
CONSTRUCTION – BUILDING USE TAX RECONCILIATION

The *Arvada Municipal Code* requires that use tax must be paid directly to the City on all construction materials used in projects requiring a City building permit unless the project is exempt. To avoid potential double taxation, contractors should present the permit when purchasing construction materials in order to qualify for an exemption from City sales tax.

Payment of building use tax is the responsibility of the general contractor. The general contractor should provide copies of the building permit to sub-contractors on a project so they too may purchase construction materials without paying City tax.

Estimated Pre-payment of Building Use Tax

A use tax estimate is computed and collected when the permit is issued and is based on the total value of construction. To calculate the use tax, first take the valuation of the project and multiply it by the appropriate *construction cost percentage* (listed below) to determine the estimated amount of materials that will be taxed for the project. This amount should then be multiplied by the 3.46%, the Arvada use tax rate. The contractor must reconcile the actual use tax liability with the estimated pre-payment at the conclusion of the project.

Construction Cost Percentage

- 58% (Effective 01/01/2018)
- 56% (Effective 01/01/2017)
- 50% (Prior to 01/01/2017)

EXAMPLE

$\$500,000.00$ (Total Project Valuation) x 58% (Construction Cost Percentage)
= $\$290,000.00$ (Estimated Materials Cost)

$\$290,000.00$ (Estimated Materials Cost) x 3.46% (Use Tax Rate)
= $\$10,034.00$ (Estimated Pre-Payment of Building Use Tax)

Construction materials shall mean: *tangible personal property which, when combined with other tangible personal property, loses its identity to become an integral and inseparable part of a complete structure or project including public and private improvements. Construction materials include, but are not limited to, such things as: asphalt, bricks, builders' hardware, caulking material, cement, concrete, conduit, electric wiring, and connections, fireplace inserts, electrical heating and cooling equipment, flooring, glass, gravel, insulation, lath, lead, lime, lumber, macadam, millwork, mortar, oil, paint, piping, pipe valves and pipe fittings, plaster, plumbing fixtures, putty, reinforcing mesh, road base, roofing, sand, sanitary sewer pipe, sheet metal, site lighting, steel, stone, stucco, tile, trees, shrubs and other landscaping materials, wall board, wall coping, wall paper, weather stripping, wire netting and screen, water mains and meters, and wood preserver.*

Note: *Items that would NOT qualify as construction materials and are subject to City tax would include but not limited to:*

The above listed construction materials, when used for forms, or other items which do not remain as an integral or inseparable part of a completed structure or project. Also, any other items such as: Tools, ladders, saw blades, drill bits, sand paper, rags, paint brushes, paint rollers, light bulbs, drinks or food, drop cloths, sponges, cleaning supplies, appliances, masking tape, buckets, etc.

Construction Project Cost Report – Use Tax Reconciliation

CLAIM FOR REFUND / USE TAX RETURN – Form

This form is available on-line at the following website under the Sales Tax Resources / Refund Claim Forms area:

<http://arvada.org/business/sales-tax/sales-and-use-tax-resources>

It is important to note that the use tax paid on the permit is strictly an estimate. This method is allowed solely as a convenience, and does not alter the fact that the actual cost of materials is the proper basis for determining actual use tax due. The general contractor is responsible for computing the actual cost of construction materials used in the project, including those used by sub-contractors. If the general contractor fails to file a Construction Project Cost Report, and a subsequent audit discloses a deficiency, the general contractor will be assessed for all such tax, and applicable penalty and interest.

Underpayment – Additional Use Tax Due

If the actual use tax due is greater than the estimated pre-payment (underpayment) then the difference must be remitted within 30 days of the date of Certificate of Occupancy. The general contractor will be allowed to remit this difference without penalty and interest provided it is remitted within the 30 day period.

Overpayment – Refund Request

If the actual use tax due is less than the estimated pre-payment (overpayment), the contractor may request the difference as a refund.

ARVADA MUNICIPAL CODE – Chapter 98 – Taxation

Sec. 98-84. Structures and contents, computation.

(a) Every contractor who shall build, construct, reconstruct, alter or remodel any building, dwelling or other structure, or improvement to real property in this city, and who shall purchase lumber, fixtures or any other construction materials and supplies used therefor, or any article of tangible personal property used therein, and every owner or lessee of realty situate in the city, and of the improvements and structures located upon realty situate in the city, upon which any article of tangible personal property acquired from sources within or without the city, are installed, attached or affixed, and which contractor, owner or lessee has not paid the tax imposed by this article thereon, to a vendor required or authorized to collect the same, shall pay the city sales and use tax, which shall be estimated by determining the building values for permit purposes as established in chapter 18, and multiplying that value by the RS Means Building Construction Cost Data, City Cost Indexes for the Denver, Colorado area for that current year, which shall establish an estimated value upon which the city sales or use tax shall be computed and collected, either through the owner, lessee or general contractor, or separately, if he is a subcontractor electing to do so at the time a building permit is issued.

(b) The enforcement officer thereafter may conduct an audit to recompute the tax by comparing the estimated value of the construction materials and supplies used therefor and the articles of tangible personal property used therein to the actual cost of the same. If the recomputed tax is less than that shown and paid by the taxpayer, the difference shall be refunded to the taxpayer. If the recomputed tax is more than that shown and paid by the taxpayer, the taxpayer shall be notified of the deficiency and the amount thereof.

(Code 1981, § 31-59; Ord. No. 3783, § 2, 12-16-2002) (Code 1981, § 98-84; Ord. No. 4584, 03-06-17)

Building Permits

What Do Permits Cost?

Fees are variable. Permit fees vary by project type. Typically, you can expect to pay (1) a permit fee, (2) use tax, and (3) a plan review fee if required. Permit fees can be estimated using our online calculator.

Use Tax

Use tax is a tax that is assessed in lieu of sales tax. The Arvada use tax rate is the same as the sales tax rate, 3.46%. Building use tax is assessed on construction materials that are used in Arvada. The revenues from building use tax are utilized to fund additional city services related to construction growth.

The tax is computed on the total value of the project. The construction project valuation is based on statistical data relating to costs of similar projects or the actual contract price of a project. Although an individual may conduct the construction work themselves and may obtain materials at a discount or no cost to the project still results in increased value to the improvements. Consequently, use tax is calculated on the greater of the calculated or contract values.

The building permit fee and Use Tax are based on the total value of construction. Use the Permit Fee Table to generate your fee. Use Tax is 58% of the job value multiplied by 3.46%.

THE ABOVE INFORMATION IS A SUMMARY IN LAYMAN'S TERMS OF THE RELEVANT ARVADA TAX LAW FOR THIS SUBJECT, INDUSTRY OR BUSINESS SEGMENT. IT IS NOT INTENDED FOR LEGAL PURPOSES TO BE SUBSTITUTED FOR THE FULL TEXT OF THE ARVADA MUNICIPAL CODE. HOWEVER, THE TAX GUIDE SHALL BE USED IN CONJUNCTION WITH THE ARVADA MUNICIPAL CODE (CHAPTER 98) IN DETERMINING TAX LIABILITY.