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Motor Vehicle Repairs and Services

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

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Repairs and Services

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

For Rental Vehicles

Repairs and maintenance to rental vehicles are subject to sales tax 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 items sold to a dealer for dealer owned vehicles that are in inventory for sale are subject to sales tax or use tax. The dealer owes use tax on maintenance items taken from tax unpaid inventory for use in maintenance of a vehicle. The dealer cannot purchase maintenance items for resale to customers.

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

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

South Dakota Taxes and Rates	
State Sales Tax and Use Tax – Applies to all sales or purchases of taxable products and services.	4.5%
The following tax may apply in addition to the state sales tax:	
Municipal Sales Tax and Use Tax – Applies to all sales of products and services that are subject to the state sales tax or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales tax or use tax.	1 to 2%
Tourism Tax —Applies to the rental of certain motor vehicles. Tourism tax does not apply when you are remitting use tax.	1.5%

Apply for a tax license online at
<https://apps.sd.gov/rv23cedar/main/main.aspx>

Doing Business in Multiple States?

Apply through the Streamlined Sales Tax System at
www.streamlinedsalestax.org to obtain a license with the
 programs 24-member states.

Repairs and Services (cont.)

For Dealer Owned Vehicles in Inventory for Sale (cont.)

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 - Dealer owned vehicles that the dealer or others are using are subject to sales tax 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 hires a body shop to 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 because the repair is on a vehicle for resale.
2. A dealer's repair shop 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 on a vehicle for resale.
 - The dealer does not owe sales tax or use tax on their employee's labor.

Sourcing - Which Taxes Apply?

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 shipping company is hired, sales tax is owed based on the delivery address. The shipping company should give the seller documentation showing the delivery address.

Products or services delivered to locations outside South Dakota are not subject to South Dakota sales tax. The seller must keep documentation of the address used to determine tax.

Example:

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 state sales tax.
- No municipal tax applies because the product was delivered to the customer outside city limits.

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, if a person drives a car from Highmore to Pierre for hire, the state and municipal (Pierre) sales tax or use tax is due.

Towing Services

Receipts from towing services are subject to state and municipal 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.

Delivery and Handling Fees

The repair shop'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 a seller hires a transportation company and bills the customer for the transportation service, the seller's 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 one of the following:

- a percentage of the sales prices 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.

Examples:

1. A parts store ships a part to a customer in rural Minnehaha County for \$200 plus \$20 delivery.
 - The parts store owes 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 was determined by dividing the taxable products by the total sale ($\$1000/\$2000 = 50\%$). of the shipping is taxable ($\$200 \times 50\% = \100).

Waste or Tire Disposal Fees

Charges made by a retailer, including motor vehicle dealers, repair shops, or body shops, to a customer for disposing of waste, including tire disposal fees, is subject to sales tax.

The disposal company's charge to the retailer for waste or tire disposal is also subject to sales tax.

Resale Purchases

Motor vehicle dealers, repair shops, or body shops may buy certain products or services for resale. Motor vehicle dealers, repair shops, or body shops 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 in inventory for sale
- Customizing of vehicles 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

Products and services subject to tax that are used, stored, or consumed in South Dakota that have been purchased without the tax being charged, are subject to use tax. Shipping charges are included in the amount subject to tax. Products or services purchased with sales tax, but at a rate lower than would be due in South Dakota, are subject to use tax on the difference between the rate charged and the rate actually due.

A seller owes use tax on any item taken out of tax unpaid inventory to use for their business or personal use.

A customer will owe municipal use tax if they 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 municipal tax. For example, JC Repair, mails a repair part to the customer's address outside Huron. Then JC Repair charges state sales tax. The customer then uses the repaired equipment in Huron. The customer owes the additional Huron municipal use tax on the amount paid for the repair part at the time they take the repair into Huron.

Use tax is not due on items purchased to be resold to customers.

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

- **Promotional items:** Sales tax or use tax is due on products such as calendars, key chains, pens, caps, t-shirts and jackets that are given to customers or employees.
- **Donations:** Sales tax or use tax on the cost of the items donated or given away, unless given to a sales tax-exempt entity. For example, the oil is changed in a church van at no charge. Use tax is due on the cost of the filter and the oil used. Churches are not sales tax exempt.

Use tax is due on items purchased with the intent to resell but were removed from inventory to be used by the business, owners, employees, or given away.

A business may purchase items that are exempt from sales tax if they intend to resell the items when an exemption certificate is provided to the vendor. It is a business' responsibility to inform a vendor of what items are taxable when an exemption certificate is given to the vendor. The business must either tell the vendor to charge sales tax on the taxable items or the business must report the use tax on line 2 of the sales tax return at the time the purchase is made.

A penalty of 50% of the use tax due may be assessed against a business that fails to account for the use tax due on taxable items purchased from licensed vendors where the purchaser gave an exemption certificate. This is 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.

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.

Warranties, Service Contracts, and Insurance

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, this does not include warranty software.

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 Tax or Use Tax Due
No cost to customer for parts	No sales tax or use tax due on the parts
Customer is responsible for a percentage of parts and labor	Sales tax due on the amount charged to the customer
Customer pays a deductible for parts or labor	Sales tax due on the amount charged to the customer
Customer is responsible for the repair labor	Sales tax due on the amount charged to the customer
The manufacturer furnishes you the repair part at no charge	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair part	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair labor	No sales tax 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 or 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 service contract is delivered to the customer. If customer takes possession at the dealer, the tax rate is based on the dealer's location. If the extended warranty is mailed to the customer, the tax rate is based on the customer's mailing address.

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 made 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.

Contact Us

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

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

Business Tax Division Email: bustax@state.sd.us

Motor Vehicle Division Email: motorv@state.sd.us

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