



AN ALERT FROM SMITH LEONARD PLLC:

## REPAIR, MAINTENANCE, AND INSTALLATION CHARGES



 A NOTICE FROM THE SALES AND USE TAX DIVISION OF THE NORTH CAROLINA DEPARTMENT OF REVENUE

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## REPAIR, MAINTENANCE, AND INSTALLATION CHARGES

### INTRODUCTION

The North Carolina Department of Revenue has issued three important notices regarding repair, maintenance, and installation charges. Effective March 1, 2016, the general NC sales tax rate will apply to the gross receipts derived from repair, maintenance, and installation services sold at retail. In addition, installation charges by a retailer for tangible personal property, certain digital property, and taxable services, are subject to the applicable sales and use tax rate for the item, even though the installation charges may be separately stated by the retailer. For sales prior to March 1, 2016, a sales and use tax exemption was provided for the separately stated portion of the sales price for [installation charges](#) on the invoice.

Generally, the determination of whether specific repair and maintenance services are taxable will be based on a two part test. First, it must be determined whether the seller is the type of taxpayer that must collect sales tax. Then, it must be determined if the services being provided meet the definition of taxable repair, maintenance and installation services. Fortunately, the NC Department of Revenue has issued two directives to address this situation.

[Directive SD-16-1](#) addresses what types of taxpayers are required to collect sales tax on repair and maintenance services. Generally a retailer, which is defined as a business that earns over 50% of its revenue from the retail sale of tangible personal property to consumers, will be required to collect and remit sales tax on repair, maintenance and installation services. This definition excludes any taxpayer whose business activity is primarily providing only repair, maintenance and installation services. Thus most builders, contractors and repairmen will be exempt from the new regulations.

[Directive SD-16-2](#) address what types of services will be considered taxable repair, maintenance and installation services under the new regulations. While the directive provides that most repair services will be subject to the sales tax, it does provide some specific exclusions for services such as housekeeping, cleaning and janitorial services, lawn maintenance services, and other services performed by persons who do not meet the definition of a retailer.

Even with the above guidance, it will be at times difficult to determine if sales tax applies to a specific repair transaction. It is imperative taxpayers review the rules and discuss them with their tax advisors ahead of time to make sure they will be compliant when the new regulations take effect March 1.