

Sales and Use Tax - (Warranties)

What is an optional or extended warranty and what is the taxability?

An *optional* or extended warranty is a warranty that a buyer chooses to purchase. In other words, the warranty or extended warranty is not automatic with a purchase. In most instances the optional warranty is not sales taxable because it is considered a separate service contract. However, the parts used for repair under the optional warranty are subject to state sales and use tax paid and any applicable special district and local taxes by the warranty provider. This applies whether or not the item purchased is made within Colorado or out-of-state and shipped to Colorado.

The seller of the optional or extended warranty can elect to charge state sales tax on the warranty rather than determine at a later time what warranty maintenance and repair items are or are not taxable. In this case, the sales tax obligation has been fulfilled unless the items are not within the scope of the original warranty in which case state and local sales tax would be collected from the buyer on an item outside the warranty agreement.