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 x 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.”