

Colorado does not generally impose sales tax on services. However, gas and electric service furnished and sold for commercial purposes are subject to sales tax. Utilities sold at resale, such as gas and electricity used for industrial or residential purposes as outlined within this publication, are exempt from tax. Specific businesses that utilize gas and electricity for both commercial and industrial purposes may claim a credit, subject to certain limitations.

This publication is designed to provide general guidance regarding the sales and use tax on utilities and to supplement guidance provided in the [Colorado Sales Tax Guide](#). Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

The information in this publication applies to state and local sales and use taxes administered by the Department, but not to any sales or use taxes that the Department does not administer for any home-rule cities. Please contact any applicable home-rule city directly for information about their sales and use taxes.

Taxable sales

Sales of gas and electric services for commercial consumption and not for resale are taxable. Sales of steam when consumed or used by the purchaser and not resold in its original form are also taxable. Sales tax applies to such sales of steam, gas, and electric service regardless of whether the seller or provider is a municipal, public, or private corporation or enterprise.

The tax applies to all amounts paid for taxable gas or electric service, regardless of whether there is an actual consumption. The tax is imposed on all payments, whether in the form of a minimum charge, a flat rate, or otherwise.

Persons performing services, as well as stores, office buildings, and other commercial users, are required to pay sales tax on gas and electric services.

Electricity sold for commercial lighting purposes is taxable. An example of a commercial purpose is electricity used to light a restaurant.

Hotels and motels

Electricity, gas, and firewood are subject to Colorado sales tax as purchases at retail when acquired by hotel or motel operators for heating or lighting rooms, hallways, service areas, and parking areas.

Consumption of electricity, gas, or firewood by hotels and motels is commercial consumption. No portion of the usage is exempt, including energy use occurring inside or outside of room accommodations and regardless of whether the room charge is subject to sales tax or exempt.

Any separately stated charge on a room bill for heat, lights, or firewood is fully taxable as a necessary component of the hotel or motel's services. The taxability of any separate charge does not relieve the hotel or motel from the liability for sales or use tax on purchases of electricity, gas, or firewood, as they are not resold in an unused condition.

Exempt sales

In general, the sale, use, storage, or consumption of energy sources for industrial or residential purposes are exempt from sales and use tax.

Industrial use

Electricity sold for industrial use is exempt. The use of electricity, coal, gas, fuel oil, steam, coke, or nuclear fuel in a continuing business activity of manufacturing or producing tangible personal property or services is considered industrial use. In addition to processing and manufacturing, industrial use also includes mining, refining, irrigation, building construction, telegraph, telephone, radio communication, and street and railroad transportation services. Mining includes oil and gas exploration and production.

Examples of industrial uses also include electricity used to light chicken houses to stimulate egg production or electricity used to light an industrial plant to enable it to produce.

If at least 75% of a customer's utility energy consumption is for exempt industrial use, then the customer may file [*form DR 1666, Sales Tax Exempt Certificate Electricity & Gas for Industrial Use*](#), with the utility company. The utility company will cease charging state, RTD/CD, and local subdivision taxes. In such cases, the customer must report and pay tax directly to the Department for the taxable portion of its energy purchases.

If less than 75% of the customer's energy consumption is for exempt industrial use, then the utility company must collect tax from the customer, and the customer may file a refund claim with the Department for any exempt portion of its energy purchases.

Residential use

Electricity, coal, wood, gas, fuel oil, and coke are exempt from sales tax if they are sold for residential use. Additionally, the storage, use, and consumption of such energy sources is exempt from use tax if they have been sold for residential use.

Residential use is any domestic use, including powering lights, refrigerators, stoves, water heaters, space heaters, air conditioners, or other domestic items, that require power or fuel in a residence.

A residence is any separate dwelling in a multi-unit apartment, condominium, townhouse, or mobile trailer park home, or else a separate single unit dwelling. Residences may be billed under a single utility meter or a master utility meter and charged at a residential, commercial, or other nonresidential utility rate.

Minor buildings associated with the residence that are billed under the residential utility meter, such as a shed, garage, or barn, are considered part of the residence for exemption purposes.

If sales of gas or electric services for a residence are billed at a commercial rate but the purchased energy sources are used exclusively for residential purposes, then the customer must file [*form DR 1260, Sales Tax Exempt Certificate Electricity & Gas for Domestic Consumption*](#), with their utility company to exempt their purchases from sales tax.

For additional information about residential energy use, see Department publication [*Sales & Use Tax Topics: Residential Energy Use*](#).

Production of energy

All sales, storage, and use of components used in the production of alternating current electricity from a renewable energy source are exempt from sales and use tax unless otherwise stated.

For additional information about qualifying renewable energy components, see Department publication [*Sales & Use Tax Topics: Renewable Energy Components*](#).

Miscellaneous exemptions

In addition to energy sales for residential and industrial use, sales of energy sources are also exempt if sold to the following entities:

- The United States government in its governmental capacity only;
- The state of Colorado, including its departments and institutions, and political subdivisions in their governmental capacities only;
- Schools, other than schools held or conducted for private or corporate profit;
- Housing authorities; and
- Charitable organizations, when such energy is used in the conduct of their regular charitable functions and activities.

Restaurants

Retailers may claim a credit for sales tax on their purchases of gas and electricity used in processing food for immediate human consumption.

These credits or reductions only apply if a Colorado sales tax is charged against all the utility bills of the establishment or their landlord, and the utilities are used to process food that is subject to Colorado sales tax.

If a retailer's sales of prepared food exceed 25% of its total sales revenue, 100% of the purchase price paid by the retailer for gas and electricity is exempt from sales tax. If a retailer's sales of prepared food sales are 25% or less of its total sales revenue, the retailer is allowed a credit in the amount of 0.5% of the retailer's sales of prepared food against the sales tax collected.

A retailer who chooses to claim the credit must claim the credit on an annual basis on the sales tax return the retailer makes for the month of January using [*form DR 0100, Colorado Retail Sales Tax Return*](#), or through Revenue Online. The credit is claimed on line 9 of Schedule A of form DR 0100 and allowed as a deduction from taxable sales. To calculate the amount of the deduction, retailers must complete and submit [*form DR 1465, Retail Food Establishment Computation Worksheet for Sales Tax Deduction for Gas and/or Electricity*](#), to the Department.

A seasonal retailer must claim the credit on its sales tax return made for the month of June.

If a retailer qualifies for a full sales tax exemption on gas and electricity purchases, the retailer can file [*form DR 1666, Sales Tax Exempt Certificate Electricity & Gas for Industrial Use*](#), with the utility company and request that the utility company exempt its account as an alternative to taking a credit on their sales tax return.

For additional information about gas and electric services for retailers, see Department publication [*Sales & Use Tax Topics: Dining Establishments*](#).

State-administered local sales taxes

Certain state-administered cities, counties, and special districts have the option to tax residential energy use. For a list of jurisdictions exempt from residential energy use, see [*form DR 1002, Colorado Sales/Use Tax Rates Publication*](#).

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to sales and use tax and exemptions for utilities. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- Section 39-26-104, C.R.S. Property and services taxed - definitions.
- Section 39-26-704, C.R.S. Miscellaneous sales tax exemptions - governmental entities - hotel residents - schools - exchange of property.
- Section 39-26-715, C.R.S. Fuel and oil - definitions.
- Section 39-26-718, C.R.S. Charitable organizations - association or organization of parents and teachers of public school students.
- Section 39-26-724, C.R.S. Components used to produce energy from a renewable energy source - definitions.
- 1 CCR 201-4, Rule 39-26-102(21).
- 1 CCR 201-4, Rule 39-26-704-2. Sales Tax Exemption for Housing Authorities.
- 1 CCR 201-5, Special Rule 19. Gas and Electric Services.
- 1 CCR 201-5, Special Rule 22. Hotels and Motels.

Forms and guidance

- [Tax.Colorado.gov](https://tax.colorado.gov)
- [Colorado Sales Tax Guide](#)
- [Sales & Use Tax Topics: Residential Energy Use](#)
- [Sales & Use Tax Topics: Renewable Energy Components](#)
- [Sales & Use Tax Topics: Dining Establishments](#)
- [DR 1002, Colorado Sales/Use Tax Rates Publication](#)
- [Form DR 1666, Sales Tax Exempt Certificate Electricity & Gas for Industrial Use](#)
- [Form DR 0100, Colorado Retail Sales Tax Return](#)
- [Form DR 1465, Retail Food Establishment Computation Worksheet for Sales Tax Deduction for Gas and/or Electricity](#)
- [Form DR 1260, Sales Tax Exempt Certificate Electricity & Gas for Domestic Consumption](#)