

2020-02 INTERPRETATION



SALES TAX CAP FOR SERVICE PAYMENTS OVER MULTIPLE INVOICES

Issue:

Does the tax cap apply once to the total price of a service provided that is billed over multiple invoices?

Recommendation:

The cap is applied to each individual invoice billing.

Example:

A customer contracts \$15,000 for annual legal services provided by a firm outside of the taxing jurisdiction, billable as the law firm provides the service on a rolling basis as needed. The municipality the customer lives in has a tax rate of 6% and a tax cap of \$3,000 (only the first \$3,000 of the price can be taxed, so the customer pays maximum \$180 in sales tax). The seller invoices the customer as services provided and invoiced 3 separate \$5,000 invoices over the year.

The seller will include sales tax up to the cap on each \$5,000 invoice for a total of \$540 in sales tax collected ($\$180 \times 3 = \540 tax).

Rationale:

The Code specifically addresses this question in Section 030 – Imposition – Rate

Section 030.F. states “When a sale is made on an installment basis, **the applicable sales tax shall be collected at each payment, calculated at the sales tax rate in effect, and with the cap applied,** at the time of the original sale or the date the service is rendered, based on the local jurisdiction’s’ code(s).”

Section 030.G. states “**When a sales transaction involves placement of a single order with multiple deliveries made at different points in time that are separately invoiced, the applicable sales tax shall be collected on each separately invoiced delivery,** calculated at the sales tax rate in effect, and with the cap applied,. At the time of the original sale or the date the service is rendered.”