
MADE-TO-ORDER ITEMS

The full purchase price of articles sold after manufacturing or after having been made-to-order is taxable. The purchase price is the gross value of all materials, labor, service, and profit included in the price charged to the user or consumer.

EXAMPLE

Joe's Furniture Shop makes custom order furniture for customers. All of the materials, labor, services and profit are included in the sales price of the finished goods. The sales price is subject to sales tax.

ARVADA MUNICIPAL CODE – Chapter 98 – Taxation

Sec. 98-61. - Definitions.

Price or **purchase price** means the aggregate value measured in currency paid or delivered or promised to be paid or delivered in consummation of a sale, without any discount from the price on account of the cost of materials used, labor or service cost, and exclusive of any direct tax imposed by the federal government or by this article, and, in the case of all retail sales involving the exchange of property, also exclusive of the fair market value of the property exchanged at the same time and place of the exchange, if:

- (1) Such exchanged property is to be sold thereafter in the usual course of the retailer's business, or
- (2) Such exchanged property is a vehicle and is exchanged for another vehicle and both vehicles are subject to licensing, registration, or certification under the laws of this state, including, but not limited to, vehicles operating upon public highways, off-highway recreation vehicles, watercraft, and aircraft. Any money or other consideration paid over and above the value of the exchanged property is subject to tax.

"Price" or "purchase price" includes:

- (8) The gross purchase price of articles sold after manufacturing or after having been made to order, including the gross value of all the materials used, labor and service performed and the profit thereon.

Sec. 98-70. Exempt sales. There shall be exempt from taxation under the provisions of this article the items of sales and services including, but not limited to the following:

- (9) Additional provisions of exemption from the tax under this article:
 - p. Installation labor sold with tangible personal property, if such labor is separately stated on the invoice from the tangible personal property sold; except that manufacturing or fabricating or other processing labor is never exempt.

COLORADO REVISED STATUTES

Regulation (39-) 26-102.12. (Sales tax on manufactured articles) Sales and use tax applies to charges for manufacturing, producing, fabricating, and processing tangible personal property which has been made to order or tailor-made for the customer. Manufacturing, producing, fabricating or processing is usually deemed to have occurred when tangible personal property is created, transformed or reduced to a different state, quality, form, property or thing. Transformation may occur by hand, machine, art, chemical action or natural means.

An operation which restores a used or worn item of tangible personal property to its essentially original form and use is not considered manufacturing, producing, fabricating or processing within the meaning of this regulation.

The amount charged the purchaser for labor or services rendered in installing and applying purchased tangible personal property is not subject to tax; provided, that such amount is separately stated and such separate statement is not to avoid the tax upon the actual sales price of tangible personal property.

Any person making a sale subject to this regulation must be licensed and may purchase tax free all articles of tangible personal property which enter into and become a component part of the article sold. Purchases of all other articles of tangible personal property not becoming an ingredient or component part of the finished product are taxable.

**FABRICATING, PRODUCING AND PROCESSING
SALES AND USE TAX – SPECIAL REGULATIONS FOR SPECIFIC BUSINESSES**

"Fabricating, producing, and processing" includes any operation which results in the creation or production of an article of tangible personal property, or which is a step in a process or series of operations resulting in the creation or production of such an article; the terms exclude operations not so related for the creation or production of such an article.

An operation which changes the form or state of tangible personal property is one of fabrication. Persons regularly engaged in the fabrication or production of articles for sale at retail shall collect and remit the tax on the sales price. If the fabricator converts such property to his own use, he shall remit the tax based on his acquisition cost.

The tax applies to the total charges for the fabrication or production of an article of tangible personal property made to order. For example, if a manufacturer orders a machine part from a machine shop, the tax shall be paid on the total charge for the part, including labor, although charges for labor may be segregated from the cost of the materials. Similarly, the total charges for making drapes are subject to tax.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.