

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Barry D. Knight

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax; Automotive
Repair Supplies

2. **Bill Number** HB 1518

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require that the Retail Sales and Use Tax be collected by automobile repair businesses on separately stated charges to their customers for supplies used during the repairs, whether or not title or possession of the supplies passes to the customer. This bill would also allow automobile repairers to purchase such supplies exempt from the tax as sales for resale.

Under current law, the tax is paid on supplies used and consumed by automobile repairers at the time of purchase by the shop. Separately stated charges imposed by automobile repairers for supplies used during the repair of automobiles are not subject to the tax.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an unknown positive impact on state revenues to the extent that the separately stated charges imposed by automobile repairers for supplies exceeds the purchase price of such supplies paid to the supplier.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

The Retail Sales and Use Tax is generally levied on all sales of tangible personal property within the Commonwealth, unless specifically exempted. Automobile repairers are required to collect sales tax on their sales of tangible personal property to their customers. Separately stated charges for services, however, are not subject to the tax.

Shop supplies, such as brake cleaner, miscellaneous nuts and bolts, grease, and hand towels, are considered to be used and consumed by automobile repairers in the performance of repair services for customers. As such, repair shops are required to pay the tax on shop supplies at the time they are purchased.

The longstanding policy regarding the sales tax treatment of shop supplies is reflected in Public Document 87-25 (December 23, 1987) and Public Document 01-158 (October 19, 2001). The Department's determination in those documents was that shop supplies are used and consumed in the performance of repair services for customers and therefore repair shops are required to pay sales or use tax on those shop supplies at the time of purchase. Consequently, those shop supplies are not then taxable to the customer.

Automobile repairers typically charge customers a "shop fee," "supply charge," or similar fee which is typically comprised of a flat-fee or a percentage of the total amount charged by the shop for the repair. This amount charged to the customer is not currently subject to the Retail Sales and Use Tax because title or possession of the consumables typically does not pass to the consumer. Thus the consumables are currently treated as being part of the repair service itself.

Proposal

This bill would require that the Retail Sales and Use Tax be collected by automobile repair businesses on separately stated charges for supplies used during the repairs, whether or not title or possession of the supplies passes to the customer. This bill would also allow automobile repairers to purchase such supplies exempt from the tax as sales for resale.

cc : Secretary of Finance

Date: 2/6/2017 VB
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