

2020

Sales and Use Tax Guide for **Construction Projects**

HdL  Sales Tax

ABOUT HdL COMPANIES

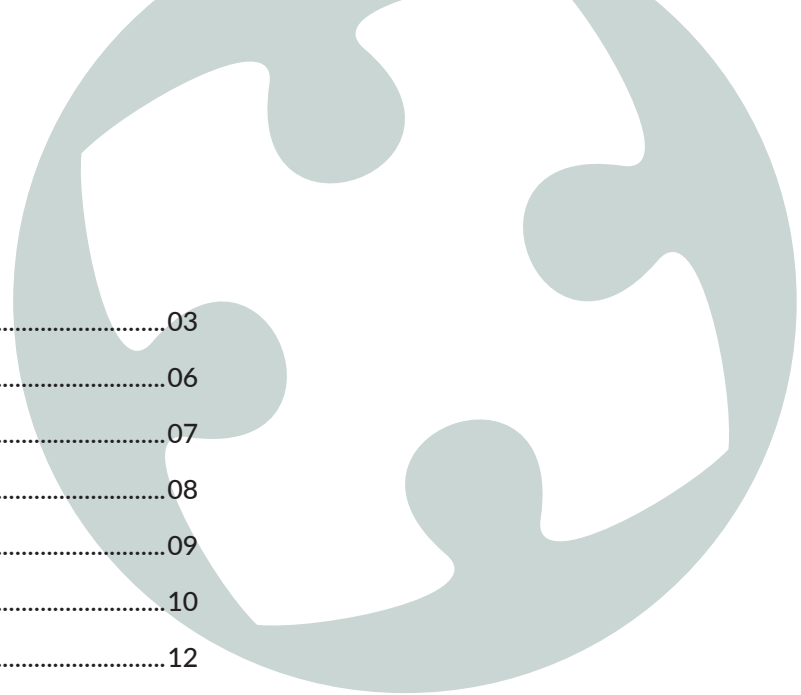
Founded in 1983, HdL was established to maximize local government revenues by providing revenue enhancement, tax administration, analytical services and software products.

Hinderliter, de Llamas & Associates (HdL) developed California's first computerized sales tax management program and was responsible for securing legislation that allowed independent verification of state allocations. In 1990, HdL Coren & Cone was established to provide property and documentary transfer tax services. HdL Software was formed in 1996 to provide software systems for other city revenues and tax administration services.

HdL's systematic and coordinated approach to revenue management and economic data analysis is used by over 500 local governments in six states. To date, HdL has recovered a cumulative total of \$3 billion in new sales and use tax revenues for client agencies. Support Services and Software are available for sales, use and transactions taxes, economic development, property taxes, business license fees, transient occupancy tax, short-term rental (STR) compliance, rent control, and cannabis regulation and taxation.

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OBJECTIVE

SALES & USE TAX FOR CONSTRUCTION PROJECTS

This guide will assist you in determining which construction projects may qualify for a direct allocation of local 1% tax. A temporary allocation of local use tax associated with construction projects can provide an agency with a much-needed boost in local tax revenue.

Effective January 1, 1995, local tax from construction contracts *may* be allocated to the local jurisdiction of the specific construction jobsite. This is accomplished by a contractor or sub-contractor electing to obtain a construction site sub-permit for the jobsite. The contractors, or subcontracts, that have individual contracts with a value of \$5 million or more are eligible for this election. This qualifying contract price applies to each contract or subcontract for work performed at the jobsite, and not to the total value of the prime contract.



A large-scale construction site is shown from an elevated perspective. In the foreground, a group of about seven construction workers wearing hard hats and safety vests are standing on a concrete surface, looking towards the site. The ground is covered with a grid of rebar and concrete slabs. In the background, a large, modern building with a glass facade is under construction, with orange safety barriers and construction equipment visible. The sky is clear and bright.

WHY IS THIS PROGRAM IMPORTANT?

If a contractor or subcontractor does not elect to obtain a jobsite sub-permit, local tax will be allocated to the countywide pool based on the jobsite location.

Countywide pool funds are distributed to each agency within a specific county based on their proportional contribution to the total local tax collected by the county as a whole.

This means that without a jobsite sub permit, a local agency would only receive their proportional share of the countywide pool allocation for that project, which is a fraction of the 1% local tax.

The local tax in question is the 1% Bradley-Burns that is directly allocated to local agencies. These funds are designated as general fund monies, which can be used to pay for police, fire and other expenditures. A direct allocation of local tax does not increase the tax liability for the contractor or sub-contractor, but rather redirects the local 1% tax to the agency where the project will take place.



How Much Is the Local Share?

RATE	JURISDICTION	AUTHORITY	PURPOSE
3.6875%	State	Goes to State's General Fund	Revenue and Taxation Code Sections 6051, 6201
0.25%	State	Goes to State's General Fund	Revenue and Taxation Code Sections 6051.3, 6201.3 (Inoperative 1/1/01 - 12/31/01)
0.50%	State	Goes to Local Public Safety Fund to support local criminal justice activities (1993)	Section 35, Article XIII, State Constitution
0.50%	State	Goes to Local Revenue Fund to support local health and social services programs (1991 Realignment)	Revenue and Taxation Code Sections 6051.2, 6201.2
1.0625%	State	Goes to Local Revenue Fund 2011	Revenue and Taxation Code Sections 6051.15 and 6201.15
1.25%	Local	0.25% Goes to county transportation funds 1.00% Goes to city or county operations	Revenue and Taxation Code Sections 7202 and 7203
TOTAL:			
7.25%	State/Local	Total Statewide Base Sales and Use Tax Rate	

**The tax rate may be higher than 7.25% due to district taxes that may apply in your agency.*

TRANSACTIONS AND USE TAX (DISTRICT TAXES)

If your agency has a voter-approved transactions and use tax, those funds will be allocated as direct allocation, regardless of whether the contractor or sub-contractor elects to obtain a construction site sub permit.

Rate	*Varies
Jurisdiction	District
Authority	Revenue and Capital Taxation Code Section 7261
Purpose	Counties, cities and towns in California may impose one or more district taxes. those district tax rates range from 0.10% to 1.00%. Taxes collected shall be transmitted to the districts.





WHO IS ELIGIBLE FOR A JOBSITE SUB-PERMIT?

In order to be eligible for a jobsite sub-permit, the contractor or subcontractor must meet the following criteria:

- Have an active permit with the California Department of Tax and Fee Administration (CDTFA)
- Must be registered as a retailer, not consumer, of materials
- Have an executed contract over \$5 million* to install materials at the jobsite

WHO IS NOT ELIGIBLE FOR A JOBSITE SUB-PERMIT?

- A contractor or sub-contractor who has a contract below \$5 million
- Contractors whose \$5 million contract was awarded based on a lump-sum bid
- Contractors who pay tax at the source when purchasing materials and therefore do not file a return with the CDTFA
- Contractors who hold a consumer use tax account as they are not considered to be a retailer of materials

*The \$5 million threshold applies to individual contracts held by a contractor or subcontractor and not the total project value.

HOW TO APPLY FOR A JOBSITE SUB-PERMIT

First, gather the following information:

- A copy of your quarterly sales and use tax return or seller's permit
- The amount of your individual construction contract
- The job-site address
- Estimated start and end date of your scope of work

Then, contact the CDTFA office that services your permit or CDTFA customer service at 800.400.7115 and indicate that you would like to add a business location (sub outlet) to your permit so that you can allocate local tax to the jobsite.

The State will add the new location to the seller's permit and send you a resale certificate in the mail showing the jobsite address.

DISPLAY CONSPICUOUSLY AT PLACE OF BUSINESS FOR WHICH ISSUED

CALIFORNIA STATE BOARD OF EQUALIZATION
SELLER'S PERMIT

ACCOUNT NUMBER
SRZ EA 102 978992

ABC CONSTRUCTION
102 TOWN AVENUE
SACRAMENTO, CA 91430

THIS PERMIT DOES NOT AUTHORIZE THE HOLDER TO ENGAGE IN ANY BUSINESS CONTRARY TO LAWS REGULATING THAT BUSINESS OR TO POSSESS OR OPERATE ANY LEGAL DEVICE.

IS HEREBY AUTHORIZED PURSUANT TO SALES AND USE TAX LAW TO ENGAGE IN THE BUSINESS OF SELLING TANGIBLE PERSONAL PROPERTY AT THE ABOVE LOCATION

Not valid at any other address

THIS PERMIT IS VALID UNTIL REVOKED OR CANCELLED BUT IS NOT TRANSFERABLE. IF YOU SELL YOUR BUSINESS, OR DROP OUT OF A PARTNERSHIP, NOTIFY US OR YOU COULD BE RESPONSIBLE FOR SALES AND USE TAXES OWED BY THE NEW OPERATOR OF THE BUSINESS.

ST-42374-12 REV. 12 (8-05)

ADDING THE JOBSITE ADDRESS

You may also add the jobsite address using the CDTFA's online registration system, which can be found on the [new business application webpage](#). Follow the prompts to add the jobsite address to your existing permit.

HOW TO FILE FOR YOUR RETURN

Most taxpayers in California utilize the CDTFA's efile system. When filing your return, you will be prompted to provide the local tax amount attributable to each location (sub outlet) that is registered to your account.



EXAMPLES OF CONTRACT WORDING

Often times a general contractor or project manager will want to use certain language in their contracts with the sub-contractors as reminder that they would like eligible contractors to participate in this program. Some examples are:

The General Contractor/Developer is requiring that all contractors and subcontractors on the jobsite participate in directing local tax to (insert jurisdiction here) wherever possible. This direction will not increase the contractor's tax liability; however, it will increase the percentage amount of tax revenue the City/County will receive. The General Contractor/Developer is requiring that the contractors and subcontractors work together with the City/County officials and consultants to achieve an equitable outcome.

The General Contractor/Developer will require that the contractors and subcontractors exercise their option to obtain a California Department of Tax & Fee Administration construction site sub permit for the jobsite and allocate all eligible use tax payments to (insert jurisdiction here). Prior to any construction on-site, the developer will require that the contractor and subcontractor provide (insert jurisdiction here) with either a copy of their sub-permit that shows their CDTFA account number or a signed statement that sales and use tax does not apply to their portion of the project. The General Contractor/Developer will provide the City/County and their consultant with a list of subcontractors associated with the project.

Please note that while the general contractor or project manager may make a requirement under the terms of the contract, the program is voluntary per the State. All contractors and sub-contractors that obtain a sub-permit must meet the CDTFA requirements shown below.

CONDITIONS OF THE SUB-PERMIT

(a) The estimated completion date of the contract is to be obtained at the time of registration. The sub-permit shall be closed-out by the field office immediately after the sub-permit is registered using a close-out date of the estimated completion date of the contract, plus six months.

(b) The contractor's election to obtain a sub-permit for a jobsite is irrevocable and the sub permit may not be cancelled or closed-out for the life of the contract.

(c) The sub-permit is subject to revocation action as provided by the Sales and Use Tax Law.

(d) Permits should not be issued to contractors who only install materials purchased in-state and are not normally retailers of materials. The resolution does not allow contractors to purchase tangible personal property for resale, including materials, which they will consume at the jobsite.

(e) Contractors may not purchase machinery and equipment to be used on the construction job without payment of sales tax in order to allocate the use tax to the specific jobsite.

(f) Regarding machinery and equipment sold by the contractor as part of the contract, local tax should continue to be allocated to the contractor's permanent place of business where the principal negotiations take place in accordance with Regulation 1802. October 2000 Construction Contractors Local Tax (Cont.) 1207.25

(g) Per Regulation 1806, local tax must still be allocated countywide for jobsites which have contracts of \$5,000,000 or more where the contractor has elected not to obtain a sub-permit. However, if the election is made, no local tax will be reallocated for periods prior to the reporting period for the start date of the sub-permit.

(h) No documentation of the \$5,000,000 contract price or value of work remaining is required to issue a sub-permit for a jobsite unless the value of the work appears to be substantially less than \$5,000,000.



CDTFA OFFICES & OTHER RESOURCES

- [Local and Out-of-State CDTFA Offices](#)
- [California Department of Tax and Fee Administration](#)
- [New Business Location and Registration](#)
- [CDTFA Publication "Construction and Building Contractors"](#)

A large, stylized graphic of a globe in shades of blue, positioned in the background on the right side of the slide. The globe is composed of several rounded, overlapping shapes that represent continents and oceans, rendered in a light blue color against the darker blue background.

CONTACT INFORMATION

For further information about Sales and Use Tax for Construction Projects:

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HdL Sales Tax

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to Local Government Since 1983*

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