

July 2013

*This fact sheet explains as simply as possible to self-contractors which items are subject to the contractors' excise tax and which are not. Since it's impossible to cover every conceivable situation, specific questions should be directed to 1-800-TAX 9188 (1-800-829-9188) or 773-7126 in the Pierre area.*

## What is the Contractors' Excise Tax?

In 1979, the South Dakota Legislature removed the tax on personal property. To replace that money, it broadened the sales tax and created the contractors' excise tax.

An excise tax of 2% is imposed on the gross receipts of a prime contractor engaged in realty improvement contracts. A prime contractor builds for or contracts directly with the owner of a project. Gross receipts include the total amount received directly or indirectly in money, credits, or property in consideration for performance of a contract. Gross receipts also include barter transactions – for example, legal services traded for installation of drywall.

## Do self-contractors need a Contractors' Excise Tax license?

If you accept payment in any form for performing construction work (which includes painting, carpentry, concrete work, etc.) you are a contractor, and must obtain a license. Subcontractors must also have a license.

If the project you are undertaking, such as a house, is solely for your own use and is not intended to be sold, you do not need a contractors' excise tax license. A homeowner who is acting as a contractor does not owe contractors' excise tax on work performed by himself or herself on a home which is solely intended for the homeowner's own use, and which is not intended to be sold. However, any contractor hired by the homeowner to do work on the home will owe the 2% contractors' excise tax on their total gross receipts, which include any materials furnished by the homeowner.

If you intend to sell or lease all or part of a building you build, you must apply for a contractors' excise tax license. You can do so by contacting the South Dakota Department of Revenue.

## Is there any additional tax liability when I furnish building materials to a contractor?

Yes. The contractor who installs the materials you furnish will owe 2% contractors' excise tax on the value of the materials.

You will need to provide the contractor with a receipt or other documentation of the cost you paid for the materials.

## Can I use prime contractor exemption certificates?

Contractors performing construction projects for their own use CANNOT give out prime contractors' exemption certificates to their subcontractors. Each subcontractor should pay 2% excise tax on their total gross receipts including any materials furnished to them.

There is no provision in the contractors' excise tax law that allows the owner to provide prime contractors' exemption certificates to the contractors and pay the excise tax himself.

## If I eventually sell my house or rental property, are there additional tax liabilities?

In some cases, yes. If you are a contractor, and the building is sold within four years of the completion date, excise tax is due on the selling price, less the cost of the land and the amount of excise tax previously paid to contractors.

Persons that repeatedly build houses, move in, and subsequently sell the houses are contractors who are in the business of building homes, even if they hold other full-time jobs. They are not entitled to an unfair advantage of having a lesser tax liability than the contractor who builds homes on a full-time basis.

## Talk to Us!

If you have a tax problem or question, call the South Dakota Department of Revenue toll-free at 1-800-TAX-9188. Visit us on the web at [www.state.sd.us/drr](http://www.state.sd.us/drr), email us at [bustax@state.sd.us](mailto:bustax@state.sd.us) or write us:

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**Department of Revenue**  
**445 East Capitol Ave.**  
**Pierre, SD 57501-3185**

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14 South Main, Suite 1-C  
Aberdeen, SD 57401

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300 S. Sycamore, Suite 102  
Sioux Falls, SD 57110

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417 N. Main, Suite 112  
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