

FAQ #7— COMMON SALES TAX DEDUCTIONS: SERVICE SALES, BAD DEBTS, RETURNED GOODS, AND LONG TERM RENTALS

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This FAQ discusses common questions related to lines 3a, 3d, 3b, and 3k on the City of Aspen's sales tax return.

If my business is service oriented, would I ever need to collect sales tax?

Service oriented businesses generally do not need to collect sales tax. Persons engaged in the business of rendering service are consumers, not retailers, of the tangible personal property which they use incidentally in rendering the service. If, in addition to rendering service they regularly sell tangible personal property to consumers, they are retailers with respect to such sales and they must obtain a license, file returns, and remit tax on such sales.

I'm still uncertain if I need to collect sales tax. When would a service oriented business be considered a retailer?

This is where the true object test comes into play; for example, does the transaction involve the transfer of tangible personal property or a sale of tangible personal property. If the real service sought by the purchaser is the service, the transaction is not subject to tax even though some tangible personal property is transferred. For example, if you provide tax services and you incidentally provide your work product in binders or folders, and it is incidental to your services, you are the consumer of the tangible personal property and not the retailer. The true object between the firm and its customer is the performance of the service and not the furnishing of tangible personal property. However, the tax would apply in the form of artistic expressions such as sculptures or paintings since the true object of the contract is the work of art in its physical form. When the transaction is regarded as a sale of tangible personal property, tax applies to the total cost of the product, including labor, skill, time spent, or other expense of producing the product.

Example

I am an interior designer and often purchase items on behalf of my customer. I then resell those items to the customer at cost. Do I need to charge sales tax?

Yes. Sales tax must be collected on all tangible personal property sold to your customers since the true object of the test is the furnishing of the property. You must obtain a sales tax license from both the State and City of Aspen and remit tax accordingly. Note: When you purchase the items for resale, you must present your resale certificate (issued by your home state) to the retailer in order for the transaction to be exempt from sales tax.



Did you know?

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SERVICE SALES, BAD DEBTS, RETURNED GOODS, AND
LONG TERM RENTALS**

When would I deduct bad debts or returned goods on my sales tax return?

Bad debts and returned goods previously reported as taxable sales are deductible.

I rent out my home but only on a long term basis. Do I need to collect sales tax?

Any rental over 30 days is considered a long term rental and sales and lodging taxes are not due. This applies to all lodging establishments, including condominiums and single family homes. If you rent your home less than 30 days, it is considered a short term rental and sales and lodging taxes must be collected and remitted to the City on a quarterly basis. Please contact the Finance Department for more information.

Example

I rent out my home to one company for 30 days in the summer. Each week, a different employee occupies the home. Is this considered a long term rental?

Yes, the rental is long term and non taxable because you rented to 1 entity.

When in doubt, collect the tax. If the vendor and purchaser disagree on the application of tax, the vendor must collect the tax. The vendor should give a receipt to the purchaser showing how much tax was collected. Advise the purchaser to contact the City for a Claim of Refund form. The vendor is ultimately responsible for the collection of sales taxes.



Attention:

The Colorado Department of Revenue conducts a variety of tax classes throughout the year and include classes for those who have no sales/use tax knowledge to those who are sales/use tax savvy. There are also sales/use tax classes for the construction and hospitality industries. There is no cost to attend; however, due to limited seating pre-registration is required. Classes are offered in Glenwood Springs throughout the year. Visit www.colorado.gov/revenue for more information.