

ST 26-0008-GIL 03/11/2026 MOTOR VEHICLES

If the seller is making a goodwill repair at the direction of a manufacturer, and where a manufacturer provides tangible personal property to the seller for the goodwill repair, a service situation exists in which the person making the repairs is the serviceperson and the seller is the service customer. See 86 Ill. Adm. Code 140.141(c)(3)(B). (This is a GIL).

March 11, 2026

NAME
TITLE
COMPANY
ADDRESS

Dear NAME:

This letter is in response to your letter dated December 9, 2025, in which you requested information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at <https://tax.illinois.gov/> to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

INQUIRY

COMPANY is a COMPANY representing MEMBERS. COMPANY seeks clarification from the Illinois Department of Revenue (IDOR) in the form of a General Information Letter (GIL) on the taxation of certain goodwill repairs.

FACTS:

From time to time, FRANCHISORS institute goodwill service campaigns, pursuant to which the franchisors direct their FRANCHISEES to complete motor vehicle repairs free of charge to the vehicle owners. The goodwill

service campaigns apply to vehicles for which (1) the manufacturer's factory warranty has expired and (2) a product recall has not been instituted. Under the terms of a goodwill service campaign, a franchisor will provide parts needed to make the vehicle repair free of charge to the franchisee. If a franchisee has already purchased the parts used to make a goodwill campaign repair, the franchisor reimburses the franchisee for the cost of those parts.

Generally, franchisees are obligated under the terms of their sales and service agreements to make the no-cost repairs to vehicles that are subject to a goodwill service campaign.

REQUEST:

COMPANY respectfully requests written clarification from the Illinois Department of Revenue in the form of a General Information Letter that when a FRANCHISOR directs its franchisees to make goodwill repairs to vehicles that are out of warranty and not subject to an official recall campaign and provides necessary parts to make the repairs to the franchisees free of charge, either via direct donation or reimbursement for the cost of previously purchased parts, that any Use Tax due on the parts is the obligation of the franchisor as donor under subsection (c) of Section 150.305 of Title 86 of the Illinois Administrative Code.

DEPARTMENT'S RESPONSE:

Retailers' Occupation Tax

The Retailers' Occupation Tax Act imposes a tax upon persons engaged in this State in the business of selling tangible personal property at retail to purchasers for use or consumption. See 86 Ill. Adm. Code 130.101. Use Tax is imposed on the privilege of using, in this State, any kind of tangible personal property that is purchased anywhere at retail from a retailer. See 86 Ill. Adm. Code 150.101. These taxes comprise what is commonly known as "sales tax" in Illinois.

Service Occupation Tax

Retailers' Occupation and Use Taxes do not apply to sales of service. The Service Occupation Tax Act and Service Use Tax are imposed on the transfer of tangible personal property incident to sales of service. See 86 Ill. Adm. Code 140.101 and 160.101. If the transactions you are inquiring about do not involve the transfer of any tangible personal property, then they generally would not be subject to Service Occupation Tax or Service Use

Tax. For general information, see 86 Ill. Code 140.101 through 140.109 regarding sales of service and Service Occupation Tax.

A serviceperson's liability may be calculated in one of four ways: 1) Service Occupation Tax on the separately stated selling price of tangible personal property transferred incident to service; 2) Service Occupation Tax on 50% of the serviceperson's entire bill; 3) Service Occupation Tax on the serviceperson's cost price if they are a registered de minimis serviceperson; or, 4) Use Tax on the serviceperson's cost price if they are a de minimis serviceperson not otherwise required to be registered under Section 2a of the Retailers' Occupation Tax Act.

The first two methods require the serviceperson to pay Service Occupation Tax (including local taxes) based on the selling price of the tangible personal property transferred incident to the sale of service. Using the first method, servicepersons may separately state the selling price of each item transferred as a result of the sale of service. The tax is then calculated on the separately stated selling price of the tangible personal property transferred. If the serviceperson does not separately state the selling price of the tangible personal property transferred, they must use 50% of the entire bill to the service customer as the tax base. Both of the above methods provide that in no event may the tax base be less than the serviceperson's cost price of the tangible personal property transferred. See 86 Ill. Adm. Code 140.106. Such servicepersons should give suppliers resale certificates and remit Service Occupation Tax using the Service Occupation Tax rates for their locations. These methods result in the customer incurring a Service Use Tax liability. See 86 Ill. Adm. Code 160.101.

The third way servicepersons may account for their tax liability only applies to de minimis servicepersons who have either chosen to be registered or are required to be registered because they incur Retailers' Occupation Tax liability with respect to a portion of their business. See 86 Ill. Adm. Code 140.109. Servicepersons may qualify as de minimis if they determine that the annual aggregate cost price of tangible personal property transferred incident to the sale of service is less than 35% of the total annual gross receipts from service transactions (75% in the case of pharmacists and persons engaged in graphic arts production).

The cost ratio is a measure of the amount of tangible personal property transferred with a service. It is calculated by comparing the serviceperson's product cost to their total income from services. The cost of materials that are not transferred to customers incident to a service, such as those sold at retail, removed from inventory for use, or incorporated into repairs of real estate, must be excluded when determining the cost ratio. See 86 Ill. Adm. Code 140.105(c).

Servicepersons do not have the option of determining whether they are de minimis on a transaction-by-transaction basis but must do so annually. Registered de minimis servicepersons are authorized to pay Service Occupation Tax (which includes local taxes) based upon their cost price of tangible personal property transferred incident to the sale of service. Such servicepersons should give suppliers resale certificates and remit Service Occupation Tax using the Service Occupation Tax rates for their locations. This method also results in the customer incurring a Service Use Tax liability.

The final method of determining tax liability may be used by de minimis servicepersons that are not otherwise required to be registered under Section 2a of the Retailers' Occupation Tax Act. Such de minimis servicepersons handle their tax liability by paying Use Tax to their suppliers. If their suppliers are not registered to collect and remit tax, the serviceperson must register, self-assess and remit Use Tax to the Department. These servicepersons are considered to be the end-users of the tangible personal property transferred incident to service. Consequently, they are not authorized to collect a "tax" from the service customers. See 86 Ill. Adm. Code 140.108. Under this method the customer incurs no Service Tax liability.

Goodwill Repairs

Goodwill repairs are repairs made by a seller for no charge that a seller is not obligated to make. 86 Ill. Adm. Code 140.141(c)(3). If a seller makes a goodwill repair themselves, no service situation exists. This is so because the seller makes the repair for no charge and cannot be said to be making a sale of service. Rather, in this situation, the seller is using repair parts to maintain the goodwill of a customer. For that reason, the seller making the goodwill repair would incur a Use Tax liability based on their cost price of all tangible personal property they purchased and used in making the repair, including the repair parts transferred to the customer. 86 Ill. Adm. Code 140.141(c)(3)(A).

If the dealer is making a goodwill repair at the direction of a manufacturer, and where a manufacturer provides tangible personal property to the seller for the goodwill repair, a service situation exists in which the person making the repairs is the serviceperson and the manufacturer is the service customer. In this situation, the tax liabilities depend on the nature of the serviceperson as stated above. 86 Ill. Adm. Code 140.141(c)(3)(B); ST 00-0001-PLR. Generally, if a dealer is de minimis and is required to be registered under Section 2a of the Retailers' Occupation Tax Act, the dealer incurs a Service Occupation Tax liability based on their cost price of the parts transferred incident to the repair. In this situation, the manufacturer (as the service customer) incurs a Service Use Tax liability that is to be collected by the serviceperson-dealer. 86 Ill. Adm. Code 140.141(c)(3)(B)(ii).

When property is purchased and then given away, the donor has made a taxable use of the property by making such gift. Therefore, it is the donor of the gift who is deemed the

COMPANY

Page 5

March 11, 2026

end user of the property and who is subject to the Use Tax, rather than the donee. See 86 Ill. Adm. Code 150.305(c). The donor's Use Tax liability is calculated on the cost price of the property given away. When the property is purchased at retail, the base for calculating Use Tax is the purchase price of the property. If, however, the property given away is a finished product produced by the donor, the donor's Use Tax liability is calculated on the donor's cost price of the materials and products purchased and incorporated into the finished product. See 86 Ill. Adm. Code Section 150.305(b) and (c).

I hope this information is helpful. If you require additional information, please visit our website at <https://tax.illinois.gov/> or contact the Department's Taxpayer Information Division at 800-732-8866.

Very truly yours,

A handwritten signature in black ink, appearing to read "GE", is written over a light gray rectangular background.

George L. Encarnacion, Jr.
Associate Counsel

GLE:sce