

How Other States Handle Contractor Use Tax

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Review of General Use Tax Practices

- If sales tax is not collected at time of purchase, use tax will be owed.
- Use tax is remitted on returns and subject to audit.
- Sales tax paid to other States can be credited against use tax responsibility for certain tangible personal property.

North Carolina Construction Guide

- Construction projects in two categories – Real Property (Capital Improvement) or RMI (Repair, Maintenance or Installation)
 1. **Real property** projects are taxable to the contractor. They pay sales tax on materials at time and location of purchase. Tax is not charged to the owner.
 2. **RMI** projects are taxable to the owner. Contractors purchase materials tax exempt. Tax is applied to the whole project (materials and labor) and charged to the owner.

Ohio Construction Guide

- Contractors are consumers of the tangible personal property that they install into real property. The contractor is responsible for paying sales tax on materials at location and time of purchase.
- Contractors may purchase materials for a project that remains tangible personal property. If so, this is a resale job and material purchases are tax exempt. Tax is collected from the owner and remitted to the State.

Mississippi Construction Guide

- Material Purchase Certificate (MPC) is required for all construction projects.
- Commercial projects over \$10,000 are subject to a 3.5% contractor's tax regardless if the owner is an exempt entity. Tax applies to whole contract (materials and labor). There is no sales tax due when the contractor purchases materials.
- Commercial projects exceeding \$75,000 require tax be prepaid before work begins.
- Contractor prepayment is through a bond or tax is included on MPC application based on contract amount.

Arizona Construction Guide

- Prime contractors are required to obtain a TPT license. (Transaction Privilege Tax)
- A TPT license allows contractor to purchase materials tax exempt. They report the retail TPT on returns when the materials are used.
- Local tax rate is based on the project location.

States Around Colorado

- Wyoming
 - Contractors are seen as the end user of building materials and pay sales tax on purchases based on where possession takes place.
- Kansas
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- Utah
 - Contractors are seen as the end user of building materials and pay sales tax on purchases based on where possession takes place.
- New Mexico
 - Construction materials are purchased tax exempt. Taxes are based on gross receipts at the end of each project.

Review of Construction Tax Options

1. Contractor is seen as the end user of materials. They pay sales tax on building materials at time and place of purchase.
2. Contractor is registered with the State. Material purchases are tax exempt. Contractor collects tax from the owner based on job location then remits it to the State.
3. Contractor has a license with the State. Material purchases are tax exempt. When the project is complete tax is remitted directly to the State based on job location by the contractor.

Benefits vs Colorado Method

- Tax based on actual purchases and not an estimate amount.
- No delay exempting tax on purchases where applicable.
- No reconciliation needed at the end of any project.