Maintenance Contracts Taxed Upfront

In late 2012, the Minnesota Department of Revenue announced a change in how retailers must charge sales tax when they sell optional maintenance contracts for a separate charge.

[Here's a link to Revenue Notice 12-12 dated November 26, 2012.](#)

Long standing Minnesota Revenue policy had been to treat maintenance contracts as tax exempt when sold but then charge out applicable sales/use tax in the service department when the maintenance work was performed.

Retailers - including dealers - who sell maintenance contracts must now collect sales tax up front. Correspondingly, no sales/use tax is due when the maintenance work is performed.

The Revenue Notice only applies to optional maintenance contracts which are sold for a separate charge. It does not apply to warranties or maintenance plans that are built into the price of a vehicle. It also does not apply to service contracts sold for a separate charge designed to protect the customer from defects in the vehicle and unexpected repair costs.

The Department of Revenue took the unfortunate position that all taxable prepaid maintenance contracts are subject to the General Sales Tax at the 6.875% rate plus local sales tax applicable in the dealer's location. It doesn't matter whether the prepaid maintenance contract is sold as part of the vehicle transaction or sold outside the deal. This obviously complicates documenting maintenance contract charges and taxes when the contract is sold along with a vehicle. There are also two remittance paths. Motor Vehicle Sales Tax is remitted to the Deputy Registrar. General Sales Tax is remitted directly to the Department.

Maintenance contacts are the only obvious aftermarket dealer product that creates this awkward duality. The Department distinguishes taxable rustproofing and sealants where a product is physically attached to the vehicle at the time of sale. Rustproofing and sealant products sold with a vehicle continue with the Motor Vehicle Sales Tax percentage rate and remittance path.

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