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## Tax Compliance Guide

### Manufacturing & Fabrication Topic 349

(03/2020)

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Manufacturing, producing, processing, compounding, or fabricating includes any operation or performance of an integrated series of operations which places a product, article, substance, commodity, or other tangible personal property in a form, composition or character different from that in which it was acquired whether for sale or for use by a manufacturer. The change in form, composition or character must result in a different product having a distinctive name, character or use from the raw or prepared materials.

#### Raw Materials

The *Westminster Municipal Code* exempts from sales/use tax tangible personal property (raw materials) sold to licensed persons engaged in manufacturing provided that the product being manufactured or processed is transformed in fact by the addition of the property or materials, and such property or materials become a constituent part of the finished product.

In considering whether or not the property or materials become a constituent part of the finished product, the City examines the extent to which the property becomes a necessary and recognizable ingredient or component in the finished product, and its physical presence in the finished product is essential to the use thereof in the hands of the ultimate consumer. Manufacturing compounds which do not become a constituent part of the finished product, such as dies, molds, plates, cleaners, thinners, chemical catalysts, gas, electricity, steam and other similar items are not exempt from Westminster sales/use tax.

#### Tools and Equipment

Manufacturing tools and equipment are not exempt from Westminster sales/use tax. Manufacturers must pay a Westminster sales tax on all tools and equipment. If Westminster sales tax is not paid to a vendor licensed and authorized to collect the same at the time of purchase, then a use tax must be remitted directly to the City. Credit may be taken against Westminster use tax for legally imposed sales or use taxes paid to other municipalities. Such credit may not exceed the

Westminster use tax due. Manufacturers must also pay Westminster sales/use tax on other tangible personal property and taxable services used, consumed, stored, or distributed in the City such as office supplies, office equipment, uniforms, and furniture.

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#### Taxable Basis of Finished Goods

Manufacturers who sell finished products at retail must collect and remit Westminster sales tax on the purchase price paid for such products. The purchase price must include the cost of all materials used, labor or services performed, and the profit thereon. Manufacturing or fabrication labor or services expended in the creation, assembly, production or configuration of tangible personal property is part of the taxable purchase price even if the cost or charges for such labor or services are segregated from the cost or charges for materials. Charges for freight, delivery, and transportation are also subject to City sales tax. Charges for installing tangible personal property may be excluded from the taxable purchase price if separately stated.

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#### Examples

1. Merchant A manufactures made-to-order furniture. Because the Merchant A's volume is low, Merchant A is able to track materials and labor for each job. Even though Merchant A lists the price of the materials and fabrication labor separately on the invoice, the merchant must collect and remit Westminster sales tax on the aggregate purchase price.
2. Computer Manufacturer B buys various computer components in large quantity, which it assembles into completed personal computers for resale. Although Computer Manufacturer B occasionally uses completed computers in its offices, whether or not specific parts will ultimately end up in machines for resale cannot be known at the time of purchase. Most of the time, parts will end up in resold machines. Computer Manufacturer B may purchase all parts tax free at wholesale and remit use tax on

the cost of those parts comprising a machine removed from inventory for use in its offices.

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## Related Topics

Freight, Delivery, and Transportation  
Gas, Electricity, and Steam  
Properly Exempted Purchases Converted to Taxable Use  
Wholesale Sales

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## Citations

### *Westminster Municipal Code*

§ 4-1-5. Retailer Responsible for Collection & Payment of Tax  
§ 4-2-2. Definitions  
§ 4-2-3. Rate; Imposition and Collection; Distribution  
§ 4-2-5. Transactions & Items Subject to Tax  
§ 4-2-6. Exemptions from Sales Tax  
§ 4-2-7. Exemptions from Use Tax

THIS GUIDANCE IS A SUMMARY IN LAYMEN'S TERMS OF THE RELEVANT WESTMINSTER 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 WESTMINSTER MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

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## Contact Us

For additional assistance, please contact us:

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