

Vermont Sales and Use Tax Guide for the Automotive Repairs Industry

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Please note: This document provides sales and use tax guidance for auto supply dealers and auto repair shops.

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Introduction

Both dealers and repair shops must register with the Vermont Department of Taxes to collect and remit Vermont Sales and Use Tax on retail sales of auto parts and supplies. If you need further assistance with any topics covered below, please get in touch with us at tax.business@vermont.gov.

Vermont's 6% sales tax applies to retail sales of tangible personal property. Sales made for resale are not subject to tax because they are not retail sales. A retail sale occurs when there is a "bargained-for" exchange, and the price paid corresponds to the item being sold.

Definitions Used in This Guide

- **Auto Supply Dealer or Supplier:** A business that sells auto parts and supplies.
- **Auto Repair Shop:** Includes any business that provides auto repair or auto body work or services.
- **Auto Repair Work:** This could include work on any vehicle or vessel, including cars, trucks, RVs, motorcycles, mopeds, snowmobiles, all-terrain vehicles, and others.

Repair Parts and Supplies

Not Taxable: Repair Parts Sold to A Shop That Taxes Them When They Are Resold To The Customer

An auto repair shop may purchase parts without paying sales tax if the parts will be resold to its customer as part of a repair job. When it resells the parts, the auto repair shop must charge the customer directly for the part and itemize the bill to identify the charges subject to tax. If a shop does not itemize the bill, the entire charge is subject to tax. An auto repair shop must provide [Form S-3, Resale Exemption Certificate \(https://tax.vermont.gov/sites/tax/files/documents/S-3.pdf\)](https://tax.vermont.gov/sites/tax/files/documents/S-3.pdf), to the supplier when using the resale exemption to purchase items that would otherwise be taxable.

Not Always Taxable: Parts And Supplies Not Always Resold to The Customer

An auto repair shop has a choice when it comes to some supplies that are not always directly charged to the customer as part of a retail sale. This comes up with items such as oil, antifreeze, transmission fluid, brake fluid, and power steering fluid. These items are sometimes used in repair work but not always directly charged to the customer, such as when an auto repair shop tops off these types of fluids.

The law requires an auto repair shop to follow one of these three approaches:

1. The shop may pay sales tax on these items when purchasing them from a supplier. In this case, the customer cannot be charged tax—the shop is using the items in its business.
2. If the item is conveyed to the customer the shop may itemize it on its bill to its customer, and collect and remit sales tax from the customer. In this case, the shop may use a resale exemption certificate when buying from the supplier.
3. If the shop neither pays sales tax when it purchases the item from a supplier nor charges tax to its customer, it must pay 6% sales or use tax on the item.

Please contact the Department of Taxes if unique or extraordinary circumstances require you to deviate from this guidance.

Parts and Supplies Typically Resold to Customers

Below is a non-exhaustive list of items that can be purchased tax-free by a shop using a resale exemption certificate. These parts are then subject to sales and use tax when purchased by a retail customer.

- Antifreeze
- Automatic transmission fluid
- Brake fluid
- Brake pads, rotors, shocks, struts
- Doors
- Electronic sensors
- Fan belts
- Fenders
- Filters
- Headlights, brake lights
- Motor oil
- Rear-view mirrors
- Starters, alternators
- Tires
- Windshields

Itemizing the Bill So That Tax Does Not Apply to The Entire Charge

Repair parts and accessories are subject to tax when sold to a retail customer, but installation and labor are not subject to tax. Be aware that if labor and materials are not separately stated, the entire amount charged to the customer becomes taxable. For example, when the charge for an oil change is a flat rate, the entire charge is subject to tax. If the oil, filter, and labor are instead separately stated, then only the oil and filter are subject to sales tax.

What about tires? The total selling price of tires, including the excise tax, is subject to sales tax.

Taxable: Tools and Equipment Sold to Auto Repair Shops

The purchase, lease, or rental of tools or equipment for an auto repair shop is taxable. Tools and equipment are used to perform repair services but are not transferred to the customer as part of the job. An auto repair shop must pay sales tax when purchasing, renting, or leasing the following non-exhaustive list of tools and equipment.

- Air compressors
- Alignment equipment
- Bodywork tools
- Brushes and rollers
- Buffing pads
- Clamps
- Compound pads
- Computers and software
- Diagnostic equipment
- Engine analyzers
- Filters and strainers
- Grinding wheels
- Hammers
- Impact tools
- Jumper cables
- Lifts
- Mechanics' tools
- Nut drivers
- Paint booths
- Painters' tools
- Pipe benders
- Pliers
- Respirators and goggles
- Screwdrivers
- Spray guns
- Stencils
- Torches
- Welding equipment
- Wheel balancers
- Wrenches and sockets

Supplies Used by Repair Shops

Some items are never sold for resale because there is no bargained-for exchange that makes the transaction a retail sale. This occurs when the items' costs are so insignificant that a customer does not bargain for them. For

example, paper mats placed on the floor and left in the vehicle upon return are taxed when sold to the shop rather than the customer because the customer has not bargained for the price.

On page 3 is a list of items that are presumed to never be purchased for resale because they are not typically bargained-for by the end customer. Auto repair shops should pay sales tax on these items when purchased from auto supply dealers. Accordingly, dealers should not accept resale exemption certificates from auto repair shops that are purchasing these items.

Although there is a presumption that supplies are not purchased for resale and, therefore, taxable, it is possible that in some extraordinary circumstances, a shop may charge the customer directly and collect tax because a large volume is used for a repair. In that case, the shop should itemize these materials on the invoice and collect and remit tax for the price charged to the customer. On its next sales and use tax return, the shop should credit itself for the amount of tax previously paid to the supplier, provided the resulting use tax balance is not less than zero. If the balance is less than zero, a shop may:

Apply the use tax credit to a period with enough use tax due to offset the credit, or Request a refund of sales tax using [Form REF-620, Application for Refund of Vermont Sales and Use Tax, Meals and Rooms Tax, or Local Option Tax \(https://tax.vermont.gov/sites/tax/files/documents/REF-620.pdf\)](https://tax.vermont.gov/sites/tax/files/documents/REF-620.pdf). In either case, the shop should keep a log of all use tax due and credits and the reason for applying them.

Non-Exhaustive List of Shop Supplies That are Taxable When Sold to a Shop

- Abrasives
- Acetylene metal conditioners
- Acrylic finishes
- Applicators
- Body Fillers
- Body putty sealants
- Bondo
- Brake cleaner
- Car wash
- Choke cleaner
- Cleaners, removers, both liquid and paste
- Disposable gloves
- Drill bits
- Drop cloths
- Enamels
- Engine degreaser or cleaner
- Face masks
- Fiberglass cloth
- Fiberglass matting
- Flux shellacs
- Gases, oxygen
- Gasket maker or adhesive
- General cleaning products
- Glass cleaner
- Grease
- Hand cleaner
- Hardware; screws, rivets
- Key tags
- Lacquers, thinners, and solvents
- Lead stain
- Liquid and paste
- Lubricants
- Molding
- Mounting paste
- Nuts, bolts, screws, hose, clamps, thread lock
- Paint
- Paper mats; floor and seat
- Paper towels
- Petroleum spirits
- Plastic filler
- Polyester waxes
- Primer reducers
- Primers
- Rags
- Razor blades
- Resin or epoxy
- Rubbing compound
- Rustproofing liquid
- Sanding disks
- Side molding kit
- Solder
- Solvent naphtha
- Speedy Dry

- Super glue
- Tape
- Tie wraps
- Tire lube
- Undercoating
- Valve stems
- Varnish
- Wash mitts
- Waxes
- Welding rods
- Wheel weights
- Windshield wash conditioners

Other Types of Sales or Service

Shop Supply Line Items on Repair Shop Invoices

Some auto repair shops choose to charge a shop supply fee. This fee is not subject to sales tax because it is not a resale of supplies itemized and directly charged to the customer. As explained above, tax is paid on shop supplies when they are purchased from a supplier.

Towing and Transportation Charges

Towing services and charges for transporting vehicles are not taxable. This includes towing the vehicle to any repair shop or other location.

Storage Charges

Charges for storing a vehicle are not taxable. These include charges to store a repaired vehicle that is not picked up by its owner by a specific date.

Vermont State Inspections

The charge for a Vermont motor vehicle inspection is not taxable. However, any charges for parts related to repair work resulting from an inspection are taxable.

Maintenance, Service Agreements, and Warranties

Maintenance, protection, or service plans may be taxed at the time they are sold to customers. If tax is collected when the plan is sold to the retail customer, tangible personal property purchased using the plan is not subject to tax when work is performed. Similarly, parts are not subject to tax when purchased for repairs that are paid for by a warranty that was taxed as part of the purchase price of a vehicle. This is because those parts were taxed as part of the motor vehicle purchase.

If tax is not collected when a plan is sold, tax is instead due when tangible personal property is transferred under the plan. The taxable sales price is based on the retail value of the taxable part or supply. Towing, storage, and other nontaxable services performed under a plan remain nontaxable.

Insurance Claims and Repairs

When a shop performs repair work that is covered by insurance, it must bill the insurance company the same way it would bill a retail customer. The tax treatment does not change.

Sublets and Subcontract Work

Retail sales are the only transactions subject to tax. A transaction between one auto repair shop and a different shop conducting sublet work is not at retail. The repair shop should provide an exemption certificate, and tax should not be collected for that transaction. The taxable transaction is between the repair shop and its retail customer. The sublet line on an invoice should be split between taxable parts and non-taxable labor. As explained above, if parts and labor are combined, the entire charge becomes taxable.

Core Charges

A core charge is an amount added to the purchase price of some auto parts, such as automotive batteries. The core charge amount is discounted from the sales price at the time of initial purchase if a customer exchanges a “core” part that can be reconditioned and resold. Core charges are not subject to tax when they are discounted for a trade-in at the time of purchase. Sometimes, the core is not provided at initial purchase, but a core is later returned to have the core charge refunded. In that case, tax must be collected on the core charge at the initial purchase, but the tax attributable to the core charge may be refunded later when the core charge is refunded.

Free “Loaner” Vehicles

Repair parts for a vehicle loaned at no charge to a customer are subject to sales tax. A loan is not considered a rental or lease because no money is exchanged. The purchase of a vehicle intended for free loan is subject to 6% use tax administered by the Department of Motor Vehicles (DMV).

Vehicles Leased or Rented

Repair parts may be purchased by a shop tax-free if they are for a vehicle that is primarily intended for lease or short-term rental. That is because of the following:

- Property sold for sublease and sub rent is not subject to sales tax.
- Short-term rentals are subject to a 9% use tax administered by the DMV.

Note, however, that tax should be paid for the repair parts if the vehicle is used for a purpose other than lease or rental more than 4% of the time. For example, if a shop owns a vehicle that is used as a short-term rental for customers 80% of the time but is used by shop staff to run errands 20% of the time, parts to repair that vehicle are subject to sales tax because it is being used for a non-rental purpose more than 4% of the time.

Reconditioning Vehicles for Resale

Motor vehicle parts are exempt from sales tax when:

- purchased by a dealer of motor vehicles and
- used to recondition a used vehicle in the dealer’s inventory for resale.

To use this exemption, a dealer must be registered with the [Department of Motor Vehicles \(https://dmv.vermont.gov/registrations\)](https://dmv.vermont.gov/registrations) under 23 V.S.A. §§ 451-468. The dealer must also provide the [form S-3, Vermont Resale Exemption Certificate For Purchases For Resale, By Exempt Organizations, And By Direct Pay Permit \(https://tax.vermont.gov/sites/tax/files/documents/S-3.pdf\)](https://tax.vermont.gov/sites/tax/files/documents/S-3.pdf) to the supplier when using this exemption to purchase parts for refurbishment. Please note that the exemption for motor vehicle parts does not apply to supplies. [See page 2 for treatment of supplies.](#)

All parts are taxable unless sold to a dealer for refurbishment. Sales tax on taxable parts must be paid to the supplier.

Note that this treatment applies only to reconditioned vehicles, not new vehicles. Parts used to modify a new vehicle may be purchased with a resale exemption certificate as long as the parts are itemized on the bill to the customer and tax is collected from that customer.

Contact

If you have questions, please feel free to contact us at tax.business@vermont.gov or (802) 828-2551. We’re here to help.