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Motor Vehicle Repair and Maintenance

The purpose of this Tax Fact is to explain how South Dakota state and local sales taxes apply to motor vehicle dealers, repair shops and body shops. It is not intended to answer all questions that may arise. The information in this fact sheet is current as of the date of publication. This guide may change with updated information or added examples.

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With few exceptions, the sale of products and services in South Dakota is subject to sales or use tax.

Services such as auto repair, maintenance, body repair, oil changes, and customizing are subject to state and municipal sales tax. Sales tax applies to the full charge, including parts, labor, and delivery charges.

If you sell taxable products or services in South Dakota, you must obtain a sales tax license from the South Dakota Department of Revenue.

Apply for a sales tax license online at http://sd.gov/taxapp.

- **For Rental Vehicles**

  Repairs and maintenance to rental vehicles are subject to sales or use tax whether the rental agency or the customer pays for the service.

- **For Dealer Owned Vehicles in Inventory for Sale (includes new and used vehicles)**

  Maintenance – Maintenance products and services sold to a dealer for dealer owned vehicles that are in inventory for sale are subject to sales or use tax. The dealer owes use tax on maintenance items taken from tax unpaid inventory for use in a vehicle. The dealer cannot purchase maintenance products or services for resale.

  Maintenance items include oil, windshield washer fluid, antifreeze, filters, and auto detailing or cleaning services.

  Repairs – Dealers may buy replacement and repair parts and repair services for dealer owned vehicles that are in inventory for sale without paying sales or use tax. The dealer must provide the seller an exemption certificate indicating the purchase is for resale. Dealers do not owe sales or use tax on repair parts taken from tax unpaid inventory to repair vehicles they have for sale.

  Replacement and repair parts are items that remain with the vehicle for an indefinite period and include items such as tires, headlights, body parts (fenders, hoods, etc.), hoses, belts, spark plugs, and batteries.

New or Used Car Detailing – Cleaning a new or used vehicle is subject to sales tax. The dealer cannot buy the detailing service for resale.

New Car Preparation – A dealer may buy new car preparation services for resale.

New car preparation services include cleaning, removing protective shipping coverings, checking all fluids, running tests, checking wipers, lights, horns, etc.

► **For Dealer Owned Vehicles used by the Dealer, Employees, or as a Loaner Car**

Repairs and maintenance to dealer owned vehicles that the dealer or others are using are subject to sales or use tax. Any products removed from tax unpaid inventory to repair or maintain these vehicles are subject to use tax.

Examples

1. A dealer has a body shop replace a headlight on a car that is in inventory for sale. The dealer gives an exemption certificate to the body shop.

✓ The body shop does not charge sales tax on parts or labor when it bills the dealer.

2. A dealer's employee changes a headlight, changes the oil and filter, and repairs a chipped windshield on a car that is in inventory for sale.

✓ The dealer owes use tax on the oil and filter because these are maintenance items.

✓ No use tax is due on the headlight or material used to fix the windshield chip because these are repairs.

✓ The dealer does not owe sales or use tax on their employee's labor.

Sourcing – Which State or City Tax Applies?

Sales tax applies where the customer receives the product or service. Receive means where the customer takes possession of the product.

Products purchased, repaired, or serviced that are picked up at the seller's shop are taxed at the shop's location.

Products the seller delivers, with their vehicle or by a delivery company, are taxed at the delivery address.

When a customer hires a shipping company, the seller will owe sales tax based on the delivery address. The shipping company should give the seller documentation showing the delivery address. If the seller does not have a delivery address, the seller will owe sales tax based on the customer's address.

Products or services delivered to locations outside South Dakota are not subject to South Dakota sales tax.

Examples

1. Smith buys an ATV in Sioux Falls and hires Speedy Transport to deliver the ATV to Mitchell. Smith provides the dealer with the delivery information.

✓ The dealer owes 4.5% state sales tax and 2% Mitchell municipal sales tax because the ATV was delivered to Mitchell.

2. A repair shop picks up a car in rural Minnehaha County, repairs the car at its shop in Sioux Falls, then delivers the repaired car to the customer in rural Minnehaha County.

✓ The repair service, including any pickup and delivery charges, is subject to the 4.5% state sales tax. No municipal tax applies because the product was delivered to the customer outside city limits.

The seller must keep documentation of the address used to determine tax.

Delivery and Handling Fees

Examples

1. A parts store ships a part to a customer in rural Minnehaha County for $200 plus $20 delivery.

✓ The parts store owes 4.5% state sales tax on $220. No municipal sales tax is due because the customer takes possession outside the city limits.

2. A parts store sells spark plugs to a repair shop in Watertown for $100 plus $10 delivery. The repair shop provides the parts store with an exemption certificate.

✓ The parts store does not owe sales tax as this is a sale for resale.

3. Jones Auto sells and delivers the following items to Fred's Farm Store in Pierre: 2 tires for resale for $1000 and 1 tire display rack for use by Fred for $1000. Jones bills Fred $2000 plus $200 delivery. Fred gave Jones an exemption certificate for the two tires.

✓ Jones charges state sales tax plus Pierre municipal sales tax on $1,100 ($1000 for the display rack plus $100 shipping). Taxable shipping is determined by dividing the taxable products by the total sale ($1000 / 2000 = 50%). 50% of the shipping is taxable ($200 x 50% = $100).

The seller's charge for delivery is subject to the same state and municipal sales tax rate as the product or service sold. If the product or service sold is not taxable, the delivery charge is not taxable.

Delivery charges include any charge for transportation, shipping, postage, handling, crating, and packing.

If you hire a transportation company and bill the customer for the transportation service, your receipts for the transportation charge are subject to the same tax as the product sold.

When a shipment contains taxable and nontaxable products, sales tax is due on the portion of the delivery charge for the taxable products. This is determined by using a percentage of the sales price compared to the total sales *or* a percentage of the weight of the taxable products compared to the total weight of all products in the shipment.

Resale Purchases

Motor vehicle dealers, repair shops, or body shops may buy certain products or services for resale. The dealer must give the seller an exemption certificate.

Products and services a dealer may buy for resale include:

- Products for resale to customers
- Repairs, detailing, and customizing of a customer's vehicle
- Repairs to vehicles it has in inventory for sale
- Customizing of vehicles that are in inventory for sale
- New vehicle preparation services

A dealer, repair shop, or body shop may buy items that become part of a motor vehicle for resale.

Equipment and supplies sold to a dealer, repair shop, or body shop that the shop will use or consume are subject to sales tax or use tax at the time of purchase.

Examples of products a dealer or repair shop can buy for resale:

- Automotive parts
- Cement
- Grease
- Lacquer
- Lubricants
- Paints
- Tire Patches

Use Tax

If you buy taxable products or services that are used, stored, or consumed in South Dakota without paying sales tax, you owe use tax. If you buy taxable items in another state and pay another state's sales tax at a lower rate, you owe use tax based on the difference in tax rates when you use or store the product in South Dakota.

You owe use tax on any item taken out of tax unpaid inventory to use for your business or your personal use.

You will owe municipal use tax if you buy a product or service in one city (or a rural location) and use, store, or consume that product or service in another city that imposes a higher city tax. For example, JC Repair, mails a repair part to your address outside Huron. The JC charges 4.5% state sales tax. You then use the repaired equipment in Huron. You owe the additional 2% Huron city use tax on the amount paid for the repair part at the time you take the repair into Huron.

You do not owe use tax on items you buy to resell to customers.

The fact that you may add a charge to a repair bill to cover costs of the supplies used does not relieve you from your liability for the tax on such items used or consumed in the operation of your business.

Examples of taxable products:

- Auto shop equipment
- Breathing masks
- Brushes
- Carburetor and brake cleaner
- Clothing: boots, coats, coveralls, shirts, work uniforms
- Fire extinguishers
- Floor dry
- Floor mats and rugs
- Grinding compounds
- Hand tools
- Hearing protectors
- Paint remover
- Sandpaper
- Safety glasses or goggles (nonprescription)
- Soap
- Tape
- Wash rack supplies
- Welding shop equipment
- Welding gloves or helmets
- Wiping rags

Example

XYZ Repair charges an additional 5% for shop supplies on all repair invoices issued to customers to cover the cost of rags, cleaners, masking tape, etc. they use in the course of their repair work.

✓ XYZ must pay sales tax on these supplies at the time of purchase and must report sales tax on the 5% charge to the customer.

Promotional items: You owe sales or use tax on products such as calendars, key chains, pens, caps, t-shirts and jackets that you give to customers or employees.

Donations: If you donate or give away taxable items, you owe sales or use tax on your cost of the items, unless given to a tax-exempt entity. For example, if you change the oil in a church van at no charge, you owe use tax on your cost of the filter and the oil used.

Use tax is due when you buy the product or service. You owe use tax on items you bought with the intent to resell when you remove them from inventory to use.

It is your responsibility to identify taxable items when an exemption certificate is used. You must either tell your vendors to charge you tax on the taxable items or report the use tax on line 2 of your sales tax return at the time you make the purchase.

Failure to account for the use tax due on taxable items you bought from licensed vendors you gave an exemption certificate to may result in a penalty of 50% of the use tax due in accordance with SDCL 10-45-61.

All supplies and services bought that are not being resold to a customer are subject to sales or use tax.

Warranties, Insurance, and Service Contracts

► Manufacturer's Warranty

Parts and labor furnished to fulfill a warranty obligation of the manufacturer are not subject to sales tax. Your receipts from the manufacturer for warranty work are not taxable. You do not owe use tax on parts taken from inventory to complete work under a manufacturer's warranty.

Receipts from the customer or manufacturer for items not covered by the warranty are subject to sales tax.

If the manufacturer's warranty states:	Sales or Use Tax Due:
1. No cost to customer for parts	No sales or use tax due on the parts
2. Customer is responsible for a percentage of parts and labor	Sales tax due on the amount charged the customer
3. Customer pays a deductible for parts or labor	Sales tax due on the amount charged the customer
4. Customer is responsible for the repair labor	Sales tax due on the amount charged the customer
5. The manufacturer furnishes you the repair part at no charge	No sales or use tax due on the repair part
6. The manufacturer pays you for the repair part	No sales or use tax due on the repair part
7. The manufacturer pays you for the repair labor	No sales or use tax due on the repair labor

Loaner/rental vehicle: A warranty may provide for a loaner or rental vehicle while a car is repaired.

- When the manufacturer pays for the loaner/rental vehicle as provided under a warranty, the receipts are subject to the motor vehicles gross receipts tax, but are not subject to sales tax or tourism tax.
- If the customer pays for the rental vehicle, the receipts are subject to state and municipal sales tax, motor vehicles gross receipts tax, and tourism tax.

► Extended Service Contracts (Extended Warranty)

Extended service contracts that cover unexpected repair costs are subject to the motor vehicle excise tax when sold at the time of the vehicle purchase.

Extended service contracts sold later are subject to sales tax. Sales tax applies where the extended warranty is delivered to the buyer.

► Mechanical Breakdown Insurance

Insurance policies are not considered warranty or service contracts. Insurance premiums are not subject to sales tax; however, the premiums are subject to insurance premiums tax. All charges made to the insurance company for parts and labor are subject to sales tax.

If you do not know if a service contract is insurance or not, you may contact the South Dakota Department of Labor, Insurance Division and ask if the company that sells the contract is a licensed insurance company, or call the Department of Revenue at 1-800-829-9188.

► Implied Warranty

If you do not charge for repairs to a customer's motor vehicle after the sale and those repairs are not covered by a written warranty, you owe use tax on the cost of all parts installed in the customer's vehicle. You do not owe use tax on your employee's labor.

Driving Services

Fees charged for driving a motor vehicle from one location to another are subject to sales tax or use tax. Sales tax applies based on the location to which the vehicle is driven. For example, a person drives a car from Highmore to Pierre, the state and Pierre municipal sales or use tax is due.

South Dakota Taxes and Rates	
Motor Vehicle Excise Tax – Applies to the purchase of most motor vehicles (See Table 1).	**4%**
State Sales and Use Tax – applies to all sales or purchases of taxable products and services.	**4.5%**
The following taxes may apply *in addition* to the state sales tax:	
Municipal Sales and Use Tax – applies to all sales of products and services that are subject to the state sales or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales or use tax.	**1 to 2%**
Tourism Tax –applies to the rental of certain motor vehicles. (See Table 3) Tourism tax does not apply when you are remitting use tax.	**1.5%**
Motor Vehicle Gross Receipts Tax – applies to the rental of cars, trucks, and vans for less than 28 days, and the rental of certain trailers for 6 months or less. (See Table 3)	**4.5%**

Towing Services

Receipts from towing services are subject to state and city tax at the location to which the vehicle is towed. Receipts for towing to a location outside South Dakota are not subject to South Dakota sales tax.

Waste or Tire Disposal Fees

The retailer's charge to the customer for disposing of waste, including tire disposal fees, is subject to sales tax.

Contact Us

If you have any tax questions, please contact the **South Dakota Department of Revenue.**

Call toll-free: 1-800-829-9188

Website: http://dor.sd.gov/

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