

Tax and Licensing Division  
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# Tax Compliance Guide

## Franchises

(2/2022)

THIS GUIDANCE IS A SUMMARY IN LAYMEN'S TERMS OF THE RELEVANT AURORA TAX LAW FOR THIS TOPIC, INDUSTRY, OR BUSINESS SEGMENT. IT IS PROVIDED FOR THE CONVENIENCE OF TAXPAYERS AND IS NOT BINDING UPON THE CITY. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE AURORA MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

[Auroragov.org/tax](http://Auroragov.org/tax)

### Franchises

A franchise agreement is a business relationship that grants a franchisee, in exchange for a fee, the right to operate under the trademark, trade name, or other commercial symbol of a franchisor. The franchisor also renders significant assistance in operating the business or significantly controls the franchisee's method of operation, which may include requirements involving purchases of equipment or supplies, distribution or sales of products or services, or other controls as the franchise agreement may designate.

Sales or use tax will apply to all tangible personal property supplied under a franchise agreement. When both tangible and intangible personal property are furnished through the agreement, and the charges are not segregated, sales/use tax will apply on the entire franchise payment. If the charges are separately stated, or can be determined from the franchise agreement, only the items otherwise taxable under the Aurora Municipal Code are subject to sales or use tax.

### Advertising and Advertising Co-op Charges

Many franchises and franchise agreements contain provisions or agreements for advertising costs or shared advertising funds (co-op advertising). For example, a franchise agreement contains a charge of 1% of gross sales labeled "Advertising Royalty Fee". Tangible personal property purchased through the advertising charge, included printed and other taxable forms of advertising, are subject to sales/use tax in the same manner as other franchise agreement charges detailed above.

### Examples

1. A new fast food restaurant franchise is starting up in Aurora. The franchisee pays a monthly franchise fee, based on a percentage of sales volume, as compensation to the franchisor for brand recognition and services that it provides such as coaching and employee training. The franchise fee payment is not subject to sales/use tax since none of the services provided for in the franchise fee (coaching and employee training) are taxable.

2. A new retail franchise store is starting up in Aurora. The franchisee pays a monthly franchise fee, based on a percentage of sales volume, as compensation to the franchisor for services that it provides such as regular training and payment for tangible items, such as promotional banners, digital advertising, and signs for the Aurora location. Sales/use tax would be due on the tangible personal property part of the monthly franchise fee if separately stated, or the whole amount if the charges are not separately stated or cannot be determined from the franchise agreement.

### Related Topics

Advertising  
Use Tax

### Citations

*Aurora Municipal Code*  
§ 130-31. Definitions  
§ 130-33. Legislative Intent  
§ 130-156. Taxable Items  
§ 130-116 Credit Sales and Leases  
§ 130-160. Responsibility for payment  
§ 130-161. Schedule of Taxes  
§ 130-196. Levy  
§ 130-199. Use tax credit

### Contact Us

For additional assistance, please contact us:

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