

The Louisville Municipal Code (LMC) imposes sales or use tax on the purchase price paid or charged for warranty or maintenance agreements when they are mandatory to the buyer in conjunction with the purchase of any tangible personal property or taxable services.

Equipment/Tangible Personal Property Maintenance Agreements

Maintenance agreements or extended warranties are generally offered for sale to provide ongoing repairs and maintenance of a piece of equipment or vehicle or other type of tangible personal property. Several factors are considered to determine whether the agreement is taxable.

Mandatory Agreements

If the agreement is mandatory to the purchaser, or is included in the price of the item purchased, the agreement is subject to Louisville sales tax.

Optional Agreements

If the agreement is optional to the purchaser, sold separately from the item or service purchased, and any parts, supplies, or taxable services subsequently provided to the purchaser are properly taxed, the agreement is not taxable at the time of sale.

If the optional agreement includes warranty parts, the seller responsible for performing the warranty work must pay use tax on the cost of the materials used to complete the work to the jurisdiction where the work is performed. If a third party is contracted to perform the warranty work, the subcontractor is required to charge and remit sales tax based on the jurisdiction where the work is being performed.

A warranty seller may elect to charge the purchaser sales tax on the purchase price of an optional warranty agreement that includes parts and labor, but only to the extent that any parts replaced that are not covered under the warranty are still subject to Louisville sales tax.

When applicable, the City may exclude separately stated agreement charges which are for labor only. Agreements, and the applicable tax owed, will be evaluated on a case-by-case basis.

Also see “Software” publication of this Tax Guide for information on software maintenance agreements.

The information contained in the Tax Guide publications is intended to offer general guidance in layman’s terms, for this topic, industry or business segment, and is not intended for legal purposes to be substituted for the full text of the Louisville Municipal Code rules and regulations. This guide does not constitute a city tax policy.