

Seattle Rule 5-133

Warranties and maintenance agreements.

- (1) **Definitions.** For the purposes of this rule, the following terms will apply:
- (a) Warranties. Warranties, sometimes referred to as guaranties, are agreements which call for the replacement or repair of a purchased product with no additional charge for parts and/or labor if the product is found to be defective or ceases to operate as designed during a specified warranty period.
 - (b) Warrantor. The warrantor is the person obligated, as specified in the warranty agreement, to perform labor and/or provide materials to the owner of the purchased product to which the warranty agreement relates. In most cases the warrantor is the manufacturer.
 - (c) Maintenance agreements. Maintenance agreements sometimes referred to as service contracts, are agreements which require the specific performance of repairing, cleaning, altering, or improving of tangible personal property on a regular or irregular basis to ensure its continued satisfactory operation.
- (2) **Business License Tax.**
- (a) Manufacturers warranties included in the retail selling price of the product being sold.
 - (i) When a manufacturers warranty is included in the retail selling price of the property sold and no additional charge is made, the value of the warranty is a part of the selling price. The value of the warranty is included in the "gross proceeds of sale" of the article sold and reported under the appropriate classification (e.g. retail sales and retail services or wholesaling).
 - (ii) When a repair is made by the warrantor under a manufacturers warranty, the value of the labor and/or parts provided are not subject to the business license tax.
 - (iii) 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 liable for business license tax under the wholesaling classification on the value of the parts and labor provided.
 - (b) Non-manufacturers warranties and manufacturers warranties not included in the retail selling price of the article being sold.

Seattle Rule 5-133 Warranties and maintenance agreements.

- (i) When a warranty is sold for a charge separately stated on the invoice from the charge of the product, e.g., a warranty extending the manufacturers warranty, the charge is reported under the retail sales and retail services classification of the business license tax.
 - (ii) When a repair is made by the warrantor under a warranty that was separately stated on the invoice from the charge for the product, the value of the labor and or parts provided are not subject to business license tax.
 - (iii) 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 making the repair is liable for business license tax under the wholesaling tax classification provided the warrantor provides the person making the repair with a reseller permit.
- (c) Maintenance agreements. Maintenance agreements (service contracts) require the periodic specific performance of inspecting, cleaning, physical servicing, altering, and/or improving of tangible personal property. Charges for maintenance agreements are retail sales, subject to retailing business license tax. Maintenance agreements or service contracts concerning non-tangible personal property, such as custom software, or items not included in the definition of a retail sale, should be reported under the service classification. Additional guidance on maintenance agreements for software is included in Rule 5-500 Computer Software.
- (d) Amounts received as a commission or other consideration for selling a warranty or maintenance agreement of a third-party warrantor or provider are generally subject to business license tax under the service and other activities classification.
- (e) In the event a warrantor purchases an insurance policy to cover their obligations under the warranty, amounts received by the warrantor under the insurance policy are insurance claim reimbursements that are not subject to business license tax.
- (3) **Additional service - deductible.** If services are provided in addition to any warranty or maintenance agreement, such services are subject to retailing business license tax. This includes so-called "deductible" amounts not covered by a warranty or maintenance agreement.
- (4) **Mixed agreements.** If an agreement contains warranty provisions but also requires the actual specific performance of inspection, cleaning, servicing, altering, or improving the property on a regular or irregular basis, without

Seattle Rule 5-133 Warranties and maintenance agreements.

regard to the operating condition of the property, such agreements are fully taxable as maintenance agreements.

(5) Examples.

- (a) An automobile dealer sells a vehicle to a customer for selling price of \$15,000 cash and the selling price includes a manufacturer's limited warranty for 5 years or 50,000 miles. The owner of the vehicle has \$600 (\$200 parts and \$400 labor) warranty work, paying no deductible, performed by the dealer who is not the manufacturer-warrantor. The \$15,000 selling price is reported under the retailing business license tax classification. The \$600 repair is reported under the wholesaling business license tax classification.
- (b) The automobile dealer in example (a) also sells its own extended warranty to the customer for \$200. The dealer insures itself with an insurance carrier and under the terms of the policy, claims are paid on the retail value of the repairs. In addition to the repairs in example (a), the customer has the dealer complete \$500 of repairs under the dealers extended warranty. The customer paid the \$100 deductible and the dealer received \$400 from his insurance carrier. In completing the repair, the dealer installed parts from its inventory which had a cost to the dealer of \$150 and subcontracted part of the repair to an electrical shop which charged the dealer \$200. The tax liability to the dealer and the subcontractor are as follows:
 - (i) The dealer reports the \$200 sale of the warranty under the retail sales and retail services classification of business license tax.
 - (ii) The \$100 deductible received by the dealer is a retail sale subject to retailing business license tax.
 - (iii) The \$400 received by the dealer from the insurance company is a nontaxable insurance claim reimbursement.
 - (iv) The subcontractor is making a wholesale sale to the dealer, if the dealer provides the subcontractor with a copy of its reseller permit.

DIRECTOR'S CERTIFICATION

I, Glen M. Lee, Finance Director of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Finance and

Administrative Services.

DATED this _____ day of July 2016.

Seattle Rule 5-133 Warranties and maintenance agreements.

CITY OF SEATTLE,

a Washington municipality