



Tax and Licensing Division
15151 E. Alameda Parkway, Ste. 5700
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Tax Compliance Guide

Wholesale Sales

(12/2022)

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.

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Wholesale sales are exempt from Aurora sales/use tax. The *Aurora Municipal Code* defines "wholesale sales" to mean sales to licensed retailers, jobbers, dealers, or other wholesalers for resale. Sales by wholesalers to consumers are not wholesale sales. Sales by wholesalers to unlicensed retailers are not wholesale sales. The burden of proving that a transaction qualifies as a wholesale sale is on the seller/wholesaler.

In the event of an audit, the wholesaler may be required to prove that items purchased by the customer were reasonably for resale. Items sold at wholesale that are not reasonably for resale may be disallowed and Aurora sales tax, including penalty and interest, assessed to the wholesaler.

Documentation Required

In order to exempt purchases for resale, wholesalers must obtain and retain sufficient information and documentation to verify the eligibility of the sale for exemption. In addition to the completed affidavit of exempt sale, the wholesaler must retain on file either verification that the purchaser's sales tax license or exemption certificate is current at the time of sale, or a full copy of the purchaser's sales tax license or certificate. A license can be verified at the time of sale through both the Aurora Tax Portal and the State of Colorado web portal.

The City of Aurora requires that exempt wholesale sales be documented either with the City of Aurora Standard Municipal Home Rule Affidavit of Exempt Sale or State of Colorado Affidavit of Exempt Sale (Colorado DR5002).

When reviewed under a City tax audit, exemptions that are not adequately documented will be disallowed and the seller will be responsible for the resulting sales tax deficiency, plus penalty and interest charges.

Documenting exempt wholesale sales includes transactions whereby the wholesale seller delivers property or services directly to the purchaser's customer in Aurora but bills the purchaser for the sale (drop shipments). Each invoice should include the complete name, address, and license or resale number of the purchaser.

Duty to Inquire

Wholesalers have a duty to reasonably inquire as to the nature of the customer's exemption, as well as the burden of proof to demonstrate that the purchaser is eligible for an exemption.

If a business or customer attempts to purchase an item for resale that would not normally be resold in their ordinary course of business, the wholesaler must deny the exemption until additional information is provided that demonstrates the item is reasonably for resale.

Disputed Tax

Should a dispute arise between a wholesaler and a purchaser as to whether a transaction or item is subject to tax, the wholesaler, in order to avoid potential liability resulting from improper exemption, is required to collect the tax in dispute from the purchaser and remit these funds to the City. The purchaser may then submit a *Claim for Refund* form to the City within three years of the purchase. This form is available on the tax section of the City website or by contacting the Tax Division. If the Tax Division determines the transaction was in fact exempt from tax, a refund will be issued directly to the purchaser.

Examples

1. Company A is a licensed wholesaler selling auto parts and supplies. Company B, a plumbing company, purchases a battery for one of their business vehicles and presents Company A an affidavit of exempt sale for resale. Because the battery is not for resale, but instead for Company B's use, Company A must collect city sales tax on the purchase price of the battery.
2. Company C manufactures aluminum construction products, such as gutters and siding. As part of the manufacturing process, the aluminum is pre-treated in a chemical bath prior to painting which helps the paint adhere to the metal. Although some of the chemical remains on the metal and mixes with the paint, the majority evaporates off prior to painting. Because the pre-treatment chemical does not become a component part of the finished product, it is not a raw material for manufacturing/resale. Company C must pay Aurora sales or use tax when purchasing the chemical.
3. Company D is a national leasing company leasing various furniture and equipment. Company E leases equipment to Customer X, Customer X is located in the city of Aurora. Company D purchases the equipment it intends to lease from Company E, a licensed dealer who drop ships the equipment directly to Customer X. Company D does not have a valid Aurora

business license. Even though Company D intends to lease the equipment, Company E must collect city sales tax from Company D on the purchase price because Company D does not have a valid Aurora business license.

Note that payment of Aurora sales tax on the purchase does not relieve Company D of its burden to collect Aurora sales tax on the lease payments. Company D must obtain an Aurora business license and collect and remit this tax on periodic city sales/use tax returns. Upon licensing, Company D may apply for a refund of the city sales tax paid to the equipment dealer.

4. Customer F issues a purchase order to Company G, a licensed Aurora retailer, for a quantity of two parts. The purchase order states that Customer F agrees to pay applicable use tax on any parts it ultimately uses. Company G is unsure if Customer F will resell the parts given the nature of Customer G's business and the small quantity ordered. Company G should collect Aurora sales tax and direct Customer F to seek a refund from the City if the parts are resold. In doing so, Company G avoids the risk of being assessed the tax, plus penalty and interest, if the exemption is disallowed.
5. An automotive repair shop presents an automotive parts store with an Aurora business license when purchasing spray lubricant and towels. The repair shop contends that they charge a shop supplies fee, and the items should be tax-exempt for resale. The parts store should deny the exemption and collect sales tax, as the repair shop is using the spray lubricant and towels in its business and is not transferring the items to the consumer, regardless of the shop supplies fee.

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Related Topics

Automotive Service and Repair

Manufacturing & Fabrication

Restaurants & Bars

Use Tax

Citations

Aurora Municipal Code

§ 130-31. Definitions

§ 130-63. Collection and refund of disputed tax

§ 130-156. Taxable Items

§ 130-157. Items Exempt From Taxation

§ 130-160. Responsibility for payment

§ 130-161. Schedule of Taxes

Contact Us

For additional assistance, please contact us:

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