

ARIZONA DEPARTMENT OF REVENUE

ARIZONA TRANSACTION PRIVILEGE TAX RULING

TPR 93-31

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

Exemption under the retail classification for services rendered in addition to selling tangible personal property at retail.

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-1310.01 imposes the Arizona transaction privilege tax on the gross proceeds of sales or gross income derived from the business of selling tangible personal property at retail.

A.R.S. § 42-1310.01.A.2 provides that the tax imposed on the retail classification does not apply to the gross proceeds of sales or gross income from services rendered in addition to selling tangible personal property at retail.

A.R.S. § 42-1310.01.F provides that if a person is engaged in an occupation or business to which the retail classification of the transaction privilege tax applies, then the person's books shall be kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from the sales of services.

Arizona Administrative Code (A.A.C.) rule R15-5-1815 provides that when a charge is made for repair labor or a nontaxable service such as installation charges in connection with a retail sale of parts or materials, such charges are not subject to tax if the amount is shown separately on the sales invoice and records.

DISCUSSION:

The nontaxable services that are rendered in addition to selling tangible personal property

generally fall into one or more of the following categories:

1. Repair labor
2. Installation labor
3. Instruction and training

PLEASE NOTE: Repair or installation of tangible personal property which is permanently attached to real property is taxable under the contracting classification. See A.A.C. R15-5-608 for further information.

The following are examples of the type of transactions that may include nontaxable services in addition to selling tangible personal property. These examples are for illustrative purposes only and are not intended to be an exclusive listing.

See Arizona Transaction Privilege Tax Ruling TPR 92-5 for information regarding warranty contracts.

Repair

Repairs to tangible personal property such as motor vehicles, furniture, televisions, washers, dryers, refrigerators, small appliances and tools. The sale of the repair parts is subject to tax but the labor involved in making the repair is not taxable if it is separately stated on the invoice and in the company's books and records.

Installation

Installing items on tangible personal property such as installing seat covers, telephones, stereos, window tinting in motor vehicles, and awnings on motor homes and travel trailers. The sale of tangible personal property is subject to tax but the installation labor is exempt if it is separately stated on the invoice and in the company's books and records.

Instruction and Training

Instruction and training provided in connection with the sale of machinery or equipment such as computer hardware and software. The charge for instruction and training is not subject to tax if it is separately stated on the invoice and in the company's books and records.

Other

Charges by persons such as interior decorators for services such as layout, color coordination, and vendor or contractor selection are not subject to tax. However, sales of items such as furniture or interior decorations are subject to tax.

See Arizona Transaction Privilege Tax Ruling TPR 90-2 for information regarding the sales of tangible personal property by persons engaged in professional or personal service occupations or service businesses.

RULING:

The transaction privilege tax does not apply to the gross income from services rendered in addition to selling tangible personal property at retail. Included in such exempt services are charges for repair labor, installation labor, and instruction and training.

When a charge is made for what has been determined to be a nontaxable service, such as installation or repair labor, in connection with a retail sale of parts or materials, such charge must be shown separately on the sales invoice and records in order to be exempt from the transaction privilege tax. If this charge is not shown separately on the invoice and records, the total amount of the charge is subject to the transaction privilege tax. See A.A.C. R15-5-1815.A.

The concepts presented in this ruling only apply to sales of tangible personal property under the retail classification.

Harold Scott, Director
Signed May 10, 1993

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.