease amount, then only the charge for the vehicle lease is subject to sales tax. The lessor/financing company must maintain

documents to substantiate the distinction between the lease of the vehicle and the financed sale of the service contract or warranty.

If the lease agreement does not separately state the service contract or warranty amount from the vehicle lease amount, then both retail sales tax and the motor vehicle sales and lease tax apply to the total monthly payment.

References

Extended Warranties

Auto dealers

WAC 458-20-257 - Tangible personal property warranties and service contracts

RCW 82.04.050 - Sale at retail, retail sale



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