

May 4, 2006

Sales and Use Tax - Collection and Remittance of Sales Tax by Contractors. CONTRACTORS MAINTAINING THEIR BOOKS AND RECORDS ON THE ACCRUAL BASIS OF ACCOUNTING MUST CONSISTENTLY COLLECT AND REMIT SALES TAX ON TAXABLE CONTRACTOR LABOR CHARGES WHEN THE CUSTOMER IS BILLED OR WHEN PAYMENT IS RECEIVED.

Advice has been requested regarding the collection and remittance of sales tax by accrual- basis contractors performing contractor labor. Certain contractor labor provisions were amended by Laws 2006, LB 968. These provisions of LB 968 become effective on July 1, 2006.

Pursuant to Neb. Rev. Stat. § 77-2701.10(3) contractors are required to collect and remit sales tax on the gross receipts for labor in performing taxable construction services when payment is received. Due to the fact contractors may utilize different billing methods, the following guidelines must be used when remitting sales tax.

Accrual-basis contractors receiving multiple payments on construction projects (down payments, progress payments, etc.) must collect and remit tax on each payment. The tax on each payment may be reported when the amount is billed, or when payment is received, provided the same method is used consistently for all current and future contracts. The reporting method employed by the contractor as of the date of this revenue ruling must be used for all such contracts, unless permission to change such reporting method is requested in writing and granted by the State Tax Commissioner.

Contractors collecting and reporting tax when the amount is billed must use the law in effect on the billing date to determine the taxation of their contractor labor charges. Contractors collecting and reporting tax when payment is received must use the law in effect on the date the payment is received to determine the taxation of their contractor labor charges.

Contractors maintaining their regular books and records on the cash basis of accounting will continue to remit tax as payments are received. Cash basis contractors must use the law in effect on the date payment is received to determine the taxation of their contractor labor charges.

APPROVED:



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State Tax Commissioner

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