

**ADMINISTRATIVE GUIDELINES
CONSTRUCTION MATERIALS/SERVICES
Procedure 405**

Qualifying construction services and materials will be exempt only **AFTER** the issuance of a building permit. Construction services and materials purchased prior to obtaining a building permit will be subject to the CBJ 5% Sales Tax.

- (5) *Sales of building or construction services or materials if:*
- (a) *The materials become incorporated as a permanent part of a structure or site through work authorized by a building permit; and*
 - (b) *The building or construction services are performed on-site, except for the delivery of materials to, or away from, the construction site; and*
 - (c) *The purchaser presents to the seller an individual builder sales tax exemption card describing work that would reasonably require the building or construction services or materials for which the exemption is claimed. A person may apply for an exemption card on forms provided by the City and Borough. The card shall be valid for a period reasonably necessary to complete the work described thereon. The expiration date may be extended upon written application by the holder; and*
 - (d) *Excluding all services for the repair or maintenance of real property.*

CONSTRUCTION MATERIALS

Sales of building and construction materials must meet four specific requirements to qualify for exemption.

- 1) The building or construction materials must become a permanent part of a structure or site.

Qualifying materials are physically *incorporated* into the structure or site. Examples include, but are not limited to: lumber; metals; concrete; masonry; hardware; fasteners; insulation; vapor barrier; siding; windows; doors; frames; carpet; flooring; tile; terrazzo; paint and finishes; plumbing, electrical, heating, venting, or security and alarm systems; built-in appliances; etc.

Supplies which are *consumed* during the construction process do not qualify for exemption. These items are used up in the construction process and do not become a permanent part of the structure or site. Examples include, but are not limited to: paper products; rags; drop cloths; sandpaper; chemicals and solvents used for cleaning; fuel or oil used for heating purposes or to run equipment; visqueen not incorporated into walls; forming and bracing lumber; etc.

Tool and equipment purchases and tool and equipment rentals (without an operator) do not qualify for exemption. Tools and equipment which are rented with an operator supplied by the rental company are considered services and may qualify under CBJ 69.04.050(4).

Removable appliances and furnishings which do not become a physical part of the structure or site do not qualify for exemption. Examples include, but are not limited to: drapes and other removable window coverings; rugs and other removable floor coverings; appliances which are not built-in to the structure; home furnishings; etc.

2) The building or construction materials must be used for work performed under the authority of a valid CBJ building permit, and

3) The building or construction materials must be reasonably applicable to the type of work being performed under the building permit.

Materials purchased for jobs performed without the authority of a CBJ building permit, or outside the authority of the CBJ building permit issued, do not qualify for exemption.

4) The buyer of qualifying building and construction materials must present the seller with an individual Builder Sales Tax Exemption Card as proof of exemption.

Sales tax will be charged on all materials if the purchaser is unable to provide the seller with the Builder Sales Tax Exemption Card.

CONSTRUCTION SERVICES

Sales of construction services must meet number specific requirements to qualify for exemption:

1) The construction services must be performed on-site except for the delivery of materials to the site or away from the site.

2) The constructions services must be reasonably applicable to the type of work as designated by the building permit.

3) The buyer of qualifying construction services must present the seller with an individual Builder Sales Tax Exemption Card as proof of exemption.

Note: Professional design services do not qualify as exempt.

BUILDER SALES TAX EXEMPTION CARD

The ordinance requires that any buyer claiming exemption on purchases of building and construction materials must present the seller with an individual Builder Sales Tax Exemption Card. The CBJ Community Development Department will issue Builder Sales Tax Exemption Cards to the property owner at the time of issuance of the building permit.

The face of the card will list:

1) The exemption number to be used as proof of exemption,

- 2) The expiration date of the card,
- 3) The property owner's name (if applicable),
- 4) The contractor's name (if applicable), and
- 5) The nature of the work to be performed under the building permit.

Community Development will determine a reasonable expiration date for the card based on the nature of the work to be performed.

Purchasing Tax Exempt Building and Construction Materials With a Builder Sales Tax Exemption Card

Owner/Builders (Do-it-Yourselfers)

Purchasing exempt materials from merchants:

Property owners who purchase qualifying building or construction materials for work they perform themselves must use their Builder Sales Tax Exemption Card as proof of exemption to sellers of building and construction materials.

Owners with Contractors

Purchasing exempt materials from merchants:

Property owners who purchase qualifying building or construction materials, either for work they perform themselves or for work performed by a contractor, must use their Builder Sales Tax Exemption Card as proof of exemption to sellers of building and construction materials.

Purchasing exempt materials from contractors:

In addition, property owners must present their Builder Sales Tax Exemption Card to each contractor in order to be exempt from sales tax on the building and construction materials incorporated into the construction project and sold to the property owner by the contractor.

Contractors

Purchasing exempt materials from merchants:

Contractors may request a copy of the Builder Sales Tax Exemption Card from the property owner to use as proof of exemption to sellers of building and construction materials. However, contractors working on multiple projects must be able to provide merchants with the appropriate card for materials purchased for each project. Contractors may no longer "keep a building permit number on file" to cover all purchases. Contractors may keep a copy of their resale of goods certificate on file with merchants to cover purchases for multiple projects. The resale of goods certificate encompasses the same types of goods as the Builder Sales Tax Exemption Card (incorporated, but not consumed). The face of the resale of goods certificate states the types of materials the contractor is qualified to purchase for resale, based on the contractor's state licensing. Contractors may apply for a resale of goods certificate at the CBJ Sales Tax office.

Selling exempt materials to property owners:

Contractors must view the property owner's Builder Sales Tax Exemption Card at the completion of the project when the contractor resells the building and construction materials to the property owner in order to exempt the property owner from sales tax on materials purchased for the contract. Contractors must record the property owner's Builder Sales Tax Exemption number and the card's expiration date for proof of exemption in their records.

Speculation Builders - Contractor is Owner

Purchasing exempt materials from merchants:

The Builder Sales Tax Exemption Card will be issued directly to builders that apply for building permits for work done on speculation. Spec builders may retain a copy of the Builder Sales Tax Exemption Card to use as proof of exemption to sellers of building and construction materials. However, builders working on multiple projects must be able to provide merchants with the appropriate card for materials purchased for each project. Contractors may no longer "keep a building permit number on file" to cover all purchases. Contractors may keep a copy of their resale of goods certificate on file with merchants to cover purchases for multiple projects. The resale of goods certificate encompasses the same types of goods as the Builder Sales Tax Exemption Card (incorporated, but not consumed). The face of the resale of goods certificate states the types of materials the contractor is qualified to purchase for resale, based on the contractor's state licensing. Contractors may apply for a resale of goods certificate at the CBJ Sales Tax office.

Selling speculation built houses to the purchaser:

The speculation builder undertakes building and construction work on self-held properties and holds them in inventory until purchasers are found. The Builder Sales Tax Exemption Card will be issued to the speculation builder as the property owner at the time the building permit is issued. The cards may not later be transferred to purchasers of inventoried property. **Sales tax is due on the full sale amount of the purchase of any inventoried property (land and structures).** Please note: CBJ 69.05.040(21) provides a cap on qualifying sales of single items exceeding \$12,400.

Cardholder Responsibilities: Purchasing Qualifying Materials with the Builder Sales Tax Exemption Card

The buyer will be responsible for restricting purchases to qualifying materials within the scope of the issued building permit. If items that do not qualify for the exemption are purchased along with exempt items, the buyer is responsible for separating taxable items from non-taxable items at the point of purchase.

Merchant Responsibilities: Documenting Exempt Sales of Building and Construction Materials

Merchants must record the Builder Sales Tax Exemption number and the expiration date of the card as proof of exemption in their records. Merchant is responsible for verifying that the types

of items purchased qualify for exemption within the nature of work performed listed on the face of the card and the terms of the exemption.

The Builder Sales Tax Exemption Card must be surrendered on demand to the City and Borough Sales Tax office. Misuse of the Builder Sales Tax Exemption Card is unlawful and subject to prosecution and fine.