

## **CITY OF COLORADO SPRINGS TAX GUIDE**

### **AUTOMOTIVE SERVICE AND REPAIR PARTS AND SUPPLIES**

#### **PURCHASES BY REPAIR SHOPS**

Automotive repair shops purchase parts or other items to repair vehicles and resell to customers. As a general rule, for the purchase of an item to qualify for exemption from sales or use tax by the repair shop, it must be purchased for resale, become a physical component of or be permanently attached to the vehicle being serviced, and sales tax must be charged by the repair shop on the selling price of that item. Resale purchases include such items as repair parts, oil, paint, car wax, filters, hub-caps, and other materials or accessories affixed to the vehicle.

Purchases of items that are used or consumed by auto repair shops in performing repair services are taxable to the repair shop. Examples of these types of items include machinery or equipment, rags, solvents, hand tools, rubbing compounds, sandpaper, paint thinner or reducer, etc. The repair shop must pay sales tax to the vendor of these items 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 use tax on the purchase directly to the City of Colorado Springs.

#### **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 which are used or 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 may purchase these parts tax-free for resale because they will become a permanent part of the car being repaired. The repair shop must charge sales tax to its customer on the sale of the parts.

#### **SALES BY REPAIR SHOPS**

On a repair shop repair order, the taxable amount is the total charge made to the customer, with deductions allowed for separately stated service or labor charges. If there is a separate charge for shop supplies on the customer's repair order, it is a charge for the sale of tangible personal property and is taxable.

## **DEPOSITS AND CORE CHARGES**

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

### **EXAMPLE**

A customer purchases a rebuilt starter from an auto parts retailer for \$35.00 plus a \$10.00 core charge. The store must 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 trades in an old starter at the time of purchase, there is no deposit collected, and sales tax applies only to the \$35.00 purchase price.

CS Code Section 2-7-104: WORDS & PHRASES DEFINED: PRICE OR PURCHASE PRICE

CS Code Section 2-7-201: IMPOSITION OF TAX

CS Code Section 2-7-442: TRADED IN OR EXCHANGED PROPERTY

CS Code Section 2-7-443: WHOLESALE SALES

CS Code Section 2-7-603B: RESPONSIBILITY FOR USE TAX PAYMENTS

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT CITY OF COLORADO SPRINGS TAX CODE FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE CITY OF COLORADO SPRINGS SALES AND USE TAX ORDINANCE.

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