

What are "tax-exempt" entities?

Tax-exempt entities include those organizations or charities which are specifically exempted from Alabama sales and use taxes as well as the federal government, the State of Alabama, the counties of the State of Alabama, the incorporated municipalities of the State of Alabama, and the agencies, departments and instrumentalities of such governments.



Need More Information?

For more information, concerning sales or use tax liabilities that you may have as a contractor or builder, contact the Alabama Department of Revenue's Sales, Use & Business Tax Division or visit the nearest Taxpayer Service Center listed on the back page.

*IMPORTANT NOTE: Contractors purchasing property to be incorporated into a private use industrial project or major addition for which a sales and use tax abatement has been granted to the private user of the project pursuant to Chapter 9B of Title 40 (the Tax Incentive Reform Act of 1992) should disregard this brochure and contact the Revenue Department's Economic Development Section at (334) 242-1175 to obtain a copy of the publication entitled **Abatement Booklet** for information concerning sales and use tax exemptions for property purchased by contractors to be incorporated into the project.*

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Sales, Use & Business Tax Division
Room 4303 Gordon Persons Building
50 North Ripley Street
Montgomery, AL 36132
Telephone (334) 242-1490**

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Taxpayer Service Centers

- **Auburn/Opelika**
3300 Skyway Drive
Auburn, AL 36830
Phone: (334) 887-9549
- **Birmingham**
2024 3rd Avenue North
Birmingham, AL 35203
Phone: (205) 323-0012
- **Decatur**
1403A Beltline Road, S.W.
Decatur, AL 35601
Phone: (256) 353-2932
- **Dothan**
344 North Oates Street
Dothan, AL 36303
Phone: (334) 793-5803
- **Gadsden**
235 College Street
Gadsden, AL 35901
Phone: (256) 547-0554
- **Huntsville**
994 Explorer Boulevard
Huntsville, AL 35806
Phone: (256) 922-1082
- **Mobile**
857 Downtowner Blvd., Suite E
Mobile, AL 36609
Phone: (251) 344-4737
- **Montgomery**
1021 Madison Avenue
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Phone: (334) 242-2677
- **Muscle Shoals**
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Muscle Shoals, AL 35661
Phone: (256) 383-4631
- **Tuscaloosa**
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(334) 242-3061



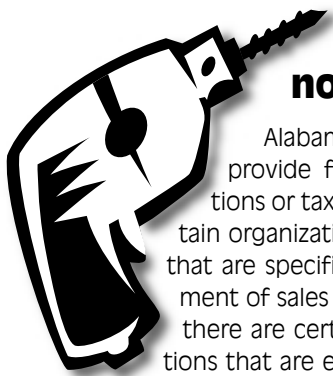
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SALES TO Tax- Exempt Entities



**Alabama
Department of Revenue**

An informational guide
published for contractors
and builders who
perform services for
or make sales to
Alabama tax-exempt entities.



Taxable or not Taxable?

Alabama Sales and Use Tax laws provide for numerous tax exemptions or tax exceptions. There are certain organizations, agencies and entities that are specifically exempted from payment of sales and use taxes. In addition, there are certain kinds of sales transactions that are exempt from sales and use taxes. How to determine if a sales transaction is exempt from sales or use taxes poses problems for both the seller and the buyer.

One particular type of sales transaction which is often confusing for both the seller and buyer involves sales of materials made to contractors and builders for use in fulfilling contracts for making additions or improvements to real property.

Who is a contractor?

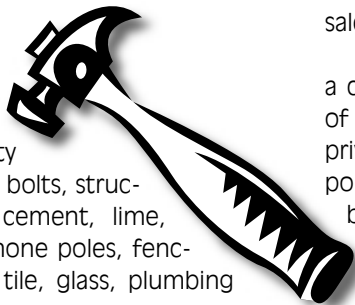
For general sales and use tax purposes, a contractor is any person, firm or corporation who contracts to make additions, alterations, or improvements to real property.

Contractors are deemed not to be reselling building materials which they purchase and affix to realty, but rather to be using or consuming such materials in performing their contracts.

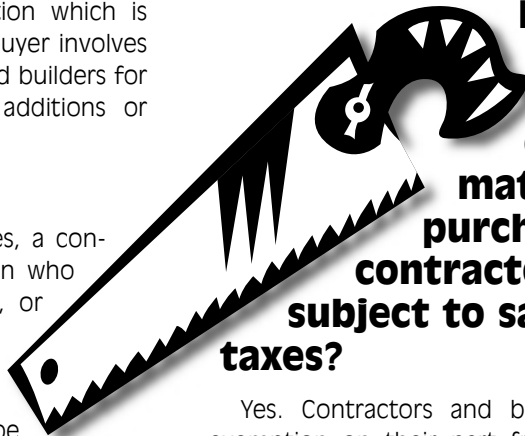
A contractor who buys building materials and supplies for use or "consumption" in completing the construction, repair, or alteration to real property must pay sales tax to the Alabama vendor at the point of sale on materials so used or consumed or pay use tax directly to the Revenue Department on purchases of materials from out-of-state vendors who do not collect the tax.

What are building materials?

Building materials include such tangible personal property as lumber, timber, nails, screws, bolts, structural steel, reinforcing steel, cement, lime, sand, gravel, slag, stone, telephone poles, fencing, wire, electric cable, brick, tile, glass, plumbing



supplies, plumbing fixtures, pipe, pipe fittings, electrical fixtures, built-in cabinets, sheet-metal, paint, roofing materials, road-building materials, sprinkler systems, air-conditioning systems, built-in fans, heating systems, flooring, carpet, floor furnaces, crane ways, crossties, railroad rails, railroad track accessories, tanks, builders hardware, doors, door frames, windows, window frames, water meters, gas meters, well pumps and any and all other tangible personal property which becomes a part of real property.

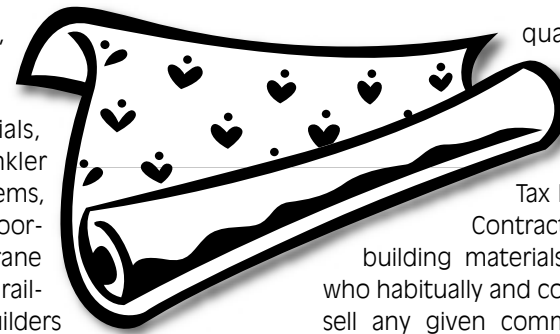


If the contract is with a tax-exempt entity, are materials purchased by the contractor or builder subject to sales or use taxes?

Yes. Contractors and builders cannot claim any exemption on their part from Alabama sales or use taxes because of property that is purchased and used by the contractor or the builder in fulfilling contracts with certain exempt entities.

Building supplies or equipment that is used by the contractor or builder in completing contracts with particular tax-exempt entities or building materials "consumed" by the contractor or builder and which become a part of or are "affixed to" the real property are not exempt from sales or use tax.

However, contractors or builders who have a contract with the U.S. government, the State of Alabama, cities and counties of the State, public and private educational institutions, and certain public corporations exempted by Alabama law, may purchase building materials without payment of Alabama sales and use taxes if such building materials are to be incorporated into real property. In order to make



qualifying tax exempt purchases, contractors or builders are required to obtain an Alabama Sales and Use Tax Certificate of Exemption or an Alabama Sales Tax License.

Contractors and builders do not "sell" the building materials they use. They are not dealers who habitually and constantly, as a business, deal in and sell any given commodity. Sales to contractors and builders are considered to be sales to consumers.

What are a contractor's or builder's reporting responsibilities?

Some contractors operate a retail business in addition to performing contract work, and, in conjunction therewith, buy building materials at wholesale, tax-free for resale. Such contractors who make more than isolated or accommodation sales of building materials in conjunction with their retail business may withdraw building materials from their inventories of goods for sale and use them in performing a contract. The contractor or builder who withdraws building materials which were purchased tax-free for resale and uses them

in fulfilling a construction contract must report and pay sales tax directly to the Revenue Department on such withdrawals. The measure of sales tax in such instances is the cost of the materials to the contractor or builder.

All of the materials, equipment, tools and supplies which a contractor or a builder uses or "consumes" in the operation of his/her business are taxable to the contractor or builder at the time the items are purchased. These items are taxable even if they will be used in completing contracts involving work for tax-exempt entities.

All building materials that are attached by the contractor or builder to real property are taxable to the contractor or builder at the time these materials are purchased by the contractor or builder, with the exception of building materials purchased pursuant to contracts with certain governmental entities, as previously explained.

