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Texas Sales Tax for the Construction Industry

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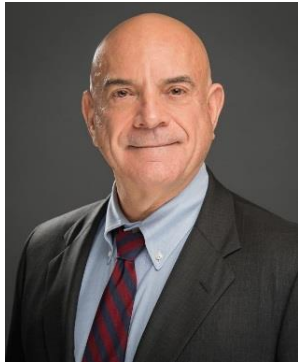


Texas Sales Tax for the Construction Industry

2021

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Instructor



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Chapter I. Overview

Texas Tax for the Construction Industry

Different types of Texas state taxes apply to the parties and transactions associated with real estate construction. These Texas taxes include the:

- sales & use tax on materials, supplies, equipment, and services.
- TERP surcharge tax on off-road diesel construction equipment;
- motor vehicle tax,
- motor fuels tax, and
- cement production tax.

This course focuses its discussion on the Texas sales & use tax, and briefly discusses the TERP surcharge tax, the motor vehicle and motor fuels taxes as applied to the construction industry.

Texas Sales & Use Tax

Although many types of taxes apply to the construction industry, the most significant tax is the sales & use tax. The Texas Limited Sales, Excise and Use Tax Act imposes a tax on the sale, lease or rental of tangible personal (touchable, movable) property and on certain specified services.¹ Sales & use taxes are complementary. Together, they are intended to uniformly tax transactions only once, whether in or out of Texas. Sales & use taxes account for 26% of all state revenues, roughly five times the contribution of any other tax.

Sales Tax

Texas imposes sales tax on retail sales of taxable items in Texas. The state rate is 6.25%, although various local jurisdictions may impose sales and use taxes. The maximum combined tax rate for local taxes may not exceed 2% at any location. Therefore, the maximum possible sales tax rate is 8.25%.

¹ Chapter 151 of the Texas Tax Code.

Example

Alpha Construction is located in San Antonio. It purchases a diesel-powered backhoe from a supplier located in Houston. Alpha must pay sales tax on this purchase. The law treats Alpha Construction as the consumer of the backhoe because its workers will use it to perform services at construction sites.

☞ **Note:** It doesn't matter whether Alpha Construction uses the backhoe to provide taxable or non-taxable services. This transaction is subject to both the sales tax and the TERP surcharge.

Use Tax

This tax presumptively applies when items are acquired out-of-state and brought into Texas within one year of purchase for storage, use, or consumption in Texas. Since the sale is made by a non-Texas seller, the seller would not collect Texas sales tax at the time of sale. Moreover, the seller would likely not collect the origin state's sales tax because the item is destined for Texas. This transaction is subject to the Texas *use* tax.

Without the use tax, persons could purchase items from an out-of-state retailer, use the items in Texas, and escape paying any tax. The use tax prevents this abuse and places out-of-state vendors on an even playing field with Texas vendors. The use tax applies to "any taxpayer who purchases tangible personal property from any retailer for storage, use or other consumption in Texas."²

Example

Alpha Construction purchases the backhoe from a supplier located in Tulsa and has the backhoe delivered to its yard in San Antonio. Alpha Construction owes Texas use tax and the TERP surcharge. If sales tax was legally-owed and paid in Oklahoma, Alpha Construction would be entitled to a tax credit against the Texas use tax for the Oklahoma sales tax paid. If the Oklahoma retailer lacked nexus with Texas or did not otherwise collect Texas sales tax, Alpha Construction must accrue and remit Texas use tax.

² Texas Tax Code § 151.101.

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