

THE YEAR IN REVIEW

BIGGEST UNKNOWNNS FOR CONSTRUCTION IN 2020

HOW SALES TAXES AFFECT YOUR BIDS

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The *Building Savvy* Year in Review Issue

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[savvy finance]

How Sales Taxes Affect Your Bids



By Steven Bankler, CPA

Correctly estimating your bids is essential to creating trust with your customers and, yet, many factors can throw a project's original price tag out the window. These often include elements mostly out of your control, such as working with inaccurate specifications, getting hit with rising material and labor costs, and more.

Thankfully, one common bidding mistake can be avoided from the start: overlooking or miscalculating sales and use taxes. These taxes can significantly affect your bid's bottom line, so it's critical to understand how to factor them in from the start. To do that, consider the following:

The project's jurisdiction.

Each state, city, county, or even special-purpose district may have its own requirements and rates for sales and use taxes. The importance of doing your homework when participating in multi-state or out-of-state bids, then, is obvious. However, you might even be surprised how sales and use taxes can

differ from job site to job site within the same metro region.

Whether it's a residential or commercial property.

When it comes to sales and use taxes, rules surrounding residential and commercial properties differ. The definitions of the two can be unexpected as well. In Texas, the definition of what is considered residential includes only houses, apartments, condominiums, nursing homes, and retirement homes. Hotels, motels, hospitals, rehabilitation centers, prisons, and RV parks do not qualify, and labor costs — in addition to material costs — may be taxable.

Whether it's new construction or a repair/remodel.

In Texas, labor associated with a contract to build a new residential structure or to improve property next to a new residential structure is sales tax free. This can include services associated with new rooms, sidewalks, swimming pools, gazebos, garages, fences, sprinkler systems, decks, retaining walls, driveways, fish ponds, and patios. Labor associated with re-

pairs, remodels and renovations, on the other hand, may hold unexpected tax liabilities.

Whether you're the prime contractor or a subcontractor.

It's easy to assume that, as a subcontractor, sales and use taxes aren't your responsibility to estimate. But — particularly if you're purchasing materials for the project yourself — you may be the one on the hook for paying the sales and use taxes. It's best to be safe and raise the question upfront.

Whether the customer is tax-exempt.

In some states, tax-exempt organizations can purchase their own materials and supplies tax-free. It can result in substantial cost savings, so it's worth investigating if your project involves an exempt non-profit, civic, or community organization.

How you'll bill the customer.

Sales and use tax responsibilities depend upon the type of contract you'll be entering into. In Texas, contracts may be either lump-sum or separated, and the tax liability for each of them is quite different. Under a lump-sum contract, the tax burden falls on the contractor, not the homeowner. A separated contract (one in which materials and labor are charged separately), instead, allows the builder to pass along applicable sales taxes to the customer.

You wouldn't build without exact measurements first, so why should you bid on a project before you're clear on the costs? If you're unsure how to classify a project or what sales and use taxes may apply to your estimate, seek the help of a tax professional upfront before you place the bid. Neglecting to do so could jeopardize your budget before work even begins. ▼

Steven Bankler has more than 42 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.

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Featured image photographed for Trinity Custom Builders, Inc. in Stone Creek Ranch, Boerne, Texas

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