



CONSTRUCTION CONTRACTS

Presented by Robin Sturdivant, Principal

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LOCAL TAX



Local sales and use taxes are applied to construction contracts.

The jobsite is the *place of use* for materials.

HOW IS LOCAL TAX ALLOCATED?

Installation of Materials	Installation of Fixtures	Material/Fixture sale – NO INSTALATION
Countywide to the place of sale.	Countywide to the place of use.	In-state contractor: to the contractor's place of business Out-of-state contractor: to the countywide pool



DIRECT ALLOCATION



Effective January 1, 1995, local tax from construction contracts **over** \$5 million **may** be allocated directly to the job site. If certain criteria is met, the contractor is eligible to obtain a sub-permit for the jobsite.



LOCAL TAX IS REMITTED ON THE MATERIAL PORTION OF THE CONTRACT – NOT ON THE TOTAL CONTRACT VALUE.



TYPES OF CONSTRUCTION CONTRACTS

Lump Sum	Cost-Plus	Time & Material
Fixed price to be paid by to the contractor as a single payment.	The contract itemizes the cost of the tangible personal property, labor, tax , overhead plus a fee or percentage over the cost.	The contract specifies materials, fixtures and labor at an agreed-upon price.



ASK QUESTIONS

1. What is the project value?
2. What will be built?
3. When is project scheduled to break ground?

**THE
\$5,000,000
CONTRACT**

**PRIME CONTRACT
General Contractor**

**Contract:
\$36,000,000**

**Sub-Contractor
Steel**

**Contract:
\$8,000,000**

**Sub-Contractor
Concrete**

**Contract:
\$4,997,000**

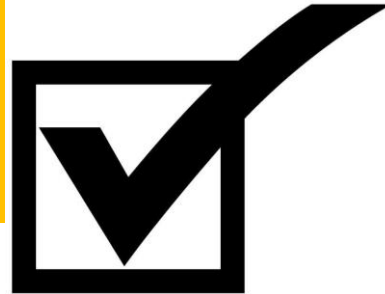
**Sub-Contractor
HVAC**

**Contract:
\$2,300,000**



Sub-Contractor
Steel

Contract:
\$8,000,000



Sub-Contractor
Concrete

Contract:
\$4,997,000



YES



NO

Sub-Contractor
HVAC

Contract:
\$2,300,000



YES



NO

WHICH CONTRACT
MEETS THE
THRESHOLD?

IS THIS CONTRACTOR ELIGIBLE?

Sub-Contractor
Steel

Contract:
\$8,000,000

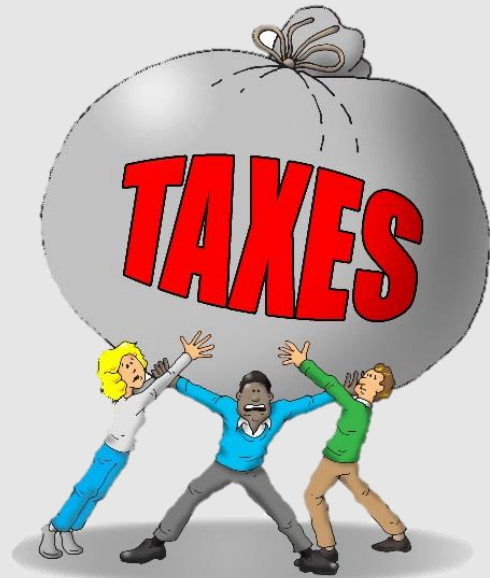
1. Is the contractor already registered with the Board of Equalization?
2. Does the contractor collect tax as part of the contract?
3. What is the account designation on the contractors BOE account?
4. Is the project residential or commercial?

IS THE CONTRACTOR CURRENTLY REGISTERED AS A RETAILER WITH THE CALIFORNIA DEPT OF TAX & FEE ADMINISTRATION?



Permits will not be issued to contractors who do not currently hold a valid resale certificate and are not normally retailers of materials.

DOES THE CONTRACTOR COLLECT TAX AS PART OF THE CONTRACT?



If the contractor buys materials on a tax-paid basis (meaning he pays sales & use tax to the vendor when purchasing materials) the contract will not include local sales & use tax.

CAN ANY CONTRATOR OBTAIN A CONSTRUCTION SITE SUB-PERMIT?

There are several reasons why, even with a \$5 million contract, the contractor will not allocate local tax directly to the job site:

- Contractor/sub bid using a lump sum contract
- Contractor/sub pays tax when they purchase materials
- Contractor/sub does not hold a seller's permit with the BOE/CDTFA
- Contractor/sub may actually be a material supplier
- Contractor/sub has an SC or SU account designation
- Contractor/sub chooses not to obtain a sub-permit



RESIDENTIAL VS. COMMERCIAL

Local tax is allocated to the local agency based on a single jobsite address. Residential projects typically do not qualify because the work is performed at multiple addresses.



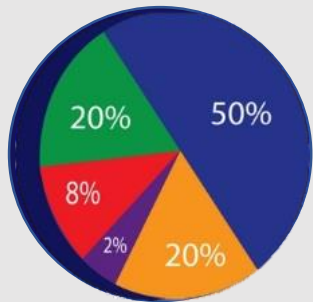


HOW DOES THE CONTRACTOR REGISTER A JOB SITE?

The contractor may call the California Department of Tax & Fee Administration district office that services their permit and request a construction site sub-permit.

ALLOCATION

Once the contractor obtains a jobsite sub-permit, local tax is allocated directly to the local jurisdiction of the jobsite.



Without a construction site sub-permit local tax is allocated to the countywide pool. The local agency receives their proportional share through an indirect allocation.





- Be certain contractors and sub-contractors have registered
- Request a copy of the seller's permit for the job site
- Track your revenue

NEED MORE HELP?



HdL staff can work directly with taxpayers, contractors, and sub-contractors to maximize your local use tax revenues.





Thank you!

Robin Sturdivant, Principal

Phone: (909) 861-4335

Email: rsturdivant@hdlcompanies.com