

Home warranties

A home warranty is a contract between a homeowner and a home warranty company that covers the repair or replacement of covered systems and appliances if they break down due to normal wear and tear. Generally, the homeowner pays a monthly or annual fee for the warranty and may pay a service fee to the technician and/or a deductible.

What do home warranties cover?

Home warranties that cover real property (property that is affixed to the home) may include:

- Air conditioning systems.
- Electrical systems.
- Furnace/heating systems.
- Plumbing/water systems.
- Structural building components.
- Built-in appliances, such as ovens.

Home warranties that cover personal property (household appliances) may include:

- Refrigerators and freezers.
- Dishwashers.
- Washers and dryers.
- Television and related equipment.
- Home furnishings.

How are home warranties taxed?

Extended warranties that cover the repair of real property are not subject to retail sales tax. Instead, gross income is subject to business and occupation (B&O) tax under the Service and Other Activities classification.

Home warranties that cover tangible personal property are retail sales subject to sales tax and B&O tax under the Retailing classification. The rate of sales tax is determined by the location in which the repairs take place.

When the warranty covers both real and personal property for one line-item price, the entire charge becomes a retail sale subject to sales tax. However, if the charges are separately stated on the invoice, then only charges for the personal property warranty are subject to sales tax.

Who pays the sales tax?

If the repair is covered under the warranty, often it is the warrantor who pays the service provider. Repairs to personal and real property are retail sales subject to sales tax. Here, the warrantor will pay sales tax to the contractor. **A reseller permit may not be used by the warrantor because the warrantor is considered the end consumer of the repair and is not reselling anything.**

If the home warranty requires the homeowner to pay a portion of the repair cost, like a deductible for example, that charge is subject to retail sales tax.

References:

RCW 82.04.050 – Sale at retail.

WAC 458-20-170 – Constructing and repairing of new or existing buildings or other structures upon real property.

WAC 458-20-173 – Installing, cleaning, repairing or otherwise altering or improving personal property of consumers.

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



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