



DENVER
THE MILE HIGH CITY

Department of Finance
Treasury Division
Tax Compliance - Audit Unit

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Denver, CO 80202
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www.denvergov.org/treasury

April 17, 2014

John Smith - Controller
ABC Company
1122 Main Street
Denver, CO 80202

Our Reference: 212345

Dear Mr. Smith:

As we discussed April 17, 2014, I have been assigned to perform a routine sales, use, occupational privilege and business personal property tax audit of ABC Company. The audit period for the sales, use and occupational privilege tax audits is March 1, 2011 through February 28, 2014. The audit period for the business personal property tax audit is the tax years 2008 – 2013. The accounting records that will be reviewed include, but are not limited to, the following:

- Sales Tax Audit:
(For the sample periods June 2013, October 2013, and January 2014)
 - a. General Ledger
 - b. Sales Journal
 - c. Sales Invoices
 - d. Copies of Exemption Letters to support exempt sales
 - e. Resale license numbers for wholesale sales
 - f. Copies of Denver sales/use tax returns

- Use Tax Audit of Supplies and Expenses:
(For the fiscal year ended 2013)
 - a. General Ledger
 - b. Chart of Accounts
 - c. Purchase Journals
 - d. Purchase Invoices
 - e. Supporting Schedules or Reports for Use Tax remitted
 - f. Copies of any leases of tangible personal property

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- Use Tax Audit of Fixed Assets and Business Personal Property Tax Audit:
(For the entire audit period)
 - a. Depreciation Schedules or Capital Asset Listings showing all Denver assets
 - b. Purchase Invoices for all additions in audit period
 - c. Copies of Business Personal Property Declarations filed with the Denver Assessor

- Occupational Privilege Tax Audit:
If, at any time during this audit, you send us payroll information by mail or email, please do NOT include any social security numbers.
(For the sample period 1st Quarter 2013)
 - a. Payroll Journals of Denver employees showing expenses posted to G/L
 - b. Payroll reports and summaries showing gross pay and OPT withholdings by employee, by month

Additional information may be required after review of the above.

Enclosed is a "Consent Fixing Period of Limitation" form to hold the audit period open until September 30, 2014. Please have the form signed, retain a copy for your records, and return the original to me in the enclosed blue envelope by May 15, 2014. I have also enclosed an Email Release Statement. If you would like to utilize email to receive audit-related information during the audit, please sign and return the form.

I am scheduled to begin this audit on June 9, 2014 at 9:00 am. Should you have any questions prior to that time please do not hesitate to contact me at the telephone number or email address below.

Sincerely,

Mallery Dettmer
Senior Tax Auditor
Tax Compliance/Audit Unit
(720) 913-9321
mallery.dettmer@denvergov.org

Enclosures

City and County of Denver, Colorado

TAX GUIDE

Topic No. 83

USE TAX

The Denver Revised Municipal Code (DRMC) imposes use tax upon the privilege of using, storing, distributing, or consuming within the City, tangible personal property and certain services purchased at retail, when there has been no previous payment of a legally imposed sales or use tax equal to or greater than the Denver rate.

The purpose of the use tax is to raise funds for the payment of expenses of operating and improving the City and its facilities.

Retailer's use tax is generally incurred when a non-resident vendor engages in business in the City by making retail sales and collects what would otherwise be termed sales tax from its Denver customers. Retailers use tax is the same as sales tax except that it generally results from a sale delivered into Denver by a vendor located outside the City. A vendor license is required. The fee for a two-year vendor license is \$20.

Consumer use tax is imposed upon the use, storage, distribution, or consumption of taxable personal property and certain services purchased at retail within the City. When tangible personal property is first distributed, stored, used or consumed in the City more than one year after its retail sale, "purchase price" means its market value rather than the acquisition cost. A reduction to the amount of consumer use tax due may be allowed for a legally imposed sales tax paid to other taxing authorities for the same transaction.

However, certain tangible personal property, which has been owned and used for its intended purpose for more than one year before it is moved into Denver, is exempt from use tax. That exemption does not apply to: construction equipment, tools and machinery, construction building materials, and automotive vehicles. Consumer use tax is reported on Schedule B of the combined sales/use tax return. Use tax on special rate transactions is due at the special rates. There is no fee for a consumer use tax license.

Use tax license applications may be obtained by registering online through Denver's eBiz Tax Center at www.denvergov.org/ebiztax, from www.denvergov.org/treasury, or from the Taxpayer Service Unit of the Treasury Division at 720-913-9400.

EXAMPLE OF RETAILER USE TAX

BYN Corporation is located outside of Denver and makes retail sales into Denver. Since BYN Corporation has no Denver outlet, it would collect and remit retailer use tax on the purchase price.

EXAMPLES OF CONSUMER USE TAX

1. Flux-Air Corporation purchases coffee at a grocery store which did not collect any sales tax. The company is required to pay consumer use tax at the rate of 4.0%.
2. XYZ buys a new computer from an outlet in Chicago. The vendor does not collect any sales tax. XYZ must pay 3.62% consumer use tax on the purchase of this item. If the vendor had properly collected a State of Illinois and Chicago municipal tax, XYZ could be allowed a reduction to the use tax due to Denver.

RELATED TAX GUIDE TOPICS

Reduction Allowed for Previously Paid Sales on Use Taxes
Sale and Purchase of a Business
Sales Tax

*DRMC Sections 53-91 through 53-165. Use Tax

* Rules Implementing the Exemption for Certain Food and Drink under the City Retail Sales and City Use Tax Articles of the Denver Revised Municipal Code

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT DENVER TAX LAW FOR THIS INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE DRMC AND APPLICABLE RULES AND REGULATIONS.

City and County of Denver, Colorado

TAX GUIDE

Topic No. 94

ELECTRONIC ADDRESS DATABASE – RETAILER HELD HARMLESS

Retailers making sales in Denver are authorized to use a State Department of Revenue certified electronic address database to determine the proper jurisdictions to which tax is owed. If the retailer relied upon the certified database, and, as a result of an error in the database, did not charge and collect Denver tax on a sale delivered to Denver, the retailer shall be held harmless for any tax, penalties, and interest due on the specific transaction.

For a retailer to show reliance on the certified database, the retailer must keep records showing the address checked, the date the address was checked, and the results from the certified database provider. This information is shown on a confirmation sheet that is provided by the database provider when a valid address is checked. This confirmation sheet is the adequate documentation that must be retained to document the vendor's reliance on the database. This documentation must be kept for a period of four years to support the sales transactions made.

For a retailer to be held harmless, the retailer must retain the confirmation sheet for the address entered, which must match the actual delivery address to which the sale was delivered. If the retailer uses an invalid address, or if the address is not found in the database, the retailer can not rely on the database. Also, if the error in collecting and remitting is a result of a deceptive representation, a false representation, or fraud, the retailer is not held harmless.

There are currently two state certified electronic address database providers, First American Spatial Solutions/Proxix Solutions, Inc. and Pitney Bowes Group 1 Software. These providers can be accessed at the State of Colorado website:

<http://www.colorado.gov/cs/Satellite/Revenue/REVX/1216202507308>

Alternatively, the First American Spatial Solutions/Proxix Solutions, Inc. website can be accessed at:

<http://www.corelogic.com/landing-pages/tax-jurisdiction-layers.aspx>

and the Pitney Bowes Group 1 Software website can be accessed at:

<http://taxco.g1.com/CentrusRegistration/RegPanels.aspx?Redirect=CentrusDemo>

EXAMPLES

1. Little Boy Construction Supply sells construction supplies to ABC Contractors to be delivered to their job site. The job site is “the corner of Lincoln and Alameda”, which Little Boy dutifully checks in one of the certified address databases. The results come back as an address not found, so Little Boy does not charge Denver tax. Since the database did not return a valid jurisdiction for the address, Little Boy is unable to rely on the database, and therefore is not held harmless for any Denver taxes not collected and remitted.
2. Little Boy Construction Supply also sells construction supplies to XYZ Construction who is doing a job at the old Stapleton airport. Little Boy enters the valid address where delivery is taking place into a state certified address database, but, due to an error in the database, the address is coded as Unincorporated Adams County. Little Boy prints off the confirmation sheet from the provider, retains it with the sales documentation, and does not charge Denver tax on the delivered sale. Since Little Boy relied on the state certified database to determine the taxing jurisdiction of the sale, Little Boy is held harmless from the error and is not responsible for any tax, interest, and penalties due on the specific transaction. Although Little Boy is held harmless from the error, XYZ Construction would still owe Denver use tax on the transaction, since Denver sales tax was not charged.

RELATED TAX GUIDE TOPICS

Sales Tax
Use Tax

- * DRMC Section 53-27 Retailers to collect tax.
- * DRMC Section 53-27.1 Remittance of tax; electronic database; retailer held harmless

The complete Denver Tax Guide, the Denver Revised Municipal Code (DRMC), tax forms, and other related information and forms are available on-line at www.denvergov.org/treasury.

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or in an altered form, and for which a sales or use tax is demonstrably collected from the printer's customer, if applicable, either separately from the printed materials or as part of the inclusive price therefor. Materials sold to a printer which are used by the printer for the printer's own purposes, and are not sold, either directly or in an altered form, to a customer, are not included within this definition.

- (18) *Prosthetic devices* means any artificial limb, part, device or appliance for human use which aids or replaces a bodily function; is designed, manufactured, altered or adjusted to fit a particular individual; and is prescribed by a licensed practitioner of the healing arts. Prosthetic devices include, but are not limited to, prescribed auditory, ophthalmic or ocular, cardiac, dental or orthopedic devices or appliances, oxygen concentrators and oxygen with related accessories.
- (19) *Purchase price or price* means the aggregate value measured in currency paid or delivered or promised to be paid or delivered in consummation of a sale, without any discount from the price on account of the cost of the property sold, cost of materials used, labor or service cost, transportation and delivery charges, or any other expense whatsoever; and provided that when articles of tangible personal property are sold by the manufacturer after manufacture or after having been made to order, the gross value of all materials, labor and services, inclusive of the profit thereon, shall be included in the purchase price; but said price shall be exclusive of any direct tax imposed by the federal government, by the state or by this article; and in the case of all retail sales involving the exchange of property, also exclusive of the fair market value of the property exchanged at the time and place of exchange; provided, however, that such exchanged property is to be sold thereafter in the usual course of the retailer's business. "Price" and "purchase price" shall not include the following:
- a. The consideration received for labor or services used in installing, applying, remodeling or repairing the property sold if the consideration for such services is separately stated from the consideration received for the tangible personal property in the retail sale;
 - b. The amount paid by any purchaser as, or in the nature of, interest or finance charges on account of credit extended in connection with the sale of any tangible personal property if the interest or finance charges are separately stated from the consideration received for the tangible personal property transferred in the retail sale.
- (20) *Rail carrier* means "rail carrier" as defined in Section 10102 of Title 49 of the United States Code as of October 10, 2013, and as it may be amended hereafter.
- (21) *Rail carrier part* means any tangible personal property that is originally designed and intended to be permanently affixed or attached as a component part of a locomotive or rail car used by a rail carrier.
- (22) *Retail sale* means any sale within the city except a wholesale sale.
- (23) *Retailer or vendor* means any person selling, leasing, renting or granting a license to use tangible personal property or services at retail. Retailer or vendor shall include, but is not limited to, any:
- a. Auctioneer;
 - b. Salesman, representative, peddler or canvasser, who as agent, directly or indirectly, of the dealer, distributor, supervisor, employer or principal under whom he operates or from whom he obtains the tangible personal property or services sold by such agent, makes sales of tangible personal property or services subject to the tax imposed herein; and in such event such agent shall

