

S&U-8 Alarm Systems

Introduction

Sales and installations of alarm and security systems such as burglar and fire alarms are generally taxable in New Jersey. However, the sales tax requirements differ based on various factors. This bulletin explains the responsibilities for paying and collecting New Jersey sales tax for businesses who sell, install and monitor alarm systems.

Equipment Sales

Businesses who sell, install and monitor alarm systems may make sales to:

- Individual property owners
- Contractors purchasing for the needs of a particular job
- Vendors who resell the alarm systems, without installation, and
- Other vendors in the business of installing alarm systems.

Sales of alarm and security systems are taxable when purchased without an installation agreement. However, when a vendor sells a system and agrees to install that system on the customer's real property, he is acting as a *contractor*.

A *contractor* is an individual or business entity engaged in the business of improving, altering, or repairing the land, buildings, or other real property of others. Sales of materials and supplies to contractors are taxable because the contractor is considered the final consumer (or end user) of these items. Since the contractor must pay sales tax on the alarm system itself and on all materials needed to install that system, the contractor may not charge tax to the homeowner/customer on the cost of materials. The contractor's charge for labor may or may not be taxable to the customer, depending on whether the installation results in a capital improvement and whether the equipment installed is purchased, leased or rented. See *Capital Improvement Sales and Installations* on page 3 for further information.

Alarm companies or other vendors operating retail stores are not required to pay sales tax when they purchase alarm systems for resale, provided they issue a valid New Jersey Resale Certificate (Form ST-3) to the supplier. Sales tax is collected from the retail customer (contractor or property owner) at the time of sale and remitted to the State by the alarm company or other vendor. For more information on the use of exemption certificates, request Tax Topic Bulletin S&U-6, *Sales Tax Exemption Certificates*. For more information about contractors, request our Tax Topic Bulletin S&U-3, *Contractors and New Jersey Taxes*.

If a customer is required to pay finance or interest charges on the purchase price, those charges are exempt from tax provided they are separately stated on the invoice.

Central Station and Direct Alarm Systems

Charges for Monitoring Services

A central station alarm system is operated by an alarm company which monitors the system, dispatches guards and provides other protective services. Alarm signals are received by the company through leased telephone lines. Telephone company charges are taxable to the alarm company as a telecommunications service. All monitoring service fees charged by the alarm company to a New Jersey customer are taxable to the customer.

A direct alarm system is one in which an unauthorized entry signal is sent through telephone lines directly to the police. The alarm company leases or rents a receiving panel to the customer and this panel is installed at the police station.

Customers are then able to connect their previously installed alarm systems to the control panel by the use of telephone lines.

Direct alarm installation charges are taxable to the customer. The alarm monitoring services are performed by the police department, and the telephone company bills the customer sales tax on the telecommunication charges.

Alarm monitoring services are taxable to the customer as telecommunication charges when charged to a *service address* in New Jersey. A service address is the location of telecommunications equipment from which telecommunications services are originated, or at which they are received. In general, the service address is the location of the real property being monitored. It makes no difference where these services are billed or paid. The alarm company may issue a New Jersey Resale Certificate (Form ST-3) to the telephone company and bill sales tax to the customer.

Basic Sales and Installations

When a customer purchases an alarm system and the installation does **not** result in a capital improvement, the purchase is a retail sale and the customer must pay sales tax on the cost of the alarm system. The installation and alarm monitoring services are also taxable to the customer.

An alarm company operating a retail store may purchase the system without paying sales tax by issuing a New Jersey Resale Certificate (Form ST-3) to the supplier.

Capital Improvement Sales and Installations

A capital improvement occurs when equipment purchased by the customer is permanently affixed to real property (land or buildings) and becomes a permanent part of the real property. To qualify as a capital improvement, the installation must increase the capital value of the property or significantly increase the useful life of the property. Charges for installations resulting in capital improvements are not taxable to the property owner provided the installer receives a properly completed New Jersey Certificate of Capital Improvement (Form ST-8) from the customer.

If the installation of an alarm system results in a capital improvement, the installer is considered a contractor even if the installation is done by the alarm monitoring company. In New Jersey, a contractor **must** pay sales tax on the cost of materials and **may not** issue a New Jersey Resale Certificate (Form ST-3) to the supplier.

If a retail store purchased alarm systems with a New Jersey Resale Certificate (Form ST-3), use tax is due to the State if a system is taken out of sales inventory in order to install it for a customer. The alarm company must remit 6% use tax to New Jersey based on the contractor's cost of the alarm system. Use tax is reported on the sales tax monthly remittance (Form ST-51) or quarterly return (Form ST-50). For more information about use tax, request our publication ANJ-7, *Use Tax in New Jersey*.

Example

Crawford Alarm Systems, Inc. operates a retail store. Crawford sells, installs and monitors central alarm systems which are purchased without paying sales tax by issuing Form ST-3

to the supplier. A customer buys a system from Crawford and contracts with Crawford to install and monitor it. The installation will result in a capital improvement, and the customer gives Crawford a Certificate of Capital Improvement (Form ST-8). Crawford must pay 6% use tax to the State on the amount Crawford paid for the system. The customer will not be charged sales tax on either the system or the cost of the installation. However, Crawford will charge the customer 6% sales tax on the monitoring bill.

Leases and Installations

New Jersey law defines a lease as an agreement for the use and possession of tangible personal property with an original contract term of **more** than 28 days. For leases entered into on or after June 26, 1989, the law requires the lessor (in this case the alarm company) to pay use tax on the alarm system.

The alarm company has the option of paying use tax based on either (1) its purchase price of the system or (2) the total amount of lease payments, not including interest charges. If use tax is paid on the purchase price, no additional use tax is due if the lease is renewed or the system is re-leased by the same lessor to another customer. The total lease payment option requires the alarm company to pay use tax each time a lease is renewed or a new lease is signed. The alarm company (lessor) may not charge the lessee sales tax. However, the total lease payment charge may incorporate the cost of the lessor's use tax.

Alarm companies may purchase alarm systems for lease by issuing a New Jersey Resale Certificate (Form ST-3) to the supplier. Once a lease has been entered into, the alarm company must report this lease transaction on the next quarterly

sales and use tax return filed and must remit the use tax due with either the monthly remittance form or the quarterly tax return, as required. The alarm company issues a New Jersey Lessor Certification (Form ST-40) to the customer stating that tax will be paid on the leased property by the lessor.

If the lease was entered into prior to June 26, 1989, the lessee (customer) must continue to pay sales tax on each lease payment until the lease expires. If the lease is renewed, the lessee will not be required to pay tax on the new lease. Instead, the lessor will pay use tax on the transaction.

A customer must pay sales tax on any installation charge when leasing an alarm system. The installation **cannot** result in a capital improvement because ownership of the alarm system is not transferred to the customer.

All monitoring service charges are taxable to the customer as telecommunications charges. The alarm company providing the monitoring may issue a New Jersey Resale Certificate to the telephone company.

Example

Capital Alarm Monitoring Services is leasing a central alarm system to Mr. and Mrs. Peterson. No sales tax was paid on the alarm system when Capital purchased it because they were buying it for resale and issued Form ST-3 to their supplier. Capital will report and pay 6% use tax to the State upon entering into the lease with the Petersons and will issue Form ST-40 to the customer. The Petersons will pay sales tax on the installation charges. Capital will bill Mr. and Mrs. Peterson a monthly monitoring fee and charge

sales tax on that monitoring fee but not on the lease of the system.

Rentals and Installations

A rental occurs when the agreement for use and possession of tangible personal property is for an original contract term of no more than 28 days. The alarm company may purchase the alarm system for rent without paying sales tax provided a New Jersey Resale Certificate (Form ST-3) is issued to the supplier. Sales tax is then charged to the customer. Sales tax is due on each rental payment.

Installation charges and alarm monitoring services on rentals are taxable to the customer in the same manner as explained earlier under *Leases and Installations*.

Example

Mr. and Mrs. Ogden will be caring for Mrs. Ogden's mother for three weeks while she recuperates from surgery. The Ogdens decide to rent a central fire alarm system from American Alarms, Inc. during the period of recuperation. American Alarms, Inc. purchased the alarm system with Form ST-3 and did not pay sales tax. Mr. and Mrs. Ogden will be charged sales tax on the rental cost and any installation charges. However, American Alarms does not offer alarm monitoring services. Fire Safety Services is hired by American Alarms to do the monitoring. American Alarms, Inc. may issue Form ST-3 to Fire Safety Services and not pay sales tax for the monitoring services. Sales tax will be charged for the monitoring services when American Alarms, Inc. bills Mr. and Mrs. Ogden.

Portable and Mobile Systems

The sale and installation of mobile or portable alarm systems is taxable to the customer. The alarm company may purchase such equipment without paying sales tax provided a New Jersey Resale Certificate (Form ST-3) is issued to the supplier. Sales tax is then collected from the customer on both the charge for the system and the charge for the installation. Any monitoring services using telephone lines would be subject to sales tax. When mobile or portable systems are rented or leased, the same sales tax rules apply as explained under *Leases and Installations* and *Rentals and Installations*.

Example

Nancy Berger purchases a portable, wireless medical alert system for her elderly mother from Health Systems, Inc. The system will be installed and monitored by Health Systems, Inc., which purchased the equipment with Form ST-3. Nancy must pay sales tax on the cost of the system, installation charges and the alarm monitoring services.

Repair and Maintenance

When the installation of an alarm or security system results in a capital improvement, the installed equipment becomes a permanent part of the real property. Labor charges for repairing, maintaining or servicing such systems are taxable to the customer. A contractor purchasing parts needed for these services is required to pay sales tax on the cost of the parts and may not charge tax to the customer on those parts.

If the installed equipment remains tangible personal property after installation (as with rented or leased systems), repair, maintenance or serv-

ice charges for both labor and parts are taxable to the customer.

The purchase of a maintenance or service contract on **any** alarm or security system installed in New Jersey is always taxable to the customer.

Out-of-State Transactions

If an alarm company sells, leases or rents alarm systems to customers in other states and equipment is delivered out-of-State to the purchaser, New Jersey sales tax is not due on the purchase price of the alarm system or installation charges. **Alarm monitoring services charged to a service address outside New Jersey are also not subject to tax.** The alarm company may issue a New Jersey Resale Certificate (Form ST-3) to the telephone company but should not charge tax when billing out-of-State customers for these services.

Alarm systems and equipment purchased out-of-State for use in New Jersey are subject to New Jersey use tax if no sales tax was paid to the other state. If sales tax was paid at a lower rate than New Jersey's, and if the other state has sales tax reciprocity with New Jersey, use tax is due only on the difference between the other state's tax rate and New Jersey's tax rate.

Example

Mr. and Mrs. Goodwin live in Delaware and are purchasing a fire and burglar alarm system for their Delaware home from Ace Protection Services in Cape May, New Jersey. The purchase includes installation and monitoring services. Ace Protection Services, a retailer, previously purchased the security system with Form ST-3 and did not pay sales tax. The Goodwins are not required to pay New Jersey sales tax on either

the purchase price of the system or the installation charges. Ace Protection Services will keep a record of the out-of-State transaction for four years to document why they did not collect sales tax or pay use tax at the time of sale. They may also provide the telephone company with Form ST-3 and not pay sales tax on their use of the telephone lines for monitoring the Goodwin's alarm system. Ace Protection Services will not bill Mr. and Mrs. Goodwin sales tax on any monitoring service charges.

Government Agencies and Exempt Organizations

Alarm and security systems sold to and installed for the State of New Jersey or its political subdivisions, the United States Government, or any of their agencies are not taxable. The governmental agency issues the alarm company and/or installer an official contract or purchase order signed by a duly authorized official to document the exempt nature of the transaction. When the purchase is for \$150 or less, these organizations should issue a New Jersey Exempt Use Certificate, Form ST-4.

Alarm and security systems are also exempt from tax when sold to or installed for an organization holding a New Jersey Exempt Organization Permit (Form ST-5A). The exempt organization issues the alarm company and/or installer a **copy** of a valid Exempt Organization Certificate (Form ST-5) to claim exemption from tax.

An alarm company performing alarm system work for a governmental agency or exempt organization may purchase the equipment and materials which become part of the real property of

the exempt organization without paying sales tax. The alarm company issues a Contractor's Exempt Purchase Certificate (Form ST-13) to the supplier to claim exemption from sales tax.

Example

The East Hanover Baptist Church is purchasing a fire alarm system from Town Fire Alarms, Inc. who will install and monitor the system. When the church provides the alarm company with a photocopy of a valid New Jersey Exempt Organization Certificate (Form ST-5), Town Fire Alarms, Inc. may issue a Contractor's Exempt Purchase Certificate (Form ST-13) to the supplier for the purchase of the fire alarm system and not pay sales tax. If Town Fire Alarms originally purchased the system with Form ST-3, no use tax is due. In either situation, a copy of the ST-5 must be retained for four years to document the tax exemption. The East Hanover Baptist Church may also use the ST-5 certificate to purchase alarm monitoring services without paying sales tax.

Urban Enterprise Zones

A qualified business located in an Urban Enterprise Zone is exempt from sales tax when an alarm system is purchased for and/or installed on the premises of the business in its zone location. The qualified business provides the alarm company or contractor with a copy of a valid Urban Enterprise Exempt Purchase Certificate (Form UZ-5). A contractor may purchase the necessary materials or supplies without paying sales tax by issuing the supplier an Urban Enterprise Zone Contractor's Exempt Purchase Certificate (Form UZ-4). This exemption of a qualified urban enterprise business also applies to

repair and maintenance services but **does not** apply to the alarm monitoring services.

Registration Requirements

All businesses must register with the State for tax purposes. To register, a business registration application, Form NJ-REG, must be filed with the State. If you indicate on your application that

your business will sell taxable items or services, once your registration application is processed you will receive a New Jersey Certificate of Authority (Form CA-1) authorizing you to collect sales tax and/or issue exemption certificates. For more information on registering a new business, request our publication MISC-3, *Starting Business in New Jersey*.

Taxpayers' Bill of Rights

The New Jersey Taxpayers' Bill of Rights ensures that taxpayers are accorded fair and equitable treatment and receive the information and assistance they need to understand and meet their State tax responsibilities. To find out more, contact the Division of Taxation.

For More Information

For more information on the taxability of alarm systems, contact the Division's Call Center at 609-292-6400, or write to:

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Many State tax forms and publications are now available, both by fax and through the World Wide Web. Call NJ TaxFax at 609-826-4500 from your fax machine's phone, or access the Division's home page via your computer's modem at: <http://www.state.nj.us/treasury/taxation/>