



SALES & USE TAX FOR CONTRACTORS:

The Mistakes That Cost Six Figures

A Rea Advisory Webinar

MEET THE SPEAKERS



Joe Popp

Director of SALT Services

JD + LLM in Taxation. Works with construction clients daily on sales tax, nexus, and audit defense. He has a \$300K story – and we'll get to it.



Scott Bechtel

30+ Years in Construction & Real Estate Tax

CFMA member. Sees these problems surface in the field constantly – from new-state expansion to exit planning.

POLL 1

Which of These Has Your Company Experienced in the Last 24 Months?



Expanded into a
new state



Change in finance
leadership



Received a state
tax inquiry

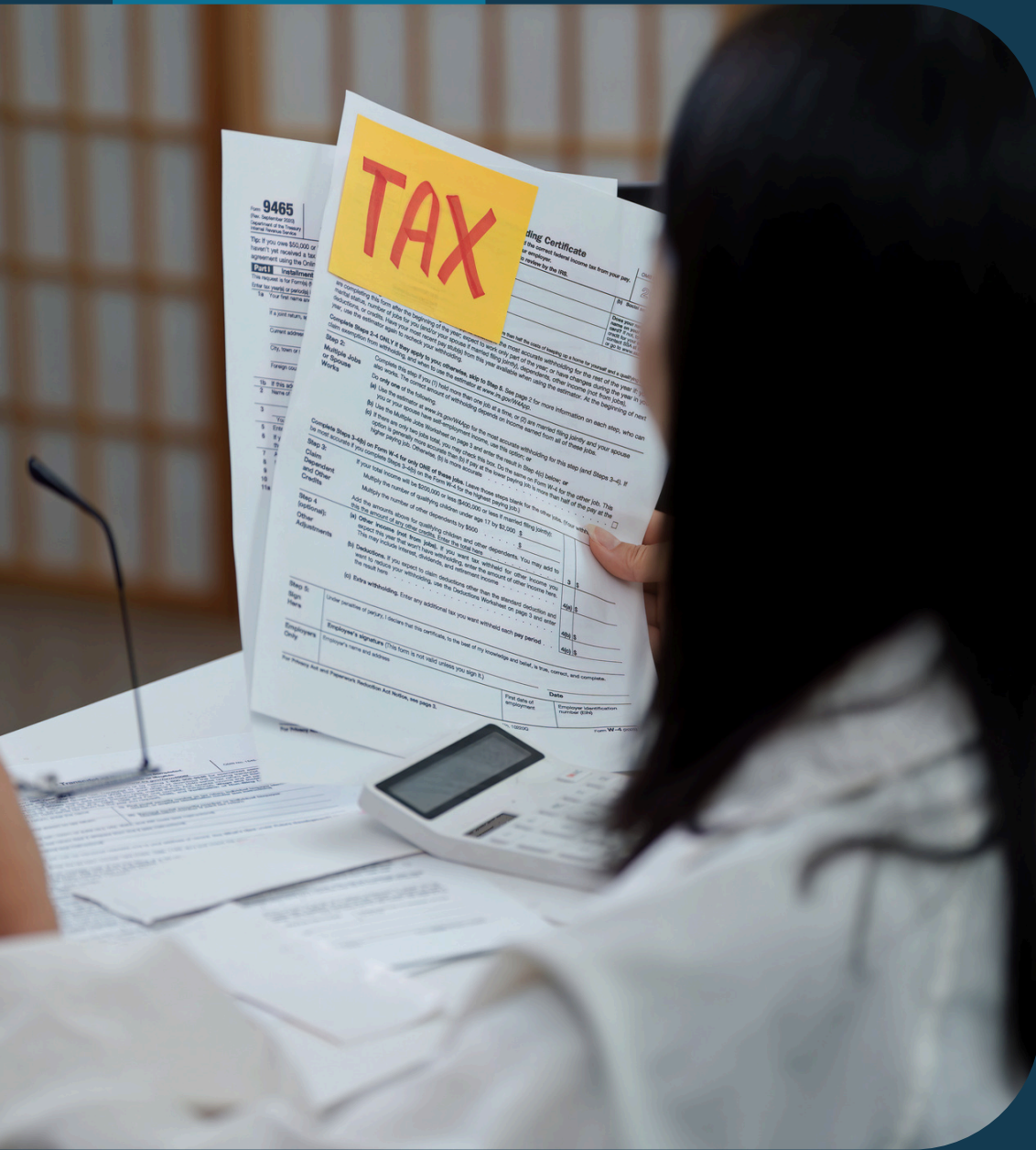


Preparing for a
sale or transition



None of the above.

Your answers shape where we focus today – these trigger events are exactly when SALT risk surfaces.



THE TRIGGER EVENTS THAT SURFACE TAX PROBLEMS

State and local tax issues rarely appear out of nowhere. They surface at moments of change — and if you're not prepared, those moments become expensive.

Winning a bid in a new state



Scaling beyond your home market



Specialty trades crossing municipal lines

THE NEW-STATE SURPRISE

A client wins a competitive bid, signs the contract – then discovers they have 60 days of licensing and bonding requirements with only 30 days before the start date. And the sales tax was calculated wrong in the original bid.

Wrong Tax

Sales tax miscalculated in bid



Missed Licensing

Licenses and bonds not secured in time

Margin Eroded

Profit wiped out before first shovel



Margin is eroded before the first shovel hits dirt. This is preventable – but only with upfront work before you commit to the contract.

GROWTH OUTPACES THE BACK OFFICE

Companies build their internal processes when they're operating in one or two states. By the time they're in five, the accounting system, the project management workflow, and the tax team are still operating like it's year one.

Apportionment Gaps

Is your system tracking revenue and costs by job and state for proper income tax reporting?

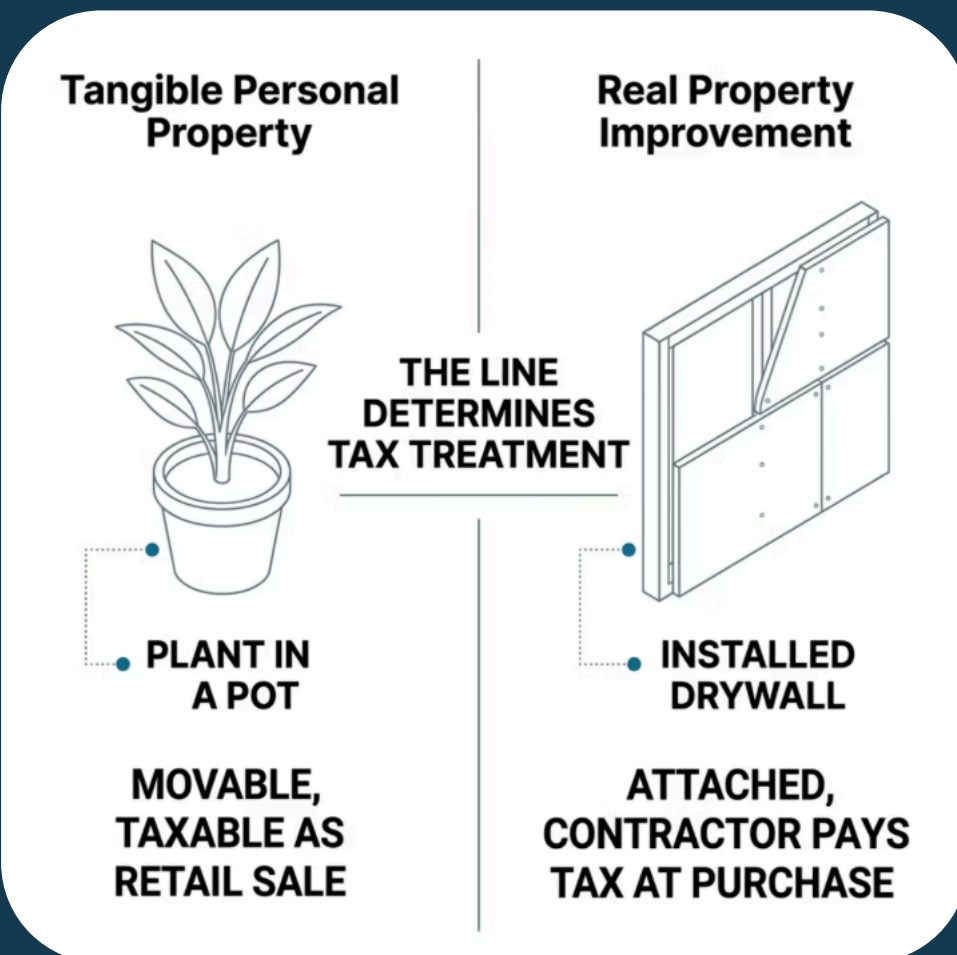
Bidding in Silos

Project managers win work without looping in accounting or tax — exposing the company before it's even started.

Ohio Municipal Complexity

Specialty trades bouncing across dozens of city jurisdictions — each with its own payroll tax rules.

WHY CONSTRUCTION SALES & USE TAX IS UNIQUELY DANGEROUS



Joe describes it as **binary**: you get it right or you get it wrong. And if you get it wrong, the consequences are severe – not gradual.

The core challenge: construction materials start as **tangible personal property** and end up as something else entirely. Where exactly that line falls determines everything about how tax applies.

Every state draws that line differently. Your home-state instincts can be exactly wrong somewhere else.

THE PLANT AND THE DRYWALL

Both started as raw materials in a shop. The difference is what they became.



The Plant

Still tangible personal property. You can pick it up and move it. Treated as a retail sale — sales tax collected on the transaction.



The Drywall

Now part of the real property. The contractor is the consumer — they pay tax at purchase and do not charge the customer.

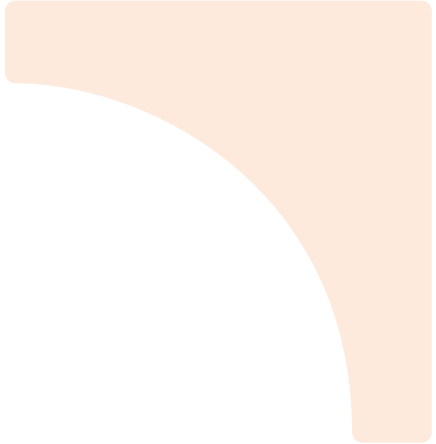


The TV on the Wall

Attached — but is it like the plant or the drywall? That ambiguity is exactly where costly errors live.

Different states answer these questions differently. If you apply your home-state rules to a job in Ohio, you will almost certainly get it wrong.

POLL 2



How confident are you in your sales and use tax process?



**Very confident –
documented,
reviewed process**



**Somewhat confident
– but it hasn't been
reviewed recently**



**Not confident – we
have known gaps**



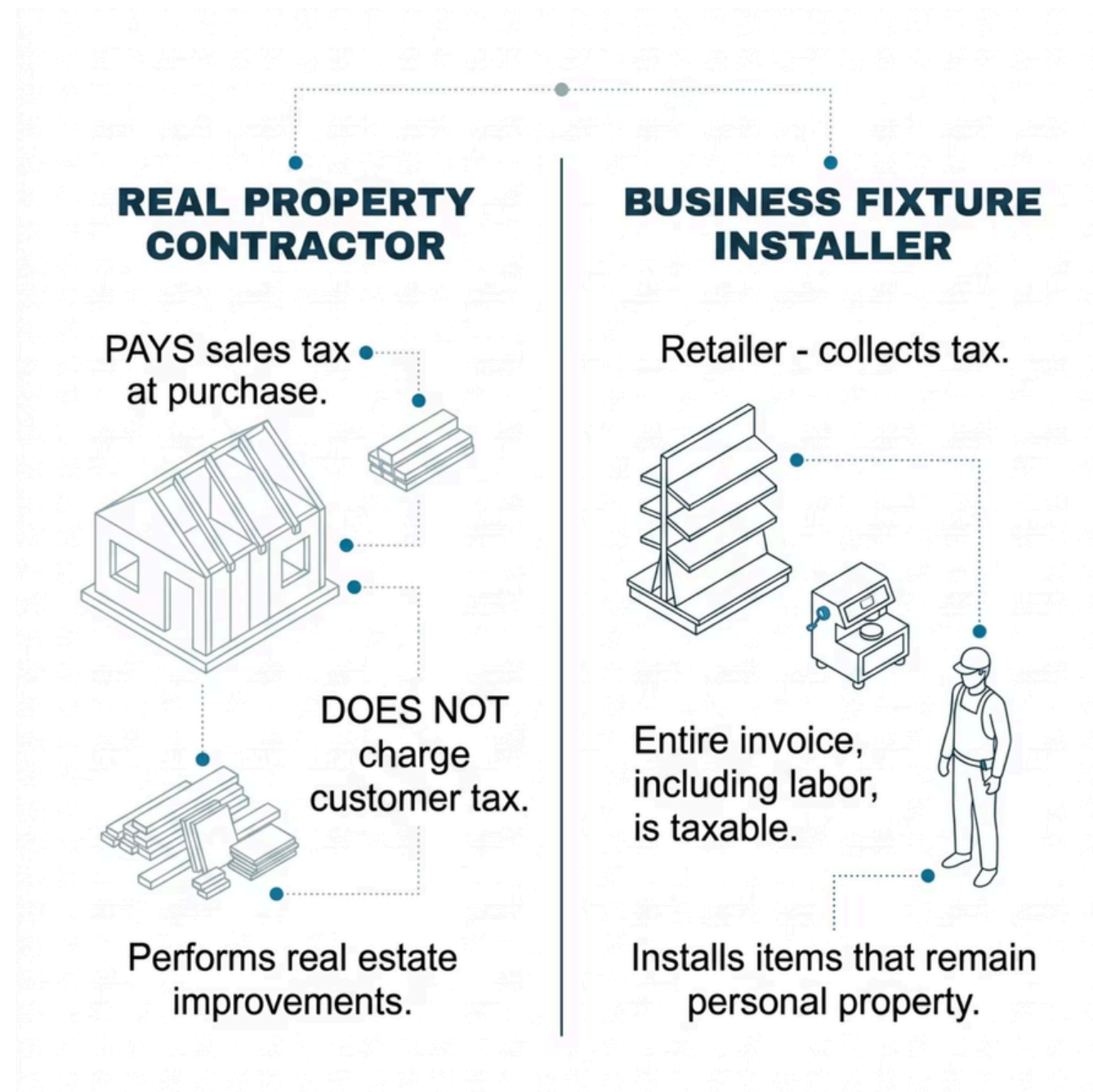
**Not sure what we
don't know**



OHIO DEEP DIVE: REAL PROPERTY VS. BUSINESS FIXTURES

Ohio's framework is **bifurcated** – and which side of the line you fall on determines your entire tax posture on a project. Getting it wrong means you either **overpaid** or **undercollected**. Both create liability.

OHIO'S TWO-TRACK FRAMEWORK



Why Ohio Is Different

Most states use a simple attachment test: if it's attached, it's real property. Ohio goes further.

Ohio requires you to analyze whether the item is a business fixture (personal property) or a real property improvement – even after it's attached to the building.

Applying another state's attachment-only rule to an Ohio project is one of the most common – and costly – errors we see.

THE \$300K STORY: FULL WALKTHROUGH

A contractor builds a **manufacturing facility**. The contract states: "We won't charge tax – and if tax is owed, the customer is responsible."

Contract Signed

Finalize agreements and begin project.



Plant-Category Install

Set up initial plant infrastructure.



Drywall-Category Install

Complete interior construction phases.



Ohio Audit: \$300K

Conduct financial review and assessment.

Ohio doesn't care what's in your contract. The state administers its own tax law – period. The clause that felt like protection created a false sense of security on both sides of the transaction.

THE COMPETITIVE DYNAMICS PROBLEM

"But My Competitors Aren't Doing This"

This is real, and it affects how your bids look. Electrical, plumbing, and specialty trade contractors routinely say their pricing looks out of line because they're complying and others aren't.

Add the curveball: a government-agency owner tells you they're exempt — changing the entire tax analysis mid-project.

Applying another state's attachment-only rule to an Ohio project is one of the most common — and costly — errors we see.



BEYOND SALES TAX: THE MULTI-STATE MAZE

Sales and use tax gets the headlines – but income tax and payroll non-compliance across states is the slow leak that compounds every quarter you ignore it.



Ohio Municipal Income Tax

Dozens of jurisdictions, each with its own rules. Specialty trades crossing city lines daily face disproportionate exposure as they scale.



New-State Registration Stack

Entering a new state triggers income tax registration, payroll withholding, licensing, bonding, and insurance – all on different timelines.



Nexus Is Almost Always There

In construction, you're physically present. The question isn't whether you have nexus – it's whether you've registered and are actually complying.



WHEN IT ALL COMES DUE: AUDITS & EXITS

Every uncorrected SALT problem eventually surfaces – either in an **audit or at the closing table**. Neither is a good time to discover six figures of contingent liability.

TWO MOMENTS OF RECKONING

The Audit

The state doesn't care that your competitors aren't complying either. The law is the law.

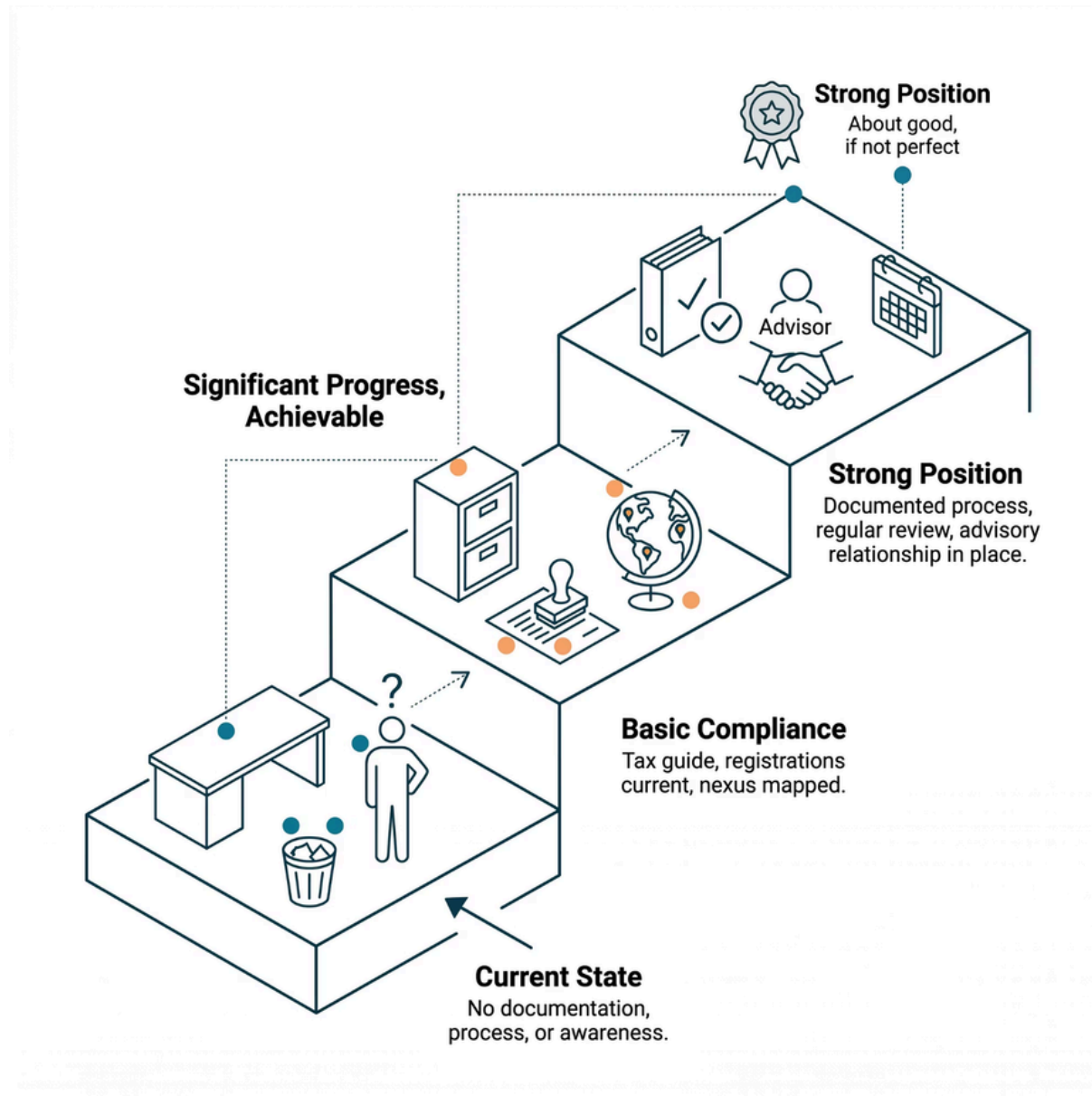
Use-tax assessments on equipment and out-of-state purchases used to dominate. Today, auditors are digging into cost of goods sold materials — where the dollars are biggest.

The Exit

Buyer due diligence will surface every unaccrued tax liability. What looked like a clean balance sheet now has contingent exposure that can:

- Balloon your escrow or seller's note
- Reduce your purchase price
- Kill the deal entirely

THE GAP IS ENORMOUS – AND CLOSEABLE



"Nobody Else Does This"

The pushback is real. It affects competitive positioning. But it doesn't change the law – and it doesn't protect you when you're the one who gets audited.

The gap between where most contractors operate today and where they could be is enormous. And it's closeable without massive effort – if you start with the right questions.

Even imperfect progress dramatically reduces your exposure. You don't need perfect – you need better than nothing.

POLL 3

What's Your Biggest Next Step?



**Review our sales &
use tax process**



**Check our multi-
state compliance**



Talk to an advisor



**Share this with our
team**

Close

WHAT TO DO MONDAY MORNING

1 Ask how sales & use tax gets handled on bids

Is there a reference guide? Does the answer change when you're a sub vs. a GC, or working for a government entity? If no one can answer consistently, that's your gap.

2 Build a new-state checklist

Before the next contract is signed in a new state or city, do you have internal procedures covering registrations, licensing, payroll, workers' comp, and income taxes — all on their actual timelines?

3 See if you qualify for a free strategy session

The Rea team works with construction companies every day on exactly these issues. A short conversation can tell you where your biggest exposures are — and how closeable the gap really is.

rea

THANK YOU