

The Sales Tax Dilemma

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One of the most vexing problems for oilheat dealers is the issue of state sales tax. Depending on the state – or states – in which you do business, sales tax rates and rules vary. Unless you pay close attention and collect the appropriate sales tax at the time of sale, you could end up with a huge tax bill when audited by your state at the end of the year.

Although the regulations and rates vary by state, there are a few commonalities that stretch over most states:

Residential Fuels

For the most part, heating oil, propane, natural gas, firewood and electricity sold for residential use are non-taxable. Residential use is classified as any dwelling where people customarily reside, including private homes, apartments and condos, and nursing homes. If the building is mixed use (such as apartments over a storefront), sales tax must be collected on a prorated basis by percentage of space used for residential vs. commercial.

Commercial Fuels

With limited exceptions, fuel sales to commercial companies are subject to sales tax. The exceptions may include small businesses (with five or fewer full-time equivalent employees in Massachusetts); fuel used for manufacturing, industrial, aircraft, commercial fisheries or agricultural purposes; charitable and government organizations (which must file certificate of exemption forms).

Heating fuel is exempt from sales tax if a building is used at least 75% for agricultural production, fabrication or industrial/manufacturing purposes.

Service and Installation

Equipment sales are subject to state sales tax, but the labor that is required for installation is not taxable. However, the equipment and parts must be broken out separately from the labor on the customer invoice. If the parts and labor are lumped together the entire cost of installation is taxable.

Parts used in service and repair of heating systems are only subject to sales tax if they represent at least 10% of the total repair cost. If the parts are less than 10% of the total cost they are considered “inconsequential” and not taxed. However, the same rule applies as on equipment

installation – you must break out the cost of parts and cost of labor on the invoice. If you don't, you will have to pay sales tax on the entire cost.

This is just a brief overview of the sales tax situation. You must be aware of and adhere to the specific rules and regulations of the states in which you conduct business. Before the heating season begins, sit down with your accountant and business tax advisor to make sure your billing system is collecting the appropriate sales taxes in a timely manner.

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