



# CITY OF THORNTON TAX INFORMATION - LUMP SUM BILLINGS

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## GENERAL INFORMATION

The City of Thornton imposes a 3.75% sales or use tax on the purchase price of tangible personal property or taxable services that are purchased, sold, leased or rented in the City of Thornton. The term "In the City of Thornton" includes any tangible personal property or taxable service that is provided or delivered to the purchaser within the City limits.

The following information applies to service or repair providers who bill their customers on a lump sum and/or time and material basis. This brochure is not intended for contractors doing work in Thornton that requires a building permit. Contractors operating under a City of Thornton building permit pre-pay the tax on the initial purchase of the permit.

Some examples of service or repair providers are plumbers, maintenance and repair persons, window tint installers, HVAC repair persons, painters, and flooring and counter installers.

## LUMP SUM BILLINGS

There are two types of lump sum billings:

1. Labor and material, and
2. Completed units.

Whether or not a service provider should charge tax to the customer is dependent on the type of billing used. Service providers who lump sum bill their customers for labor and materials should pay sales tax or self-report use tax on their materials at the time of purchase. The customer receives a bill with one total listed, labor and material is not itemized, and there is no sales tax on the bill.

Service providers selling and installing completed units who do not list parts and labor separately must charge the customer sales tax on the entire amount billed. The sales tax charged will depend on where the completed unit is installed.

Some examples of completed units are appliances, awnings, window air conditioners, windows, screens and coverings, and cabinetry.

### Example #1 – Labor & Material

Larry from A1 Landscaping contracts with a homeowner to repair the homeowner's automatic sprinkler system. Larry examined the sprinkler system and determined the repairs will not require a permit. Larry plans to bill the homeowner on a lump-sum basis.

Larry spent 4 hours on the job and replaced two sprinkler heads and patched and replaced some lines. Larry bills the homeowner a flat fee of \$200.00. Larry did not itemize labor and materials on the invoice and therefore should not charge sales tax to the homeowner.

In the course of performing this repair job, Larry pulled some materials out of inventory (sprinkler heads and plumbing supplies). Larry should check his records to ensure he paid city sales tax on the materials used on the job equal to or greater than Thornton's total rate at the time of purchase; and if not, Larry should report use tax to the City of Thornton on these items.

### Example #2 – Completed Unit

John from America's Home Furnishing Store, located in Westminster sells window coverings, and cabinetry to a homeowner located in Thornton. John's store employees fabricate the window coverings and cabinetry and install these items in the customer's house.

John bills the customer one lump-sum of \$6000 and does not break out installation charges. Because John lump sum billed the completed units and installed them in Thornton, he must charge the customer City tax on the entire bill, and report this sale on his Thornton sales and use tax return.

## **TIME & MATERIAL BILLINGS**

Service providers who itemize parts and labor on their invoices are required to charge the customer sales tax on the materials. The sales tax rate charged will depend on the location of the customer.

### **Example #3 – Time & Material**

Scott from Plumbing Rescue responds to a service call from a homeowner located in Thornton. Plumbing Rescue is a Northglenn business.

Scott evaluates the problem and determines it does not require a building permit. Scott replaces several parts on the leaking faucet and also snakes the drain. He then prepares a bill for the customer and itemizes the following charges:

1. Trip charge - \$50.00,
2. Labor - \$75.00, and
3. Parts - \$48.50.

The total amount taxable on this bill is \$48.50. Since Scott performed the work at a home located in Thornton, he must charge 8.5% sales tax on the parts and report this sale on his City of Thornton sales and use tax return.

## **MAINTENANCE CONTRACTS**

Maintenance agreements typically cover parts and labor for a specified amount of time, and are generally billed up front as one lump sum. Maintenance agreements are taxable in Thornton. The taxable portion of a maintenance agreement depends on the type of agreement. Following are types of maintenance agreements and taxable portions per the City Code:

1. Medical Equipment – parts and labor included, taxable portion is 50%.
2. Machinery & Equipment – parts and labor included, taxable portion is 30%.
3. Replacement Parts – labor is excluded and billed separately at time of service, taxable portion is 100%.
4. Labor or Service Only – parts are excluded from the agreement and billed separately at time of service, taxable portion is 0%.

## **Example #4 – Maintenance Contract**

Evan operates a machinery repair service throughout the Denver metro area. Evan has annual maintenance agreements with multiple businesses in the Denver metro area.

Thornton Manufacturing Company signed a one-year maintenance agreement with Evan for \$1000. The agreement requires Evan to service their manufacturing equipment monthly. As part of the service, Evan will replace broken or worn parts, and lube and oil parts as necessary.

Because the agreement includes parts and labor, Evan should charge Thornton's tax on the taxable portion at the time the agreement is paid. The taxable portion of the agreement is 30% of the contract amount. ( $\$1000 * 30\% = \$300$ )

## **TAXPAYER ASSISTANCE**

The City provides the following resources to answer your tax questions:

1. Thornton Municipal Code – This document establishes the tax laws of the City. This document is available on the website [www.ThorntonCO.gov](http://www.ThorntonCO.gov) or you may request a copy by contacting the Sales Tax Division.
2. Determinations – Upon written request, the Finance Director will provide a determination on how City taxes apply in specific circumstances.
3. City Personnel – Staff are available Monday through Friday, 8:00 a.m. to 5:00 p.m. either by phone or in person. It is recommended that you call in advance to ensure a tax representative will be available for assistance. The phone number is 303-538-7400.
4. Free Workshops - Thornton's Tax Staff offer free Sales & Use Tax workshops periodically throughout the year. Please contact the Sales Tax Division at 303-538-7400 to find out when the next workshop will be offered.

**Important Note:** This information is provided as a general overview of the City of Thornton Sales and Use Tax Ordinance, and is not intended to replace or supersede the information contained in the Ordinance.