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## Sales and Use Tax on Dry Cleaning Services and Laundry Services, Dry Cleaning Establishment Surcharge, and Business Use Tax Obligations

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**Purpose:** This Policy Statement addresses the imposition of sales and use taxes on dry cleaning services and laundry services for sales occurring on and after January 1, 2020.

This Policy Statement also describes the dry cleaning establishment surcharge, which applies to the gross receipts at retail from dry cleaning services.

This Policy Statement provides information to establishments providing dry cleaning services or laundry services about their use tax obligations.

Dry cleaning services and laundry services are subject to sales and use tax when a customer picks up dry cleaned or laundered items at a Connecticut retail establishment or dry cleaned or laundered items are delivered to a Connecticut customer.

Persons purchasing dry cleaning services or laundry services from out-of-state retailers must pay Connecticut use tax on such purchases if the item to which such services are rendered is intended for use and is used within Connecticut.

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### Dry Cleaning Services and Laundry Services are Subject to Sales and Use Tax Effective January 1, 2020

On and after January 1, 2020, sales of dry cleaning services and laundry services will be subject to sales and use taxes at the standard rate of 6.35%.

Services subject to sales and use tax include:

- Dry cleaning services, including cleaning processes that substitute for dry cleaning (such as “wet cleaning”);
- Laundering services; **and**
- Specialty cleaning services for specific types of garments and other textiles such as: fur, leather, or suede garments; wedding gowns; hats; draperies; and pillows.

Taxable dry cleaning services and laundry services do **not** include:

- Coin-operated or similar self-service laundry facilities;
- Supplying laundered linens and uniforms on a rental basis; **and**
- Tailoring, altering and mending services to garments and other textiles.

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**Registration for Sales Tax:** Businesses providing dry cleaning services or laundry services in Connecticut, including establishments that provide drop-off and pick-up sites for dry cleaners and/or laundries in Connecticut and independent providers of route pick-up and delivery services, must obtain a seller’s permit and collect sales tax on the services. Please see the *Registration* section on Page 3 for more details.

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### Transition Rules for Sales of Dry Cleaning Services and Laundry Services:

Payments made on or before December 31, 2019, for services provided before and after January 1, 2020, are not subject to sales and use tax.

Payments made after December 31, 2019, for services provided on or after January 1, 2020, are fully subject to sales and use tax.

Payments made after December 31, 2019, for services provided before and after January 1, 2020, are subject to sales and use tax.

Payments made at any time, including payments for past due charges, for services provided during periods before January 1, 2020, are not subject to sales and use tax.

## Dry Cleaning Surcharge

**Imposition of the Surcharge:** A dry cleaning establishment surcharge of 1% of the gross receipts from dry cleaning services performed at each dry cleaning establishment, as defined in this notice, must be paid to the Department of Revenue Services (DRS) for all dry cleaning services performed. The surcharge does **not** apply to the gross receipts from any other services, such as shirt laundering, alterations, tailoring or mending, or from sales of goods by those establishments.

**Dry Cleaning Establishment** means any place of business located in Connecticut engaged in the dry cleaning of clothing or other fabrics. “Dry clean” means to cleanse (clothing or fabrics) with chemical solvents rather than water. Dry cleaning includes (but is not limited to) the use of the following chemical solvents:

- Perchloroethylene, Trichlorotrifluoroethane, Stoddard, 140F;
- Organic processes using DF-2000 solvent (Petroleum-Based) classified by the EPA as a neurotoxin, Solvon K4; **and**
- Green Earth processes using D5 (Silicone Based).

**Wet Cleaning** refers to cleaning processes using water as the solvent (Aqueous Solvents-Detergents/Conditioners). Wet cleaning establishments are not subject to the surcharge. However, they are required to collect and remit sales and use taxes.

**Gross Receipts at Retail** means the total amount accruing from dry cleaning service, valued in money, without any deduction for the cost of the materials used, labor or service costs or any other expense.

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**Drop Stores:** Independent “drop stores” are locations that only accept clothing or other fabrics that are to be laundered or dry cleaned elsewhere.

Independent drop stores are not considered the dry cleaning establishments that must pay the surcharge. The dry cleaning surcharge is imposed upon the gross receipts of the dry cleaning establishment, not the gross receipts of the independent drop store.

Independent drop stores in Connecticut must be registered as retailers and collect sales and use taxes on their gross receipts from dry cleaning services and laundry services. Establishments that provide drop-off and pick-up sites must provide a resale certificate to the dry cleaning service provider and laundry service provider.

**Route Delivery:** Dry cleaning or laundry establishments may provide route dry cleaning services and laundry services, meaning the establishment picks up, dry cleans or launders, and then delivers clothing and other fabrics to businesses, homes, hotels, etc.

Independent route providers may provide route dry cleaning services and laundry services, where the independent provider picks up clothing and other fabrics, takes them to a dry cleaner or launderer, and then delivers the clothing and other fabrics to businesses, homes, hotels, etc.

Only the gross receipts from route customers in Connecticut are subject to sales tax. In contrast, the gross receipts from all route customers, whether the customer is located in state or out-of-state, for dry cleaning services are subject to the surcharge.

Independent route providers rendering their services to customers within Connecticut must register as retailers and collect sales tax on the dry cleaning services and laundry services. Such independent route providers must provide a resale certificate to the dry cleaning service provider and laundry service provider.

When dry cleaning establishments provide dry cleaning services to independent route providers, the dry cleaning establishment must report the surcharge on the gross receipts for all of the dry cleaning services performed for the independent route providers.

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### Surcharge Is Imposed Upon Dry Cleaning Establishments, Not Customers:

Unlike Connecticut sales tax, the surcharge is imposed upon the dry cleaning establishment, not the customers. Therefore, the dry cleaning establishment is not required to charge its customers an additional amount on account of the surcharge. If an additional amount for the surcharge is billed to the customer, such additional amount is included in the establishment’s gross receipts from dry cleaning services (and is itself subject to the surcharge).

If an establishment charges an additional amount for the surcharge to the customer, such additional amount is included in the establishment’s gross receipts from dry cleaning services and is subject to sales and use taxes, as well as to the surcharge as discussed above.

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### Examples of Application of the Sales and Use Tax and the Dry Cleaning Surcharge:

**Example 1:** Dry Cleaner A charges the customer \$7.00, of which \$4.00 is the charge for dry cleaning and \$3.00 is the charge for laundering shirts. Dry Cleaner A’s gross receipts subject to the dry cleaning surcharge include the \$4.00 from dry cleaning services but not the \$3.00 from

shirt laundering. However, Dry Cleaner A must collect sales and use taxes on its gross receipts of \$7.00 from both the dry cleaning services and the shirt laundering.

**Example 2:** Dry Cleaner B has gross receipts of \$120,000 for the calendar quarter, of which \$100,000 were sales to its own customers and \$20,000 were sales to independently owned drop stores that accepted clothing to be dry cleaned by Dry Cleaner B. Dry Cleaner B reports on that quarter's **Form OP-374, Connecticut Dry Cleaning Establishment Surcharge Return**, the entire \$120,000 as gross receipts subject to the 1% surcharge.

Dry Cleaner B must report on its **Form OS-114, Connecticut Sales and Use Tax Return**, its gross receipts from its sales to its own customers (\$100,000) and the sales it made for resale (\$20,000), with a deduction for the sales made for resale. Each of the independently owned drop stores must be registered with DRS as retailers, have provided a resale certificate to Dry Cleaner B, and then report their gross receipts (\$20,000) from the dry cleaning services on their own sales tax returns.

**Example 3:** Dry Cleaner C has a main location in Connecticut where the dry cleaning of clothing and fabrics takes place. Customers can also drop off clothing and fabrics at this location. Dry Cleaner C also has several retail locations in Connecticut where customers drop off clothing and fabrics that are dry cleaned at the main location. The dry cleaning service receipts from all locations are subject to the sales tax and the surcharge.

**Example 4:** Dry Cleaner D has its main dry cleaning establishment in Connecticut and a retail drop store location out-of-state and also dry cleans clothing and fabrics in Connecticut for independent drop stores located out-of-state. The dry cleaning service sales made at the retail drop store location out-of-state and the dry cleaning service sales to independent drop stores located out-of-state are subject to the surcharge. However, the dry cleaning services sold at the out-of-state locations are not subject to Connecticut sales tax.

**Example 5:** Dry Cleaner E charges \$10.00 to dry clean a dress. The gross receipts subject to the surcharge and to sales tax include the \$10.00 from this transaction.

**Example 6:** Dry Cleaner F charges \$10.00 to dry clean a dress and an additional \$.10 billed as an "environmental surcharge." Dry Cleaner F's gross receipts subject to sales tax and the surcharge include the \$10.10 from this transaction, because the charge for the dry cleaning and any additional amount billed to the customer for the surcharge is part of the gross receipts from dry cleaning services.

**Example 7:** Dry Cleaner G charges \$25.20, of which \$20.00 is for dry cleaning, \$5.00 is for tailoring and \$.20 is a dry cleaning or environmental surcharge. Dry Cleaner G's gross receipts from dry cleaning services for purposes of both the Connecticut dry cleaning surcharge and the sales tax include the \$20.20 from the dry cleaning and the surcharge. However, the tailoring service is excluded from gross receipts for both sales tax and the surcharge.

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## Registration

**Sales Tax Registration:** To register for sales and use taxes, businesses use **Form REG-1, Business Taxes Registration Application**. Applicants pay a \$100 fee with the application to register for a *Sales and Use Tax Permit*.

DRS will impose penalties for failure to obtain or renew a seller's permit while continuing to conduct sales. A penalty of \$250 applies for the first day engaged in business without a seller's permit, and a penalty of \$100 applies for each following day engaged in business without a seller's permit. The penalty may be waived if the business proves that the failure to obtain or renew the seller's permit was due to reasonable cause and was not intentional or due to neglect.

**Dry Cleaning Establishment Surcharge Registration:** All dry cleaning establishment locations must register with DRS and display a *Dry Cleaning Establishment Surcharge Certificate* in order to legally conduct business in Connecticut. Locations not registered with DRS must submit a Form REG-1 and a **Form REG-1 Addendum B**, to receive a *Dry Cleaning Establishment Surcharge Certificate*. These can be filed online using the **Taxpayer Service Center (TSC)** at [portal.ct.gov/TSC](http://portal.ct.gov/TSC), or download the forms from the DRS website at [portal.ct.gov/DRS](http://portal.ct.gov/DRS).

Dry cleaning establishments that operate more than one location must register each location and display a valid *Dry Cleaning Establishment Surcharge Certificate* at each location.

Dry cleaning establishments must renew their registration for the surcharge with DRS each October 1. Failure to renew the registration with DRS will result in a \$200 penalty.

DRS will mail renewal applications for the surcharge to registered dry cleaners each year. Dry cleaners must renew their registration for each location with DRS and display a *Dry Cleaning Establishment Surcharge Certificate* in order to legally conduct business in the state.

Dry cleaning establishments already doing business in Connecticut that currently are not registered with DRS must register or be subject to a \$1,000 penalty. Dry

cleaning establishments that do not renew their permit or do not register for the surcharge may not legally operate a dry cleaning business.

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### Filing Requirements

**Sales Tax:** Providers of dry cleaning services or laundry services must report and remit sales tax on or before the last day of the month following the last day of each taxable period on **Form OS-114, Connecticut Sales and Use Tax Return**. This means, for example, that monthly, quarterly, and annual filers will all file their returns for the period ending on December 31 by January 31.

**Dry Cleaning Establishment Surcharge:** The surcharge is due and payable on or before the last day of the month following the end of each calendar quarter using **Form OP-374, Connecticut Dry Cleaning Establishment Surcharge Return**. For example, October 31 is the due date for the period ending September 30.

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### Penalty and Interest

**Sales Tax:** If sales tax is not paid when due, penalty and interest will be imposed. The penalty for underpayment of sales tax is 15% of the tax not paid on or before the original due date of the return or \$50, whichever is greater. Interest will be due at the rate of 1% per month or fraction thereof from the due date to the date of payment.

**Dry Cleaning Establishment Surcharge:** If the dry cleaning establishment surcharge is not paid when due, a penalty of 10% of the amount due or \$50.00, whichever is greater, will be imposed and the surcharge due will bear interest at the rate of 1% per month or fraction thereof from the due date to the date of payment.

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### Dry Cleaning Establishment Remediation Account

Funds received by the state from the surcharge are deposited within the general fund in the Dry Cleaning Establishment Remediation Account. The state, acting through the Department of Economic and Community Development (DECD), uses the money in the account to provide grants to dry cleaning establishments for the purposes of clean-up or prevention of pollution resulting from the discharge, spillage, uncontrolled loss, seepage or filtration of chemicals or hazardous waste on or at the site of dry cleaning establishments.

For more information about applying for a grant, visit the DECD website at [portal.ct.gov/DECD](http://portal.ct.gov/DECD), or contact DECD at 860-500-2363, or [drycleaning@ct.gov](mailto:drycleaning@ct.gov).

### Business Use Tax

Business use tax applies to goods or services purchased by a dry cleaner or laundry service provider on which sales tax was not collected. Examples of purchases subject to use tax are:

- transfer machines,
- washers,
- extractors,
- dry-to-dry machines,
- dryers,
- solvents,
- tanks,
- detergents,
- condensers,
- separators,
- muck cookers,
- carbon adsorption units,
- cartridge filters,
- pipes,
- flanges,
- pumps,
- hangers,
- soap,
- shrink-wrap,
- cleaning supplies,
- packing slips,
- clothing identifiers,
- furniture,
- instruments,
- appliances,
- computers,
- computer software,
- office supplies,
- paper,
- stationery items,
- certain publications, **and**
- books.

See **Informational Publication 2019(2), Q & A on the Connecticut Use Tax for Businesses and Professions**.

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**Effective Date:** Effective upon issuance, except that sales and use taxes must be collected on dry cleaning services and laundry services for sales occurring on and after January 1, 2020.

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**Statutory Authority:** Conn. Gen. Stat. § 12-263m; Conn. Gen. Stat. § 12-407(a)(37)(PP), as added by 2019 Conn. Pub. Acts 117, § 325; Conn. Gen. Stat. § 12-411.

**Effect on Other Documents:** **Special Notice 2018(6)**, *Obligation of Dry Cleaners for the Dry Cleaning Establishment Surcharge and Business Use Tax*, is modified and superseded and may not be relied upon on or after the date of issuance of this Policy Statement.

**Ruling 89-40**, *Dry Cleaning*, is modified and superseded in part.

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**Effect of This Document:** A Policy Statement explains in depth a current DRS position, policy, or practice affecting the tax liability of taxpayers.

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**For Further Information:** Call DRS during business hours, Monday through Friday:

- **800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

**TTY, TDD, and Text Telephone users only** may transmit inquiries anytime by calling 860-297-4911.

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**Forms and Publications:** Visit the DRS website at [portal.ct.gov/DRS](http://portal.ct.gov/DRS) to download and print Connecticut tax forms and publications.

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**Paperless Filing/Payment Methods (fast, easy, free, and confidential):** Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at [portal.ct.gov/TSC](http://portal.ct.gov/TSC) to file a variety of tax returns, update account information, and make payments online.

**File Electronically:** You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

**Pay Electronically:** You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.