

City and County of Denver, Colorado

TAX GUIDE

Topic No. 33

FRANCHISES

Sales or use tax shall apply on taxable tangible personal property supplied under a franchise agreement.

When both intangible rights and tangible personal property are furnished under a franchise agreement, and the charges are not separated, the sales or use tax will apply to the entire franchise payment. If the charges are separated or can be determined from the franchise agreement, only the items otherwise taxable under the DRMC are subject to sales or use tax.

EXAMPLE

A new fast food restaurant franchise is starting up in Denver. The facility, owned by the franchisor, will be leased to the franchisee. The franchisee pays a flat monthly fee for the facility rental. In addition, 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 media advertising.

The amount of the lease payment attributable to the tangible personal property of the facility is subject to Denver tax. The franchise fee payment is not subject to tax since none of the services provided for in the franchise fee (regular training and media advertising) are taxable.

However, if the franchise fee had included payment for tangible items, such as promotional banners and signs, that are used or consumed, sales or use tax would be due on that part of the monthly franchise fee.

* DRMC Section 53-25(1). Imposition of tax.

* DRMC Section 53-96(1). Imposition of tax.

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.