

# Vermont Sales and Use Tax Guide for the Automotive Repairs Industry

This document provides sales and use tax guidance for auto supply dealers, auto repair shops. Both dealers and repair shops must register with the Vermont Department of Taxes to collect and remit Vermont Sales and Use Tax on retail sales of auto parts and supplies.

Vermont's 6% sales tax applies to retail sales of tangible personal property. Sales made for resale are not subject to tax because they are not retail sales. A retail sale occurs when there is a "bargained-for" exchange, and the price paid corresponds to the item being sold.

## Definitions used in this guide

An "auto supply dealer" or "supplier" is a business that sells auto parts and supplies. An "auto repair

shop" includes any business that provides auto repair or auto body work or services. "Auto repair work" could include work on any vehicle or vessel, including cars, trucks, RVs, motorcycles, mopeds, snowmobiles, all-terrain vehicles, and others.

Lists of taxable and non-taxable items are not all-inclusive, but are intended as a guide.

Legislation effective July 1, 2019, redefines the Sales and Use Tax treatment of parts used for reconditioning vehicles in a dealer's inventory. See **Reconditioning Vehicles for Resale** on page 4 of this guide for a full description of the new regulation.

## Not Taxable: Repair parts sold to a shop, which taxes them when they are resold to the customer

An auto repair shop may purchase parts without paying sales tax if the parts will be resold to its customer as part of a repair job. When it resells the parts, the auto repair shop must charge the customer directly for the part and itemize the bill to identify the charges subject to tax. If a shop does not itemize the bill, the entire charge is subject to tax. An auto repair shop must provide the Form S-3, Resale Exemption Certificate, to the supplier when using the resale exemption to purchase items that would otherwise be taxable.

## Not Always Taxable: Parts and supplies that are not always directly resold to the customer

An auto repair shop has a choice when it comes to some supplies that are not always directly charged to the customer as part of a retail sale. This comes up with items such as oil, antifreeze, transmission fluid, brake fluid, and power steering fluid. These items are sometimes used in repair work but not always

directly charged to the customer, such as when an auto repair shop tops off these types of fluids.

The law requires an auto repair shop to follow one of these three approaches:

1. The shop may pay sales tax on these items when purchasing them from a supplier. In this case, the customer cannot be charged tax—the shop is using the items in its business.
2. If the item is conveyed to the customer, the shop may itemize it on its bill to its customer, and collect and remit sales tax from the customer. In this case, the shop may use a resale exemption certificate when buying from the supplier.
3. If the shop neither pays sales tax when it purchases the item from a supplier nor charges tax to its customer, it must pay 6% sales or use tax on the item.

Please contact the Department of Taxes if unique or extraordinary circumstances require you to deviate from this guidance.

### Parts and supplies typically resold to the customer

Below are examples (non-exhaustive list) of the types of items that can be purchased tax-free by a shop using a resale exemption certificate. These parts are then subject to sales and use tax when purchased by a retail customer.

- Brake pads, rotors, shocks, struts
- Tires
- Filters
- Fan belts
- Electronic sensors
- Brake fluid
- Headlights, brake lights
- Starters, alternators
- Windshields
- Rear-view mirrors
- Doors
- Fenders
- Antifreeze
- Motor oil
- Automatic transmission fluid

### Itemizing the bill so that tax does not apply to the entire charge

Repair parts and accessories are subject to tax when sold to a retail customer, but installation and labor are not subject to tax. Be aware that if labor and materials are not separately stated, the entire amount charged to the customer becomes taxable. For example, when the charge for an oil change is a flat rate, the entire charge is subject to tax. If the oil, filter, and labor are instead separately stated, then only the oil and filter are subject to sales tax.

#### Did you know this about tires?

The total selling price of tires, including the federal excise tax, is subject to sales tax.

### Taxable: tools and equipment sold to auto repair shops

The purchase, lease, or rental of tools or equipment for an auto repair shop is taxable. Tools and equipment are used to perform repair services, but are not transferred to the customer as part of the job.

An auto repair shop must pay sales tax when purchasing, renting, or leasing the following tools and equipment (non-exhaustive list):

- Wrenches and sockets
- Screwdrivers
- Nut drivers
- Pliers
- Impact tools
- Clamps
- Hammers
- Torches
- Jumper cables
- Lifts
- Wheel balancers
- Engine analyzers
- Pipe benders
- Alignment equipment
- Air compressors
- Welding equipment
- Paint booths
- Body work tools
- Painters' tools
- Brushes and rollers
- Spray guns
- Buffing pads
- Stencils
- Compound pads
- Respirators and goggles
- Grinding wheels
- Mechanics' tools
- Filters and strainers
- Diagnostic equipment
- Computers and software

### Supplies used by auto repair shops

Some items are never sold for resale because there is no bargained-for exchange that makes the transaction a retail sale. This occurs when the items' costs are so insignificant that a customer does not bargain for them. Grocery bags provided by grocery stores illustrate this concept. Grocery bags are taxed when sold to a store rather than the retail customer because customers do not bargain for the price.

On page 3 is a list of items that are presumed to never be purchased for resale because they are not typically bargained-for by the end customer. Auto repair shops should pay sales tax on these items when purchased from auto supply dealers. Accordingly, dealers should not accept resale exemption certificates from auto repair shops that are purchasing these items.

Although there is a presumption that supplies are not purchased for resale and therefore taxable, it is

possible that in some extraordinary circumstances, a shop may charge the customer directly and collect tax because a large volume is used for a repair. In that case, the shop should itemize these materials on the invoice, and collect and remit tax for the price charged to the customer. On its next sales and use tax return, the shop should credit itself for the amount of tax previously paid to the supplier, provided the resulting use tax balance is not less than zero. If the balance is less than zero, a shop may:

1. apply the use tax credit to a period with enough use tax due to offset the credit or
2. request a refund of sales tax using Form REF-620

In either case, the shop should keep a log of all use tax due and credits and the reason for applying them.

## Shop supplies that are taxable when sold to a shop (non-exhaustive list)

- Acetylene metal conditioners
- Applicators
- Gases, oxygen
- Cleaners, removers—liquid and paste
- Drop cloths
- Rubbing compound
- Acrylic finishes
- Rustproofing liquid
- Body putty sealants
- Enamels
- Flux shellacs
- Hardware—screws, rivets
- Side molding kit
- Solder
- Lead stain
- Lacquers, thinners, and solvents
- Paint
- Petroleum spirits
- Primers
- Bondo
- Body Fillers
- Plastic filler
- Solvent naphtha
- Primer reducers
- Undercoating
- Resin—epoxy
- Varnish
- Polyester waxes
- Fiberglass cloth
- Fiberglass matting
- Windshield wash
- Gasket maker/adhesive
- Lubricants
- Molding
- Nuts, bolts, screws, hose clamps, thread lock
- Super glue
- Tie wraps
- Tape
- Grease
- Welding rods
- Choke cleaner
- Wheel weights
- Mounting paste
- Tire lube
- Valve stems
- Disposable gloves
- Rags
- Hand cleaner
- Speedy Dry
- Glass cleaner
- General cleaning products
- Sanding disks
- Abrasives
- Wash mitts
- Drill bits
- Car wash
- Brake cleaner
- Engine degreaser/cleaner
- Face masks
- Paper mats/floor/seat
- Waxes
- Razor blades
- Key tags
- Paper towels

### Shop supply line items on repair shop invoices

Some auto repair shops choose to charge a shop supply fee. This fee is not subject to sales tax because it is not a resale of supplies itemized and directly charged to the customer. As explained above, tax is paid on shop supplies when they are purchased from a supplier.

### Towing and transportation charges

Towing services and charges for transporting vehicles are not taxable. This includes towing the vehicle to any repair shop or other location.

### Storage charges

Charges for storing a vehicle are not taxable. These include charges to store a repaired vehicle that is not picked up by its owner by a certain date.

### Vermont state inspections

The charge for a Vermont motor vehicle inspection is not taxable. However, any charges for parts related to repair work resulting from an inspection are taxable.

### Maintenance, service agreements, and warranties

Maintenance, protection, or service plans may be taxed at the time they are sold to customers. If tax is collected when the plan is sold to the retail customer, tangible personal property purchased using the plan is not subject to tax when work is performed. Similarly, parts are not subject to tax when purchased

for repairs that are paid for by a warranty that was taxed as part of the purchase price of a vehicle. This is because those parts were taxed as part of the motor vehicle purchase.

If tax is not collected when a plan is sold, tax is instead due when tangible personal property is transferred under the plan. The taxable sales price is based on the retail value of the taxable part or supply. Towing, storage, and other nontaxable services performed under a plan remain nontaxable.

### Insurance claims and repairs

When a shop performs repair work that is covered by insurance, it must bill the insurance company the same way it would bill a retail customer. The tax treatment does not change.

### Sublets and subcontract work

Retail sales are the only transactions subject to tax. A transaction between one auto repair shop and a different shop conducting sublet work is not at retail. The repair shop should provide an exemption certificate, and tax should not be collected for that transaction. The taxable transaction is between the repair shop and its retail customer. The sublet line on an invoice should be split between taxable parts and non-taxable labor. As explained above, if parts and labor are combined, the entire charge becomes taxable.

### Core charges

A core charge is an amount added to the purchase price of some auto parts, such as automotive batteries. The core charge amount is discounted from the sales price at the time of initial purchase if a customer exchanges a “core” part that can be reconditioned and resold. Core charges are not subject to tax when they are discounted for a trade-in at the time of purchase. Sometimes, the core is not provided at initial purchase, but a core is later returned to have the core charge refunded. In that case, tax must be collected on the core charge at the initial purchase, but the tax attributable to the core charge may be refunded later when the core charge is refunded.

### Free “loaner” vehicles

Repair parts for a vehicle loaned at no charge to a customer are subject to sales tax. A loan is not considered a rental or lease because no money is exchanged. The purchase of a vehicle intended for free loan is subject to 6% use tax administered by the Department of Motor Vehicles (DMV).

### Vehicles leased and rented

Repair parts may be purchased by a shop tax-free if they are for a vehicle that is primarily intended for lease or short-term rental. That is because of the following:

- Property sold for sublease and subrent is not subject to sales tax.
- Short-term rentals are subject to a 9% use tax administered by the DMV.

Note, however, that tax should be paid for the repair parts if the vehicle is used for a purpose other than lease or rental more than 4% of the time. For example, if a shop owns a vehicle that is used as a short-term rental for customers 80% of the time but is used by

shop staff to run errands 20% of the time, parts to repair that vehicle are subject to sales tax because it is being used for a non-rental purpose more than 4% of the time.

Use the Form S-3, Resale Exemption Certificate when using this exemption and indicate how the parts will be used in the description field on the form.

**Note:** This exemption does not apply when a lessor customer purchases parts. It only applies when a business purchases parts for a vehicle that it rents or leases to customers.

### Reconditioning vehicles for resale

Motor vehicle parts are exempt from sales tax when:

- (1) purchased by a dealer of motor vehicles, and
- (2) used to recondition a used vehicle in the dealer’s inventory for resale.

To use this exemption, a dealer must be registered with the Department of Motor Vehicles under 23 V.S.A. §§ 451-468. A dealer must also provide the Form S-3, Resale Exemption Certificate, to the supplier when using this exemption to purchase parts for refurbishment.

Please note that the exemption for motor vehicle parts does not apply to supplies (see page 2 for treatment of supplies).

All parts are taxable unless sold to a dealer for refurbishment. Sales tax on taxable parts must be paid to the supplier.

Note that this treatment applies only to reconditioned vehicles, not new vehicles. Parts used to modify a new vehicle may be purchased with a resale exemption certificate as long as the parts are itemized on the bill to the customer, and tax is collected from that customer.

To learn more about Vermont business taxes, visit our website at [tax.vermont.gov](http://tax.vermont.gov) or contact the Department’s Business Tax Section at [tax.business@vermont.gov](mailto:tax.business@vermont.gov) or (802) 828-2551.

