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## PROFESSIONAL SERVICES

The *Arvada Municipal Code* imposes a sales tax upon the purchase price paid for tangible personal property and certain taxable services in the City by the ultimate user or consumer. This also includes a use tax upon using, storing, distributing or otherwise consuming in the City any article of tangible personal property purchased, leased or rented from sources outside the City on which a lawfully imposed sales tax has not been paid.

Professional service businesses that are engaged in business in the City must obtain an Arvada Business License even if they do not sell any tangible personal property or taxable service. Although service businesses generally do not have a sales tax liability, they may have a use tax liability.

The purchase of professional services, such as accounting services, legal services, consulting services, and planning and design services, are not subject to tax even though some tangible personal property may be incidentally conveyed to the purchaser in the performance of the service.

An important distinction must be made, however, between the commission, hire, or purchase of professional services and services or labor used in manufacturing tangible personal property. Manufacturing or fabricated labor or services expended in the creation, assembly, production or configuration of tangible personal property is part of the taxable purchase price even when the cost or charges of such labor or services may be segregated from the cost or charges for materials. Charges for freight, delivery, and transportation also subject to Arvada sales/use tax.

In determining whether a transaction involves the sales of tangible personal property or the performance of a service with a transfer of tangible personal property is incidental to the performance of the service, the City will examine the transaction from the purchaser's perspective. If the essence of the transaction is, from the purchaser's perspective, the acquisition of service, as such, the transaction or the subsequent use is not taxable even though some tangible personal property is incidentally transferred with the performance of the service. However, if a service is performed in the production of tangible personal property, and if the object of the transaction, from the purchaser's perspective, is the acquisition of the tangible personal property, the transaction, or use after the sale, is taxable.

Businesses who sell tangible personal property along with the service of installing, affixing, or repairing such property, such as automotive repair shops, must collect sales tax on the purchase price of the property sold. The service or labor charges may be excluded from the taxable total, if separately stated.

## EXAMPLES

1. Max is a CPA that works for ABC Accounting Experts which is a small accounting and tax firm in Arvada. Max prepares income tax returns for his client and charges a flat fee for the preparation of each return. Max must pay sales / use tax on the supplies that are used in the business and on any forms and materials that he transmits to his clients. Max should *not* collect sales tax on the preparation fee.

2. Julie takes her vehicle to Arvada Auto Repair, a licensed repair shop, to have her oil changed. The shop charges her for an oil filter, 4 quarters of oil, half an hour of labor, EPA waste fees, and shop supplies (10% of the labor charge). Each charge was separately stated. The shop should collect tax on all of the charges except the labor charge.

### **ARVADA MUNICIPAL CODE – Chapter 98 – Taxation**

#### **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:*

*s. Nontaxable service sales. The amount equal to the consideration received for installation labor or services sold with tangible personal property, if such services are separately stated on the invoice from the tangible personal property sold; except that manufacturing or fabricating or other processing labor is never exempt.*

**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.**