ADMINISTRATIVE GUIDELINES
CONSTRUCTION MATERIALS/SERVICES
Procedure 405

Effective immediately, CBJ no longer issues a separate Builder Sales Tax Exemption Card. Instead, the required tax exemption information is printed on the building permit itself. The building permit now serves as the documentation presented to sellers and contractors in support of an exemption claim under CBJ 69.05.040(5).

NOTE: NOT ALL BUILDING PERMITS ARE TAX EXEMPT. Please examine the document carefully to avoid giving an exemption in error.

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 **all 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 must be 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 & finishes, plumbing, electrical, HVAC, security/alarm systems, built-in appliances*, etc.

Supplies that 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 if are performed on site could qualify for exemption.

Appliances and furnishings which are not built into the structure, and 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.

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*Following is guidance clarifying what is meant by **built-in appliances**:

- Appliance must be attached, affixed, mounted, or otherwise fastened to the real property or structure using hardware such as screws, bolts, or brackets in accordance with the appliance manufacturer's *installation requirements*.
- An appliance is not considered to be "built-in" based solely on any of the following types of connections:
  - Hard-wired electrical
  - Connection to water line
  - Connection to plumbing
  - Connection to gas line
- An appliance is not considered to be "built-in" based solely on the space in which the appliance will be placed being custom-sized to the appliance.

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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 that are outside the scope of the project for which a CBJ building permit was issued do not qualify for exemption.

4). The buyer of qualifying building and construction materials must present the applicable CBJ building permit containing the tax exemption information as proof of exemption.

Sales tax will be charged on all materials if the purchaser is unable to provide the seller with the Building Permit containing Tax Exemption Information.

NOTE: NOT ALL BUILDING PERMITS ARE TAX EXEMPT. Please examine the document carefully to avoid giving an exemption in error.

CONSTRUCTION SERVICES

Sales of construction services must meet three 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 construction 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 a building permit containing the tax exemption information as proof of exemption.

Note: Professional design services do not qualify as exempt.

BUILDING PERMIT AS PROOF OF EXEMPTION

The ordinance requires that a buyer claiming exemption on purchases of qualifying building and construction materials or services present documentation showing that the purchase is associated with permitted work. The CBJ Community Development Department now includes the required sales tax exemption information and language directly on the building permit. This satisfies the documentation requirement of CBJ 69.05.040(5)(c).

Accordingly, the building permit serves as the documentation to be presented to sellers and contractors when claiming the exemption.

The permit should identify, at a minimum:

1. The permit number,
2. The expiration date of the permit,
3. The property owner's name, if applicable,
4. The contractor's name, if applicable, and
5. The nature of the work authorized by the permit.

Only purchases that are reasonably related to the permitted work and otherwise meet the requirements of CBJ 69.05.040(5) qualify for exemption.

Purchasing Tax Exempt Building and Construction Materials with a Building Permit

<u>Owner/Builders (Do-it-Yourselfers)</u>

Purchasing exempt materials from merchants:
Property owners who purchase qualifying building or construction materials for work they perform themselves must present the applicable building permit containing the tax exemption information 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 present the applicable building permit containing the tax exemption information as proof of exemption to sellers of building and construction materials.

Purchasing exempt materials from contractors:
In addition, property owners must provide the applicable building permit to each contractor in order to claim exemption from sales tax on qualifying 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 applicable building permit from the property owner 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 permit information for materials purchased for each project.

Contractors may no longer keep only a building permit number on file to cover purchases generally. Documentation must correspond to the specific permitted project for which the exemption is claimed.

Contractors may keep a copy of their resale of goods certificate on file with merchants to cover purchases for multiple projects, when applicable. The resale of goods certificate encompasses the same types of goods as the construction exemption for incorporated materials, but not consumed items.

Selling exempt materials to property owners:
Contractors must review the property owner's applicable building permit at the completion of the project when reselling qualifying building and construction materials to the property owner in order to exempt those materials from sales tax. Contractors must record the permit number and permit expiration date, or other identifying exemption information shown on the permit, in their records as proof of exemption.

Speculation Builders - Contractor is Owner

Purchasing exempt materials from merchants:
When a builder obtains a permit for work performed on speculation, the building permit containing the tax exemption information serves as proof of exemption for qualifying purchases. Builders working on multiple projects must be able to provide the appropriate permit information for each project.

Contractors may no longer keep only a building permit number on file to cover purchases generally. 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 building permit (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 building permit, including the tax exemption information, will be issued to the speculation builder as the property owner at the time of issuance. The permit 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 $15,000.

PURCHASER RESPONSIBILITIES:

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 permit number and permit expiration date as proof of exemption in their records. The merchant is responsible for verifying that the items purchased reasonably qualify for exemption based on the nature of work authorized by the permit and the terms of the exemption.

The documentation supporting the exemption must be made available to the City and Borough Sales Tax Office upon request. **Misuse of the construction exemption is unlawful and subject to enforcement under applicable law.**