



SC INFORMATION LETTER #91-26

TO: Vicki Jinette Ringer
Public Information Director

FROM: Steve Hallman, Tax Analyst
Tax Policy and Appeals Department

DATE: September 16, 1991

SUBJECT: Parts Withdrawn by Motor Vehicle Retailers For Use in Servicing Automobile
Warranties
(Sales Tax)

AUTHORITY: S.C. Code Ann. Section 12-4-320 (Enacted June 1991)
SC Revenue Procedure #87-3

SCOPE: An Information Letter is a temporary document issued for the purpose of
disseminating general tax information and to respond to technical questions
from within the Commission which are not related to a specific set of facts.

The Commission, in a Decision dated August 28, 1991, held an automobile dealership liable for the sales tax upon the fair market value of parts withdrawn from inventory to service customers' automobiles under warranty contracts where the customers were required to make co-payments.

The sales tax is imposed upon the "gross proceeds of sales" of every person engaged or continuing within this State in the business of selling tangible personal property at retail. Also subject to the sales tax is the fair market value of tangible personal property, previously purchased at wholesale, which is withdrawn from the business or stock and used or consumed in connection with the business.

With respect to parts withdrawn from inventory by motor vehicle retailers to replace defective parts under various types of written warranty contracts, the fair market value of such parts are to be included in gross proceeds of sales, unless it can be shown all of the following requirements are met.

- (1) The warranty contract is given without charge at the time of original purchase of the defective property;
- (2) The tax was paid on the sale of the defective part or on the sale of the property of which the defective part was a component; and,

- (3) The customer is not charged for any labor or materials.

Based upon the above, the Commission determined in its finding that if a motor vehicle warranty requires a customer to make a co-payment in conjunction with repair service under a written warranty, the retailer must include the cost of the parts withdrawn in "gross proceeds of sales" and pay the sales tax on such withdrawals.