

# Payment of Sales and Use Tax by Contractors

This fact sheet provides guidance for contractors on the proper application of the Vermont Sales and Use Tax. This document is not comprehensive. Please review referenced information and/or contact our office for guidance on specific situations.

## Sales tax when improving real property

When contractors incorporate tangible personal property into buildings, structures, and landscapes, the contractor should not charge sales tax to the customer. The exception is when the person acting as a contractor is primarily a retailer or manufacturer and has made the election described to the right. Other than this exception, the contractor should pay tax on the tangible personal property at the time of purchase. The cost of service is not subject to sales tax.

If the contractor did not pay 6% sales tax on tangible personal property, he or she must pay use tax directly to the state. Use tax is due on the same date and cycle as sales tax and is payable on the same form, SUT-451.

Examples of real property improvements include electrical, plumbing, heating, ventilation, and cooling systems; carpentry; roofing; plastering; foundations; landscaping; and painting. Improvements and repairs to septic systems, parking lots, and driveways are also treated as improvements of real property.

Although contractors cannot itemize the sales tax on their invoices, the invoices may include the statement: "The contractor has paid all applicable Vermont taxes on materials used for this job."

## Equipment is subject to sales and use tax

The purchase, rental, and lease of equipment that is used by contractors in Vermont is always subject to sales tax, even when used on exempt projects. If the contractor did not pay 6% sales tax at the time of purchase, the contractor must pay use tax.

Disclaimer: This fact sheet is intended to provide an overview only. Vermont tax statutes, regulations, Vermont Department of Taxes rulings, or court decisions supersede information provided in this fact sheet.

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## For Retailers and Manufacturers Who Sometimes Act as Contractors

Effective July 1, 2016, Act 134 of 2016 made one exception to the standard contractor rule. If you are primarily a retailer or manufacturer who occasionally acts as a contractor, you will continue to be treated as a contractor when purchasing material and supplies for use in improving, altering, or repairing real property. 32 V.S.A. § 9701(5). "Treated as a contractor" means that you will pay sales tax for materials at the time of purchase. Primarily means more than 50% of your business.

However, Act 134 of 2016 also authorizes retailers and manufacturers who sometimes act as contractors to make an election to be treated as a retailer. This means, with the election, that they would not pay sales tax or remit use tax on materials or supplies used for the improvement of real property, but would instead charge sales tax to their end customers.

More information on this particular circumstance is available on our website at [www.tax.vermont.gov](http://www.tax.vermont.gov).

Examples of taxable rentals include equipment, such as earth moving machinery, cranes, generators, or trailers for project management, is frequently rented by contractors on a job-specific basis.

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## Out-of-state contractors working on Vermont property

Out-of-state contractors working in Vermont are subject to the use tax in the same way as Vermont contractors. Sales tax must be paid on supplies, materials, and equipment used for the improvement of Vermont properties when purchased or rented from Vermont vendors. If 6% sales tax has not been paid on supplies and equipment brought into the state, then use tax is due.

For equipment purchased for a Vermont project and brought into the state, out-of-state contractors should base the use tax on the market value of the equipment when it is brought into the state. Contractors bringing tangible personal property into the state for fewer than six months for use in a project may base the use tax on the fair rental value of the property for the period of use within the state. 32 V.S.A. §9774(2).

## Vermont contractors working out of state

Purchases of supplies and materials by Vermont contractors from Vermont vendors are subject to sales tax, even if they will be used in another state. However, there is an exemption from use tax if the supplies and materials are for use on a property in a state with no sales or use tax, and are stored in Vermont for 180 days or less. For example, if a contractor purchases materials online from a vendor that does not collect Vermont tax, has them delivered to Vermont, and stores them in Vermont for one month before use on a job in New Hampshire, no use tax is due on the materials.

## Improvements to exempt properties

There is no sales tax due on building materials and supplies used in the construction, reconstruction, alteration, remodeling, or repair of any building or structure meeting one of the following conditions:

- Owned by or held in trust for the benefit of the State of Vermont or the United States of America or their agencies and instrumentalities and used exclusively for public purposes (including public works)
- Owned by or held in trust for the benefit of an organization exempt under the provisions of Section 501(c)(3) of the United States Internal Revenue Code and used exclusively for the purpose upon which its exempt status is based
- Owned by a local development corporation as defined in 10 V.S.A. § 212(1) and used exclusively for the purposes authorized in Chapter 12 of Title 10.

*Note:* This exemption does not apply to property that is leased but not owned by or held in trust for such organizations.

Contractors must complete Form S-3C, Certificate of Exemption, from the Department of Taxes. Please see our website for more details on exempt purchases.

The exemptions outlined above apply only to materials incorporated into and supplies consumed for the exempt project. Supplies that are consumed include items such as fuels for welding and equipment operation, and blades and bits for tools. The tools themselves are subject to sales tax when purchased even if the contractor intends to use those tools and equipment on an exempt job. Supplies such as protective clothing (hard hats and safety shoes), tarps, repair parts for construction machinery and equipment, and blueprints are not consumed on a project and are subject to sales and use tax.

## Our contact information:

Business Tax Section  
tax.business@vermont.gov  
802-828-2551  
www.tax.vermont.gov

For more detailed information, please refer to the following:

32 V.S.A. §§9701(4), 9743(4), 9771, 9773  
Regulations §§ 1.9701, 1.9741(14)

