

City and County of Denver, Colorado

TAX GUIDE

Topic No. 4

AUTOMOTIVE SERVICE AND REPAIR

PURCHASES BY REPAIR SHOPS

Items purchased by repair shops that are used in performing services or are consumed by the shop are taxable. Examples of these types of items are rags, solvents, hand tools, rubbing compounds, sandpaper, paint thinner or reducer, etc. The repair shop must pay the sales or use tax directly to the vendor of these supplies if the vendor is licensed and authorized to collect and remit the tax. If the vendor is not licensed and authorized to collect and remit the tax, then the repair shop must pay the use tax directly to Denver.

As a general rule, for an item to qualify for exemption from sales tax when purchased by the repair shop on the basis of being for resale, it must become a physical component of or be permanently attached to the vehicle being serviced, and sales tax must be charged on the price of that item by the repair shop. This would include such purchases as paint, car wax, filters, hubcaps, and other materials or accessories affixed to the vehicle.

EXAMPLES

1. A body shop purchases masking tape and degreaser for use in painting cars. These items are taxable to the body shop because they do not become permanently affixed to the car being painted. These are supplies that are used and consumed by the body shop in rendering its service.
2. A repair shop purchases engine parts for installation on a customer's car. The repair shop can purchase these parts for resale because they become a permanent part of the car being repaired. The repair shop would charge sales tax to its customer on the parts.

SALES BY REPAIR SHOPS

On sales made by repair shops, the taxable amount is the total charge made to the customer, with deductions allowed for service or labor charges if separately stated. Often there is a percentage or flat charge for shop supplies included in the total price charged to the customer. This charge is considered part of the selling price of the tangible personal property and thus it is taxable.

If the customer's repair shop subcontracts certain work to another repair shop, commonly referred to as a sublet repair, the sub-repair shop will charge sales tax to the customer's repair shop on the retail price of the parts used in the repair job unless specifically instructed that the job is for resale. If for resale, the tax will be billed to the customer by the customer's repair shop on the full sublet repair charge on the customer's invoice. Deductions are allowed for service or labor charges if separately stated on the customer's invoice.

EXAMPLE

Jayne brings her hail-damaged BMW to ABC Auto Repair, needing windshield replacement and dent removal to the body. Although ABC does its own dent repair work, it subcontracts all glass and windshield replacements to DEF Glass as a resale transaction. Upon completion of its work, DEF invoices ABC for \$175.00 for the windshield sublet repair. No sales tax is charged by DEF on this resale transaction.

ABC's invoice to Jayne for the repair work includes a labor-only charge for dent removal of \$110, and a sublet repair charge (for the windshield replacement) of \$250, for a total invoice amount of \$360. ABC is required to collect sales tax on the \$250 charged for the sublet repair. No sales tax is charged for the separately stated labor charge for dent removal.

DEPOSITS

Deposits on parts or accessories, which are collected as a "core charge" or similar deposit and are held by the seller until the purchaser returns a used or exchange part, are considered part of the taxable purchase price of the part or accessory. Tax should be collected by the seller on the entire purchase price including the deposit. When the customer returns the used or exchange part for refund of deposit, the tax on the deposit should be refunded to the customer along with the deposit. If the store has remitted the sales tax charged on the deposit on a prior tax return, it will be allowed to take a trade-in deduction on the current tax return.

EXAMPLE

A customer purchases a rebuilt starter from an auto parts retailer for \$35.00 plus a \$10.00 deposit. The store should collect sales tax on \$45.00. When the customer returns the old starter to claim the \$10.00 deposit, the store should refund the \$10.00 deposit plus the sales tax paid on the \$10.00. If the customer traded in the old starter at the time of purchase, there would be no deposit collected and sales tax would be due only on the \$35.00 purchase price.

- * DRMC Section 53-53(a)(21). Definitions – Purchase price – Sales.
- * DRMC Section 53-53(a)(26). Definitions – Retail sale – Sales.
- * DRMC Section 53-53(a)(38). Definitions – Wholesale sale – Sales.
- * DRMC Section 53-54. Imposition of tax – Sales.
- * DRMC Section 53-103(a)(23). Definitions – Purchase price – Use.
- * DRMC Section 53-103(a)(29). Definitions – Retail sale – Use.
- * DRMC Section 53-103(a)(43). Definitions – Wholesale sale – Use.
- * DRMC Section 53-104. Imposition of tax – Use.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT DENVER TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE DRMC AND APPLICABLE RULES AND REGULATIONS.