



Construction – Use Tax on Building Permits

NOTE: THIS INFORMATION IS PROVIDED BY THE CITY OF LAKEWOOD REVENUE DIVISION. PLEASE DIRECT ANY QUESTIONS REGARDING USE TAX TO THAT OFFICE AT (303) 987-7630.

Use Tax on Permits

For construction jobs requiring a City of Lakewood permit, a use tax deposit must be paid to the City upon issuance of the permit.

The amount of the deposit is computed on the basis of three percent (3%) of the estimated material cost at the time the building permit is obtained, where the estimated material cost equals fifty percent (50%) of the estimated general contract costs and/or fifty percent (50%) of the estimated mechanical contract costs.

Cost Reconciliation

A reconciliation of the use tax deposit and actual cost of materials should be provided to the City within three (3) years from the date of issuance of the certificate of occupancy for the project or the date of the final inspection by the City of the project.

The City may audit a construction project for up to three (3) years after the date of issuance of the certificate of occupancy or the date of final inspection by the City to determine if an overpayment or deficiency of tax and public works fees exist. In the event of an underpayment, a Notice of Assessment of the tax due, along with applicable penalty and interest, is issued to the general contractor. A penalty of 10% of the tax deficiency is assessed for late payment of tax. Additionally, interest is assessed on the tax deficiency at the applicable monthly rate. The assessment will include a due date for full payment. If the contractor disagrees with all or part of the assessment, a written protest must be filed by that due date. Amounts not protested must be paid by the due date. Contractors are therefore strongly encouraged to reconcile the cost of construction materials upon conclusion of the project.

For self-reconciliation of permitted jobs, see *Tax Compliance Guide – Construction Use Tax Reconciliation*.

Purchases of Construction Materials

The City of Lakewood permit should be presented to vendors at the point of purchase of construction materials (tangible personal property which become an integral and inseparable part of real property). Construction materials do not include items such as carpet, furniture, appliances, removable fixtures, signs, solar energy systems, window coverings, equipment, tools, supplies or other similar items. These items cannot be purchased tax-exempt with a City of Lakewood permit.

In order to avoid the imposition of additional city sales tax on materials purchased, the contractor or subcontractor must provide a copy of the building permit to the seller when making purchases for the specified job.

The seller should verify that the purchases are within the scope of the work and exempt those items only from the local municipality's sales tax. State and other non-municipal taxes may still apply.

Purchases of Construction Materials for Exempt Entities

Upon application by a qualified government or charitable organization, the City's Finance Director may issue a letter certifying a contractor or subcontractor tax exemption on the purchase of construction and building materials for use in the building, erection, alteration or repair of structures, highways, roads, streets and other public works owned or used by the qualified organization.

In most cases, a project for a government entity would follow the guidance above. However, in some instances, the City does not require a permit to be issued for a government project. In those instances, a copy of the General Contractor's State of Colorado contractor's exemption certificate will be accepted as sufficient documentation for a sales and/or use tax audit.

Purchases Other Than Construction Materials

If items other than construction materials are used or purchased for the project, sales tax must be paid to the vendor on these items.

Materials Purchased before a Permit is Obtained

If materials are purchased before a building permit is obtained, the contractor may receive a waiver from the City's use tax on the building permit. A completed waiver form must be approved by the Revenue Division. To obtain a waiver form, the contractor must provide sales receipts (prior to applying for a Lakewood building permit) showing that City of Lakewood sales tax of 3% was paid on all materials related to the project.

Materials Purchased in another Municipality

If materials were purchased in another municipality and a local sales tax (other than City of Lakewood tax) was collected by the vendor, the purchaser may contact the vendor or that municipality and request a refund. Sales taxes paid to another municipality cannot be credited against use tax due on materials.

Completed Units

Items considered "completed units" may include, but are not limited to, stoves, refrigerators, washing machines, dryers, carpet, dishwashers, etc. These items are not considered construction materials. Vendors of these items are considered to be retailers and are required to collect Lakewood tax on all sales/deliveries into the City. If sales tax is not collected on these items, then use tax is due. These purchases are considered to be separate from the building permit process.

Construction Equipment

Construction equipment located within the boundaries of the City may be subject to use tax.

See Tax Compliance Guide – Construction - Equipment

Examples

1. A homeowner obtains a fence permit with an estimated cost of \$15,000. The permit counter collects a permit fee of \$60 along with \$225 for use tax (where the estimated material costs = 50% of the total project estimate). The homeowner completes the fence using only \$5,000 in materials and submits to the Revenue Division a Construction Use Tax Reconciliation, along with a detailed job cost listing and material invoices. The reconciliation is reviewed and the actual cost of materials of \$5,000 is verified. A refund of \$75 is issued to the homeowner.
2. A general contractor pulls a building permit with an estimated cost of \$500,000 and pays plan

check fees, building permit fees and use tax to the City. There were several change orders during the project totaling \$150,000 in material costs. In addition, the contractor didn't use the permit to buy \$500 worth of materials from a Lakewood hardware store. The contractor reconciled the permit using the new valuation of \$650,000. The calculations on the reconciliation show the contractor owes \$2,250 $((\$150,000 * 50\%) \times 3\%)$ in additional use tax based on the final costs. A credit of \$15 is allowed for the Lakewood tax paid on the materials purchased from the Lakewood hardware store. Net, the contractor owes \$2,235 in use tax plus any additional building and plan check fees.

Related Topics

Construction – Equipment
Contractors & Construction Use Tax
Tax Exempt Entities

Citations

Lakewood Municipal Code
§ 3.01.020 Definitions - Construction Materials
§ 3.01.210 Property and services taxed
§ 3.01.220 Collections of use tax
§ 3.01.220(D) Use Tax and Reconciliation of Construction Materials
§ 3.01.230 Exemptions
§ 3.01.240 Proration of Use Tax for Certain Construction Equipment

Special Regulations

Contractors
Manufacturers and Prefabricators Acting as Contractors

THIS GUIDANCE IS A SUMMARY IN LAYMEN'S TERMS OF THE RELEVANT LAKEWOOD TAX LAW FOR THIS TOPIC, INDUSTRY, OR BUSINESS SEGMENT. IT IS PROVIDED FOR THE CONVENIENCE OF TAXPAYERS AND IS NOT BINDING UPON THE CITY. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE LAKEWOOD MUNICIPAL CODE AND APPLICABLE RULES AND REGULATIONS. THIS GUIDE DOES NOT CONSTITUTE A CITY TAX POLICY.

Contact Us

For additional assistance, please contact us:

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