



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2002(9.1)

25 Sigourney Street
Hartford CT 06106-5032

SPECIAL NOTICE

Sales and Use Taxes on the Furnishing of Space for Storage

Purpose: On July 26, 2002, DRS issued **Special Notice 2002(9)**, *Sales and Use Taxes on Furnishing of Space for Storage*, which provided information about 2002 legislation imposing sales and use taxes on the furnishing of space for storage of tangible personal property by persons engaged in the business of furnishing such space.

On August 15, 2002, additional legislation was signed into law, clarifying the scope of the tax on the furnishing of space for storage and postponing the imposition of the tax from July 1, 2002, until October 1, 2002. This Special Notice summarizes this legislation and provides information about the tax on furnishing of space for storage. It supersedes **Special Notice 2002(9)**.

Effective Date: Effective October 1, 2002.

Statutory Authority: Conn. Gen. Stat. §12-407(2), as enacted by 2002 Conn. Pub. Acts 1, §§66, 68 (May 9 Spec. Sess.), as amended by 2002 Conn. Pub. Acts 4, §§13 - 15 (May 9 Spec. Sess.), and Conn. Gen. Stat. §12-408(2)(B). On January 1, 2003, this service will be codified as Conn. Gen. Stat. §12-407(a)(2)(P).

Sales and Use Taxes Imposed on Furnishing of Space for Storage: Effective October 1, 2002, sales and use taxes are imposed at the rate of 6% on the following service: "The furnishing by any person, for a consideration, of space for storage of tangible personal property when such person is engaged in the business of furnishing space . . . [excluding] the furnishing of space which is used by a person for residential purposes." 2002 Conn. Pub. Acts 4, §§14 and 15 (May 9 Spec. Sess.). To be taxable, the furnishing of space for storage must take place in Connecticut and meet all elements of the statute, as defined below.

For sales and use tax purposes, furnishing of space for storage is a **service**, not the rental of real or personal property.

Definitions: These definitions apply for purposes of the service described in this Special Notice:

Space for storage means secure areas, such as rooms, units, compartments, or containers, whether accessible from outside or from within a building, that are designated for the use of a customer, where the customer can store and retrieve property. Space for storage includes self-storage units, mini-storage units, and areas by any other name to which the customer has either unlimited free access or free access within reasonable business hours or upon reasonable notice to the service provider to add or remove property. It does not include the rental of an entire building, such as a warehouse.

Furnishing of space for storage does not include general warehousing and storage, where the warehouse typically handles, stores, and retrieves a customer's property using the warehouse's staff and equipment and does not allow the customer free access to the storage space (usually termed "warehouse storage"). Furnishing of space for storage also does not include accepting specific items of property for storage, such as clothing at a dry cleaning establishment or golf bags at a golf club.

Consideration means any amount charged, valued in money, whether received in money or otherwise, for the furnishing of space for storage. Consideration is usually periodic charges, such as for monthly storage, but may be for shorter or longer periods of time. Consideration is usually also based on the size of the space for storage. Charges for transportation of property to or from a space for storage, or for loading or unloading the property, are not subject to sales and use taxes, if separately stated.

Tangible personal property means tangible personal property of any kind including but not limited to: furniture, household goods, documents, office equipment and supplies, merchandise, or manufacturing machinery, if the property is stored in a space for storage, as defined above, regardless of the identity of the customer.

A person **engaged in the business of furnishing space** means any person that furnishes space for storage of tangible personal property, as those terms are defined above, on a recurring basis and as a regular part of its business, even if furnishing space for storage is not its primary business.

For example, a truck rental company that offers self-storage of property is engaged in the business of furnishing space for storage, even if that portion of its business does not produce the majority of its income. On the other hand, a business such as an apartment complex that furnishes space for storage of furniture and other goods of its tenants, incidental to its business of renting apartments, is not engaged in the business of furnishing space for storage.

Space used by a person for residential purposes, the furnishing of which is excluded from sales and use taxes, means space that is intended to be lived in by individuals.

Storage Not Subject to Sales and Use Taxes:

Charges for the following types of storage are not subject to tax under the service described in this Special Notice:

- Safe deposit boxes;
- Storage of property in hotel safes;
- Cold storage of furs or storage of dry-cleaned or laundered clothing;
- Storage of property in meat lockers, refrigerators, or freezers;
- Storage of property for tenants in storage areas at apartment or condominium complexes;
- Storage of motor vehicles, vessels, or any other property by repairers pending payment for repairs;
- Storage of motor vehicles by towing companies pending payment for towing;
- Storage of motor vehicles, recreational vehicles, vessels, trailers, aircraft, etc. in parking spaces, garages, or hangars, rather than in storage units intended for general storage of tangible personal property (Some motor vehicle parking is taxable under Conn. Gen. Stat. §12-407(2)(i)(N) before

January 1, 2003, and under Conn. Gen. Stat. §12-407(a)(37)(N) thereafter.);

- Locker rental (Locker rental is taxable under Conn. Gen. Stat. §12-407(2)(i)(CC) before January 1, 2003, and under Conn. Gen. Stat. §12-407(a)(37)(BB) thereafter.);
- Boat mooring and storage (Some boat mooring and storage is taxable under Conn. Gen. Stat. §12-407(2)(m) before January 1, 2003, and under Conn. Gen. Stat. §12-407(a)(2)(M) thereafter.);
- Rentals of storage trailers, such as trailers delivered to construction sites (Such rentals are rentals of tangible personal property, but may be exempt from tax under Conn. Gen. Stat. §12-412(70).);
- Rental of entire buildings for storage by a single customer, such as warehouses, garages, or hangars;
- Rental of any space for conducting business, such as offices, factories, or retail space;
- Rental of kennels or other spaces to shelter animals; and
- Rental of living areas such as apartments, condominiums, or houses.

Moving and Storage Companies: Some moving companies also sell storage of property. If the storage is in a warehouse area, and the moving company handles, stores, and retrieves a customer's property and does not allow the customer to have free access to a designated storage space (usually termed "warehouse storage"), then the storage is not subject to tax as the furnishing of space for storage.

However, if a moving company sells storage of space as defined above (usually termed "self-storage"), the storage is subject to sales and use taxes, even if the moving company delivers and places the customer's property in the storage space. A moving company must separately state its charges for taxable storage from its charges for delivery, loading, and unloading services, which are not subject to tax.

Additional Fees by Service Providers: Service providers that furnish taxable space for storage sometimes charge customers additional fees, such as security or damage deposits, administrative fees, late fees, and returned check charges. Service providers also may charge customers for auction fees, certified mail fees, and other expenses in connection with self-storage facility liens authorized under Conn. Gen. Stat. §42-159 *et seq.* (Chapter 743).

- A security or damage deposit is not subject to tax at the time a customer makes the deposit, if the deposit is intended to be refundable, and is not merely an advance payment for storage. Any deposit amount not refunded by a service provider that is used for payment for storage or for damage will become reportable and subject to tax at the time it is actually retained as a payment.
- Administrative fees and cleaning fees are consideration for furnishing space for storage, and are reportable and subject to tax at the time the service provider makes the charges.
- Late fees that are for additional periods of storage after the term are reportable and subject to tax at the time the service provider makes the charges, regardless of when the customer pays. (However, see “Worthless Accounts Receivable,” below).
- Separately stated late fees that are in the nature of interest or penalties on unpaid past due amounts, and returned check charges, are not subject to sales and use taxes.
- Auction fees, certified mail fees, and any other charges (except separately stated late fees on unpaid past due amounts) connected with the provisions of Chapter 743 relating to liens upon default by a self-storage customer, if they are charged to the customer, are reportable and subject to tax at the time the service provider makes the charges, regardless of when the customer pays. These charges are consideration for furnishing of space for storage. (However, see “Worthless Accounts Receivable,” below.) Any proceeds from a sale of property under Chapter 743 that are not used to pay the service provider’s charges, but are paid to other lien holders or to the customer, are not subject to tax.

Sales and use taxes apply only to the reduced amount when service providers give early payment discounts or other cash discounts or honor coupons.

Example 1: A customer pays a refundable security deposit when a storage contract begins. No tax is due on the security deposit at that time. Several months later the customer removes her property from storage three days late, and damages the door to the unit. The service provider keeps 60% of the security deposit to pay for the three additional days and the damage to the door, and refunds the remaining 40%. The amount retained by the service provider is reportable and subject to tax when it is retained.

Example 2: A customer with property in storage defaults on his monthly payment under the terms of his storage contract. Under Chapter 743, the service provider has a lien on the customer’s property, and notifies him of denial of access to his property and makes demand for payment within 14 days. The customer does not pay. The service provider takes out a newspaper advertisement of the impending sale of the customer’s property. The service provider continues to bill the customer monthly for storage, plus late fees on unpaid past due amounts, and also bills the customer for certified mail costs and for the cost of the newspaper advertisement. All the charges (except separately stated late fees on unpaid past due amounts) are subject to sales tax at the time the service provider makes the charges, even if the customer does not pay at that time. (However, see “Worthless Accounts Receivable,” below.) Ninety days after the notice is issued the service provider auctions off the customer’s property, applies all of the proceeds toward its self-storage facility lien, and charges the customer for the auction. The auction charges are subject to tax at the time the auction takes place. The proceeds of the sale do not pay for all of the charges, so after the auction the service provider bills the customer for the excess charges. These charges were reportable and subject to tax at the time they were first billed.

Worthless Accounts Receivable: Service providers that furnish space for storage must report sales on the **accrual basis**. All sales must be reported, and sales and use taxes paid, for the reporting period in which the charge is made, not the period when the customer pays. For example, if a charge is made on March 30 and payment is received on April 12, the sale must be reported and the tax paid for the reporting period ending March 31. DRS will impose interest and penalty on late payment of sales and use taxes.

However, service providers may claim a credit for sales tax paid on worthless accounts receivable, after they are actually written off as uncollectible on the service provider’s federal income tax return. The credit may be taken on the Connecticut sales and use tax return for the first reporting period after filing the federal income tax return on which the uncollectible accounts receivable were claimed as a deduction.

For details and restrictions, see **Policy Statement 2001(1)**, *Procedure for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable*.

Tax Collected by Service Providers Between July 1 and September 30, 2002: Service providers already may have collected tax from their customers for periods before October 1, 2002, the new effective date of the imposition of the tax on this service.

If tax has been collected for a period prior to October 2002 and the tax is not yet due to DRS, the service provider must immediately refund or credit the tax to the customers, and should retain for its records proof that the tax was refunded. If the service provider has already remitted the tax to DRS, it may refund or credit the tax to its customers and apply to DRS for a refund. For details, see **Policy Statement 98(5), Sales and Use Tax Refund Policy**.

Other Items Supplied by Retailers: If any retailer furnishing taxable or nontaxable storage makes charges to customers for items such as dollies, furniture pads, boxes, racks, or cabinets, the charges are subject to sales and use taxes as the sale or rental of tangible personal property. The retailer should separately state these charges.

Transitional Rules: All charges for space for storage for periods on and after October 1, 2002, are subject to 6% sales and use taxes, and charges for periods before October 1, 2002, are not taxable.

If a customer has paid in advance for periods both before and after October 1, 2002, the payment for periods on and after October 1, 2002, is subject to tax, and the service provider must bill the customer for the tax during October 2002 and remit the tax with the return for that period.

If a customer has vacated a space for storage but has already paid in advance for the space, the payment for periods on and after October 1, 2002, will not be taxable, even if the service provider keeps the customer's payment.

Example 1: A customer has paid in advance in January 2002 for space for storage for the entire calendar year. The service provider must bill the customer for the tax for the period from October 2002 through December 2002 (three months, or 3/12 of the advance payment), and collect and remit that tax with the return for October 2002.

Example 2: A customer pays a service provider in October 2002 for storage charges billed for periods prior to October 2002. No tax is due on this payment because the space for storage was provided before the service became subject to sales and use taxes.

Information for New Retailers: Service providers that will be charging and remitting sales and use taxes for the first time should consult **Informational Publication 2000(26), Getting Started In Business**, for information on how to register as retailers and file sales and use tax returns.

Effect on Other Documents: Special Notice 2002(9.1) modifies and supersedes **Special Notice 2002(9)**.

Effect of This Document: A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS and may be referred to for general guidance by taxpayers or tax practitioners.

For Further Information: Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

Forms and Publications: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.

Telephone: Call **860-297-4753** (from anywhere), or **1-800-382-9463** (toll-free within Connecticut) and select **Option 2** from a touch-tone phone.