Extended Warranties Now Subject to Sales Tax

Engrossed Substitute House Bill (ESHB) 2314 (Chapter 514, Laws of 2005), expanded the definition of retail sales to include sales of extended warranties.

Definition
An extended warranty is an agreement for a specific period of time to replace or repair tangible personal property at no additional charge or a reduced charge, or to compensate for a loss by replacing or repairing tangible personal property.

Sales of Extended Warranties

Retail Sales by Warrantors
When an extended warranty is sold to a consumer by the warrantor, retail sales tax must be collected by the seller. In addition, the sale is reported under the retailing classification of the B&O tax.

Extended warranties sold in Washington to consumers are subject to sales tax even if the sale of the tangible personal property may be exempt. For example, equipment used directly in a manufacturing operation is exempt from sales tax. However, an extended warranty associated with the equipment is subject to sales tax.

Retail Sales by Third Parties
When an extended warranty is sold to a consumer by a third party instead of the actual warrantor, retail sales tax must be collected by the seller. In addition, the sale is reported under the retailing classification of the B&O tax, but a deduction is allowed under the retailing classification for third party sales. Amounts received as commission by a third party for selling the extended warranty are subject to B&O tax under the service and other activities classification.

Wholesale Sales
Extended warranties sold for resale are subject to B&O tax under the wholesaling classification.

Repairs Made Under an Extended Warranty

The tax treatment of repairs, as explained below began on July 1, 2005, even though the extended warranty may have been purchased before the effective date.

Additional Charges for Repairs Not Under Warranty
When a repair is made by the warrantor, B&O tax applies to any additional charge made by the warrantor to the consumer. The additional charge is reported under the retailing classification of the B&O tax. The retail sales tax must also be collected.
Warrantor Purchasing Parts
When a warrantor purchases parts to be used in satisfying an obligation under an extended warranty, the purchases are made at wholesale and retail sales tax and use tax do not apply when the warrantor gives the seller a properly completed resale certificate.

Third Party Repairs
When a person other than the warrantor makes a repair for the warrantor, the person making the repair is making a wholesale sale of the repair service to the warrantor. The person doing the repair is taxable under the wholesaling classification of the B&O tax.

Place of Sale
The place of sale of an extended warranty is at the business location of the seller if the buyer receives the extended warranty at that location. If the purchaser does not receive the warranty at the location of the business, the place of sale is the buyer's location.

Consumer Use Tax Information
Generally, use tax applies when a consumer purchases an extended warranty without paying sales tax. The use tax applies upon the first use of the tangible personal property within this state associated with the extended warranty (if the first use is on or after July 1, 2005).

Exemption from Use Tax
There is an exemption from use tax for extended warranties on household goods, personal effects, and private automobiles used by Washington residents or nonresident members of the armed forces stationed in Washington if:
• items were used by that person as a consumer in another state while that person resided there, and
• acquisition and use occurred more than 90 days prior to the time that person entered Washington.

Reporting Use Tax
For registered businesses, the use tax is reported on the excise tax return. Other persons should use the Consumer Use Tax Return available on our web site at http://dor.wa.gov/.

For More Information
Contact our Telephone Information Center at 1-800-647-7706 for more information.