



Tax and Licensing Division  
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# Tax Compliance Guide

## Warranties

(2/2022)

A warranty is a guarantee that an article of property will be free of defects for a specific period of time. Usually the warrantor indemnifies the purchaser against the cost of replacing or repairing defective property. The primary distinction between a warranty and a maintenance agreement is that work is performed under a warranty only if a defect is discovered.

### Manufacturer's Warranty

Many articles of property will be sold with a warranty by the manufacturer against defects. This warranty is usually included in the purchase price paid for the property. Authorized dealers or repair agents may subsequently remove property from inventory in order to replace the defective parts. This inventory, presumably purchased tax-free for resale, is not subject to additional sales/use tax because it is covered by the warranty that was included in the taxable purchase price paid for the original product.

### Extended Warranties

Extended warranties are normally offered by the manufacturer or the seller in conjunction with the sale of the warranted property. Such warranties expand the initial warranty by indemnifying the purchaser for an extended period of time and/or covering additional losses outside the scope of the manufacturer's warranty.

Optional extended warranties that include free repair and/or replacement are subject to Aurora sales and use tax. Optional extended warranties are not taxable if they are for labor only and stipulate that all parts or full replacement will be a separate charge. Parts or materials used in fulfilling taxable extended warranties are not subject to Aurora sales/use tax. Subsequent sales of tangible personal property in addition to the extended warranty are taxable retail sales.

Mandatory warranties are considered to be part of the purchase price of the item and are taxable regardless of if they are separately stated on the invoice or receipt. No additional sales or use tax is due from the seller or buyer on materials used when performing the warranty repairs.

### Examples

1. Dealer A sells all new cars with a 3,000 mile manufacturer's warranty. After 1,500 miles, Customer B finds that the air conditioner does not work. He takes the car to the dealer, who

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- has to replace a defective component. The dealer removes the component from resale inventory and installs it into Customer B's car at no charge. There is no use tax due on this transaction.
2. Customer C purchases a copy machine from Seller D. The copy machine comes with a mandatory 24-month warranty; which will cover defective parts and labor. Customer C must pay tax on the purchase price of the copy machine, including the charge for the mandatory warranty. No additional sales or use tax will be due from customer C or Seller D when performing repairs on the copy machine under the warranty.
3. Customer E purchases a home theater system from Retailer F. The system comes with a standard manufacturer's 90-day warranty for defective parts. Customer E also purchases an optional one-year extended warranty that covers all repair costs and replacement of the home theater system if not repairable. The optional extended warranted is subject to Aurora sales and use tax.
4. Customer G purchases a computer from Retailer H, including an extended warranty that includes unlimited technical and set-up support for one year. The agreement states that all technical support and repair labor are included in the agreement, and also that any charges for repair parts, or replacement if the computer is not repairable, will be a separate charge to customer H. This extended warranty is not subject to Aurora sales and use tax since it does not include repair parts or replacement. Any subsequent charges for parts or replacement of the computer would be a taxable retail sale.

### Related Topics

Automotive Service & Repair  
Maintenance Agreements  
Use Tax

### Citations

*Aurora Municipal Code*  
§ 130-31. Definitions  
§ 130-33. Legislative Intent  
§ 130-156. Taxable Items  
§ 130-157. Items Exempt From Taxation  
§ 130-160. Responsibility for payment  
§ 130-161. Schedule of Taxes  
§ 130-196. Levy

§ 130-199. Use tax credit

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## Contact Us

For additional assistance, please contact us:

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