



Sales and Use Tax Division
North Carolina Department of Revenue
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www.ncdor.gov

IMPORTANT NOTICE: SERVICE CONTRACT FOR ONE OR MORE COMPONENTS, SYSTEMS, OR ACCESSORIES FOR A MOTOR VEHICLE – TAXABLE

The sales price of or the gross receipts derived from the sale or the renewal of a “service contract” sold at retail for one or more components, systems, or accessories for a motor vehicle is a service contract for tangible personal property which continues to be subject to the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax.

For more detailed information regarding the application of the sales and use tax laws related to or concerning the retail sale of a service contract for tangible personal property, see the [Important Notice: Sale or Renewal of a Service Contract for Tangible Personal Property Changes](#) issued by the Department February 2, 2016, and the [Important Notice: Service Contracts](#) issued by the Department September 26, 2014. Both are available on the Department’s website www.ncdor.gov.

The sale or renewal of a service contract for the following is a service contract for tangible personal property. This list is not all-inclusive.

- Repair and replacement of tires, wheels, or rims for a motor vehicle.
- Repair of chips and cracks in and the replacement of motor vehicle windshields.
- Repair and replacement of individual components including the following: engine, transmission, drive axels, battery, alternator, turbo/supercharger, fuel tank, suspension, electrical system components, airbag electronics, air conditioning, seals and gaskets, transfer unit, amenities (audio system, DVD, internet, Bluetooth/phone, GPS).
- Removal of dents, dings, or creases on a motor vehicle.
- Repair or maintain electrical, emissions, fuel, cooling, steering, or braking system of a motor vehicle.
- Repair or maintain leather of a motor vehicle.
- Repair or maintain paint of a motor vehicle.
- Repair or maintain a motor vehicle key or key fob. An agreement that only provides for the replacement of a key fob does not meet the definition of “service contract.”

Example: On March 5, 2016, a person purchases a motor vehicle from an automobile dealership located in North Carolina. In addition to the purchase of the motor vehicle, the person purchases three separate service contracts for the following: engine, paint, and leather. The service contracts are sold by the automobile dealership as a facilitator on behalf of the obligor of the service contracts. The sum of the sales price for the three service contracts is \$2,750.00. The automobile dealership is liable for the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax on the \$2,750.00 sales price of the three service contracts, as there is not an agreement

between the automobile dealership and the obligor that provides that the obligor is the party liable for the payment of the tax.

Example: On April 1, 2016 a person purchases a battery, an alternator, and a wiring harness from an automotive parts store located in North Carolina. In addition to the parts, the automotive store sells extended warranties on the battery and alternator for \$50.00 each. The automotive parts store is liable for the general 4.75% State, applicable local (2.00% or 2.25%), and applicable transit (0.50%) rates of sales and use tax on the parts and on the \$50.00 sales price for each of the extended warranties.

Assistance

For more detailed information concerning the application of the sales and use tax on or after March 1, 2016 related to or concerning motor vehicles, see [Important Notice: Motor Vehicles \(Installation Charges; Repair, Maintenance, and Installation Services; and Service Contracts\)](#) issued by the Department on February 11, 2016 and is available on the Department's website www.ncdor.gov.

General questions regarding this notice should be directed to the Taxpayer Assistance and Collection Center at telephone number 1-877-252-3052 (toll-free).

To the extent that there is any change in statute or regulation, or new case law subsequent to the date of this notice, the provisions in this important notice may be superseded or voided. To the extent that any provisions in any other notice, directive, technical bulletin, or published guidance regarding sales and use tax issued prior to the date of this notice conflicts with this important notice, the provisions contained in this important notice supersede.