



Sales Tax Issues for Construction Contractors

Information for businesses
from the

IOWA  Department of **REVENUE**

What is a Construction Contractor?

- Anyone who provides labor and materials to build a structure is considered a construction contractor for that job, even if his or her usual occupation or profession is something else, such as a repairer or odd-job laborer.
- Contractor includes a general contractor, subcontractor, or builder.
- The contractor can be an individual, corporation, partnership, or other entity.

Are There Different Types of Construction Contractors?

Yes.

Types of construction contractors are:

- contractor
- contractor-retailer
- repair company
- manufacturer-contractor

Does It Matter What Type of Construction Contractor I Am?

Yes.

- How a person is classified is the basis for determining many tax obligations.
- It can be difficult for a person starting a business to determine if that business will be engaged in contracting, retailing, a combination of the two, or providing repair services.
- However, **one status must be chosen.**
- A status should not be changed unless it becomes clear that the business has become another status.

Contractors

Contractors are considered to be the:

- consumer of building materials and supplies purchased for use in construction contracts.

And are:

- responsible for paying sales tax at the time the purchases are made or paying use tax directly to the Department.

How Do Contractors Handle Sales Tax?

- **A contractor performs new construction.**
The contractor must pay tax on materials at the time they are purchased and does not collect any tax from the customer.
- **A contractor performs a taxable service.**
The contractor must pay tax on the materials at the time they are purchased. The contractor collects tax on both the labor and the materials from the customer. The contractor may take credit for tax paid on materials on the sales tax return.

Contractor–Retailers

Contractor-retailers are:

- businesses, generally with a store front, that make frequent retail sales of supplies and materials to the public or other contractors and also build residential or commercial structures.

And must:

- obtain a tax permit to report sales tax from retail sales and taxable repairs and to pay tax on materials withdrawn from inventory for use in a construction contract.

How Do Contractor–Retailers Handle Sales Tax?

A contractor-retailer:

- purchases tax free the supplies and materials to be resold
- provides the supplier with a valid [sales tax exemption certificate](#)
- collects sales tax on the selling price when materials, supplies, and equipment are sold without installation
- pays tax to the Department if inventory is removed for use by the business
- pays tax to the supplier on materials not typically placed in inventory, such as wet concrete
- performing a construction contract - does not collect sales tax from the final customer
- performing a taxable service (repairs) - charges customers sales tax on labor and materials
- does not pay tax on materials withdrawn from inventory for use in construction projects performed outside Iowa

Do You Have Examples of Contractors & Contractor–Retailers?

Yes.

Examples of various situations involving contractors and contractor-retailers can be found here:

<http://www.iowa.gov/tax/educate/78527.html#examples>

Repair Companies

Repair companies are:

- primarily engaged in making repairs to an existing structure that has been damaged.

And rarely make:

- retail sales of supplies and materials or build residential or commercial structures.

How Do Repair Companies Handle Sales Tax?

If materials and labor are itemized separately on the bill to the customer, repair companies:

- do not pay sales tax on purchases of building materials and supplies
- make their purchases for resale
- give their supplier a valid [sales tax exemption certificate](#)
- collect tax on the total bill

If the repair company does not itemize materials and labor on billings, it will:

- pay tax on the materials purchased
- collect tax on the total bill

Manufacturer–Contractors

Manufacturer-contractors:

- who sell to contractors or other consumers are required to collect tax on the gross receipts.
- who make retail sales are required to hold an Iowa sales tax or use tax permit.
- may sell their products and also use their products in construction contracts.

How Do Manufacturer– Contractors Handle Sales Tax?

If primarily a manufacturer:

- Tax is computed on “fabricated” costs. This includes the cost of all materials, labor, power, transportation to the plant, and other plant expenses such as overhead, but it does not include installation on the job site.

If primarily a contractor:

- Tax is computed on the cost of raw materials.

A manufacturer-contractor performing:

- new construction does not collect sales tax from the final customer.
- a taxable repair service may withdraw materials from inventory tax free. Tax is collected from the final customer on the labor and materials.
- construction contracts outside of Iowa, no Iowa sales or use tax is due on the materials used.

Is Labor Taxable?

Taxable services related to construction contracts include the following:

- carpentry
- demolition
- electrical and electronic repair and installation
- excavating and grading
- house or building moving
- landscaping, lawn care, and tree trimming and removal
- painting, papering, and interior decorating
- pipe fitting and plumbing
- roof, shingle, and glass repair
- sign construction and installation
- welding
- well drilling

See [Iowa Sales and Use Tax: Taxable Services](#) for a complete list of taxable services.

Taxable services are exempt when:

performed on or connected with new construction, reconstruction, alteration, expansion, or remodeling of buildings or structures.

Repair remains taxable when:

taxable services are performed in repairing tangible personal property and real property.

How Can I Tell the Difference Between Repair & New Construction?

- See Is the Job a Repair?
- See Is the Job New Construction, Reconstruction, Alteration, Expansion, or Remodeling?

What if my Contract is With an Exempt Entity?

- See [Contracts with Designated Exempt Entities.](#)
- See [Index to Information About Construction Contracts with Designated Exempt Entities.](#)

Are There Lists I Can Look At That Might be Helpful?

- See partial list of building materials and supplies.
- See partial list of activities and items that could fall within the meaning of a construction contract or are generally associated with a construction contract.

Questions?

- For more information see [Iowa Contractors Guide](#).
- Call us: 8 a.m. - 4:15 p.m. CT
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