



STATE OF RHODE ISLAND

Division of Taxation

Department of Revenue

Contractors & Rhode Island Tax

A Guide for Businesses

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Contents

About This Document	2
General Information	2
Contractors and Subcontractors	3
Contractors.....	3
Subcontractors	4
Construction Equipment	4
Other Purchases.....	5
Use Tax	6
Exempt Organizations	7
Fabricators	7
Landscapers.....	9
Nonresident Contractors	10
Retailers.....	11
Complete Units of Standard Equipment	11
Requirements	12
Recordkeeping	13
Payroll.....	13
Electronic Filing and Payment	14
Contact Us.....	15



About This Document

Contractors doing business in Rhode Island are responsible for several different state taxes. This guide is designed to promote and encourage compliance with Rhode Island tax laws, as well as a better understanding of how tax applies to your business.

This document is intended to be a plain language discussion of the interaction of the Rhode Island General Laws with the construction industry. It is not a substitute for the Rhode Island General Laws or for Rhode Island Division of Taxation regulations, rulings, or notices.

General Information

A *contractor* is an individual or business entity and means both contractors and subcontractors, which include, but are not limited to, building, electrical, plumbing, heating, painting, decorating, paper hanging, air conditioning, ventilating, insulating, sheet metal, steel, masonry, carpentry, plastering, cement, road, bridge, landscape and roofing contractors or subcontractors.

A *construction contract* means a contract for the repair, alteration, improvement, remodeling, or construction of real property.

A *nonresident contractor* means one who does not maintain a regular place of business in this state. A regular place of business shall be deemed to mean and include any bona fide office, factory, warehouse, or other space in this state at which the taxpayer is doing business in its own name in a regular and systematic manner, and which is continuously maintained, occupied and used by the taxpayer in carrying on its business through its regular employees regularly in attendance. A temporary office at the site of construction shall not constitute a regular place of business.



Contractors and Subcontractors

Contractors

A contractor shall pay the tax as a consumer on the purchase of all materials, supplies, tools and equipment, rentals and all replacement parts used in fulfilling either a lump-sum contract, a cost-plus contract, a time and material contract, or any other kind of construction contract except:

1. where the contractor contracts to sell materials or supplies at an agreed price and to render service in connection therewith, either for an additional agreed price or on the basis of time consumed, or:
2. where such contractor is engaged in the business of selling such materials or supplies at retail.

In the case of either (1) or (2) above, the contractor is a RETAILER.

Contractors are required to pay sales or use tax on all purchases. A contractor is considered the actual consumer of the materials and supplies used. Sales of materials and supplies to contractors are considered retail sales and subject to sales or use tax. Similarly, subcontractors are required to pay sales or use tax on materials and supplies that they purchase for use with contractors. A contractor always pays sales tax on materials and supplies at the time of purchase unless the materials and supplies (consumed in the project) are to be utilized in the construction for:¹

- (1) The United States of America,
- (2) State of Rhode Island,
- (3) any state within the United States,
- (4) any Rhode Island municipality,
- (5) exempt organization with a valid Rhode Island exemption certificate.²



¹ If any property is then used for a nonexempt purpose, the contractor must pay the tax on the property used.

² See [Exempt Organizations](#) and Exemption Certificates.

Subcontractors

A contractor who agrees to perform specified tasks for another contractor (General Contractor) is acting as a subcontractor. The purchases of a subcontractor are treated in the same manner as the purchases of a contractor. Subcontractors are the retail purchasers of the materials and supplies that they purchase for use in performing work for the primary contractor.

Construction Equipment

The purchase, rental, or lease of equipment to a contractor is subject to tax. There is no exemption for equipment purchases, rentals, or leases when the equipment is used to fulfill a contract with an exempt organization.

Example 1:

A rental equipment company rents a bulldozer to a contractor. The contractor rents the bulldozer for a job to tear up an existing parking lot at a shopping center. The rental invoice is billed as follows:

Bulldozer 3 hrs @ \$150	= \$	450.00
Subtotal	= \$	450.00
Sales Tax (\$450 x 7%)	= \$	31.50
Total	= \$	481.50

Example 2:

A rental equipment company rents a forklift to a contractor. The contractor rents the forklift for an exempt job. The rental invoice is billed as follows:

Forklift 7 hrs @ \$100	= \$	700.00
Subtotal	= \$	700.00
Sales Tax (\$700 x 7%)	= \$	49.00
Total	= \$	749.00

When equipment is rented with an operator, it is not considered taxable if the operator is necessary for the equipment to perform as designed. The operator must do more than maintain, inspect, or set-up the equipment.

Example 3:

A crane service company receives a job order from a contractor for a crane rental. The crane service company dispatches a crane and an operator to handle the job. When the work is completed, it bills as follows:

Mobile Crane w/Operator 3 hrs @ \$275	= \$	825.00
Subtotal	= \$	825.00
Sales Tax (\$0 x 7%)	= \$	0.00
Total	= \$	825.00

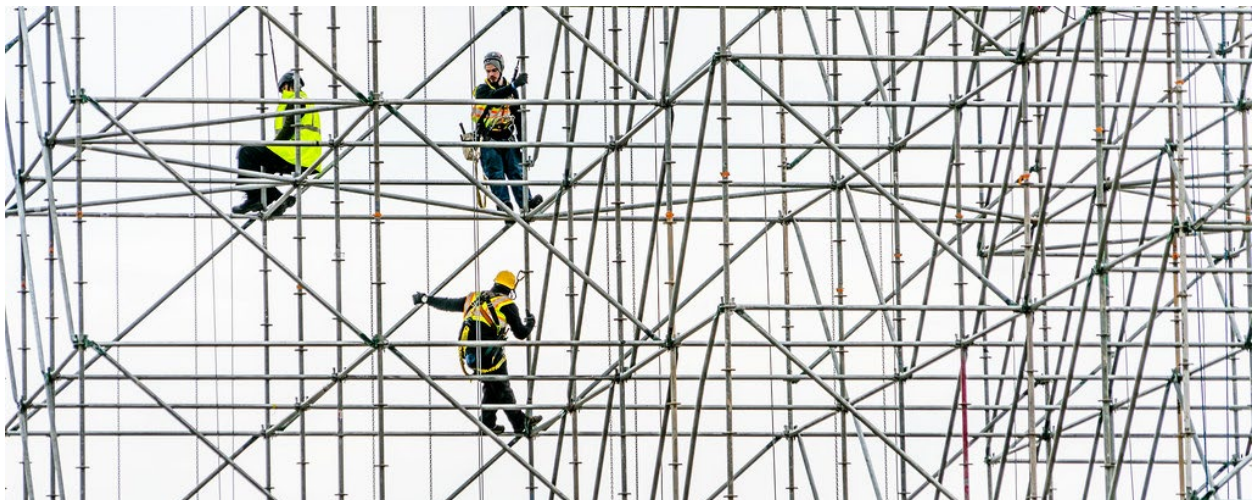
Other Purchases

Generally, purchases related to the construction work are subject to sales tax. The following examples, when purchased by contractors, are subject to sales tax: (1) temporary lighting; (2) temporary fencing; (3) dismantling of scaffolding.

Example:

A construction company is invoiced temporary fencing required for a job. The invoice is billed as follows:

Temporary fencing	= \$	1,500.00
Subtotal	= \$	1,500.00
Sales Tax (\$1,500 x 7%)	= \$	105.00
Total	= \$	1,605.00



Use Tax

Use tax is imposed on the purchase of property and services when sales tax was not collected. If a contractor purchases materials out of state for use in Rhode Island, the use tax must be paid on the cost of the materials. If sales tax was properly charged and paid at a lesser rate, the purchaser is liable for the difference between the rate in the state where the purchase was made and the Rhode Island rate.³ All use tax must be reported on Form T-205, Consumer's Use Tax Return.

Example 1:

A contractor purchases lumber in another state for a job in Rhode Island. The contractor pays 6.25% sales tax to the other state. The contractor owes .75% Use Tax to Rhode Island on the cost of the lumber. This is the difference between the 6.25% sales tax paid in the other state and Rhode Island's 7% Sales Tax rate.

Lumber purchase	= \$	500.00
Subtotal	= \$	500.00
Sales Tax (\$500 x 6.25%)	= \$	31.25
Total	= \$	531.25

Use tax owed to Rhode Island, is computed on the Form T-205 as follows:

State of Rhode Island Division of Taxation		Form T-205		Consumer's Use Tax Return	
Name		Federal employer identification/social security number			
Contractor		999999999			
Address		For the period of:			
1 Main Street		to			
Address 2		Business type			
City, town or post office		State	ZIP code	E-mail address	
Providence		RI			
Do you expect to make purchases on a consistent basis that will be subject to the use tax? YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>					
Schedule of Purchases Subject to the Use Tax: (Use separate sheet if more space is needed.)					
NOTE: Businesses and institutions making purchases subject to the use tax on a consistent basis are not required to itemize their purchases on this return, but they must give the total on line 1 and their records showing details must be preserved for the inspection of the Tax Administrator or his agent.					
Name and address from whom purchase was made	Purchase Date	Description	Quantity	Total Sale Price	
Lumber retailer	09/15/202	lumber purchase		500.00	
1. Total sale price of purchases subject to the use tax				500.00	
2. Total sale price from additional schedules (if needed)					
3. Total sale price of all purchases subject to the use tax. Add lines 1 and 2				500.00	
4. Amount of tax. Multiply total sale price of purchases from line 3 by 7% (0.0700)				35.00	
5. Credit for sales or use taxes paid on these purchases in other states				31.25	
6. TAX DUE ON PURCHASES. Subtract line 5 from line 4				3.75	

The use tax due on this purchase is \$3.75.

³ Provided that the purchaser has no right to a refund of tax from the other state.

Exempt Organizations

Contractors may purchase property and services for the essential use of an exempt organization without paying sales tax. “Exempt organization” includes:

- (1) The State of Rhode Island or any of its agencies or political subdivisions;
- (2) The United States of America;
- (3) Any State belonging to the United States of America, or any of its agencies, or any municipality; and
- (4) Certain nonprofit organizations that have been granted exempt status by the Division of Taxation.⁴

Contractors (or subcontractors) who perform work for an exempt organization as defined above, may purchase materials and supplies for the job without paying Sales Tax. The contractor must provide the supplier with a fully completed exemption certificate ([Form CONTRACTOR'S EXEMPT PURCHASE CERTIFICATE](#)) to document the exemption.⁵ The contractor's records must show the disposition of all property purchased. If any such property is then used for a nonexempt purpose, the contractor must pay the use tax on the property.

Exemption applies only to materials and/or supplies essential to the project which are to be utilized in the construction of the project. Therefore, items such as temporary signs, barricades, barrels, temporary fencing, etc. do not qualify for exemption.

Fabricators

An individual or business entity which fabricates tangible personal property is considered a fabricator.⁶ A contractor may in certain instances fabricate part or all the articles which are used in construction work. For example, a sheet metal contractor may partly or wholly fabricate roofing, cornices, gutter pipe, furnace pipe, furnaces, ventilation or air conditioning ducts or other items from sheet metal which is purchased, and used, pursuant to a contract for the construction or improvement of real property. In such a contract the partly or wholly fabricated articles are not made for resale as tangible personal property but for incorporation into the work to be performed. In this instance the sale of sheet metal to such contractor constitutes a sale at retail by the contractor's supplier within the meaning of the law and the contractor pays the tax as a consumer when he/she buys the same.

Tools and equipment purchased or rented by a fabricator, contractor, or subcontractor are subject to sales tax even if the equipment is used on a job for an exempt organization.

⁴ A valid Rhode Island Certificate of Exemption must be secured.

⁵ For more information, see Exemption Certificates. A valid Rhode Island Certificate of Exemption must be included with the Contractor Exempt Purchase Certificate.

⁶ For more information, see [Retailers](#).

Example 1:

A sheet metal company receives a job order from a contractor for gutter pipes. The sheet metal company fabricates the steel into gutter pipes. When the work is completed, it is billed as follows:

Fabrication of steel, gutter pipes	
Gutter pipes, 15 @ \$ 75	= \$ 1,125.00
Subtotal	= \$ 1,125.00
Tax (\$1,125 x 7%)	= \$ 78.75
Total	= \$ 1,203.75

**Example 2:**

A welder receives a job order from a contractor for the purchase and installation of metal railings. The welder fabricates the steel into metal railings, then installs the railings on the job site. When the work is completed, it is billed as follows:

Metal railings, fabrication, and install ⁷	= \$ 2,000.00
Subtotal	= \$ 2,000.00
Tax (\$2,000 x 7%)	= \$ 140.00
Total	= \$ 2,140.00

⁷ Installation labor separately stated is not subject to sales tax.

Landscapers

Generally, landscapers are considered contractors for sales tax purposes. Materials and other tangible personal property purchased for use in landscaping are taxable, whether purchased by a landscaper, subcontractor, or the customer.

Landscapers do not normally sell materials to customers without installation and, therefore, cannot use a Resale Certificate, to make purchases exempt from tax.

Tools and equipment purchased or rented by a landscaper, contractor, or subcontractor are subject to sales tax even if the equipment is used on a job for an exempt organization.

However, in certain circumstances, landscapers can use [Form Contractor's Exempt Purchase Certificate](#), to make purchases exempt from sales tax. See [Exempt Organizations](#) section.



Nonresident Contractors

A “nonresident contractor” means one who does not maintain a regular place of business in this state.⁸ A regular place of business includes any bona fide office (other than a statutory office), factory, warehouse or other space in this state at which the taxpayer is doing business in its own name in a regular and systematic manner, and which is continuously maintained, occupied and used by the taxpayer in carrying on its business through its regular employees regularly in attendance. A temporary office at the site of construction shall not constitute a regular place of business.

Any individual, partnership, joint venture, corporation, state, municipal government, or exempt organization awarding a construction contract in Rhode Island to a nonresident contractor (as hereinafter defined) is required to withhold 3% of the contract price. The reason for this is to secure payment of any sales and use tax or income tax withheld, or both, that may be due to the State of Rhode Island.

Upon completion of the contract, the nonresident contractor is required to notify the Tax Administrator in writing by certified or registered mail (in duplicate) to audit the records for the particular project. The nonresident contractor is required to have the sales and use tax records and employees' personal income tax withheld records available for review. After the records are reviewed by the Division of Taxation, either a certificate of no tax due or a notice of taxes due is issued.



⁸ For more information regarding [nonresident contractors](https://www.tax.ri.gov/nonresident-contractors), visit the Audit section of the Division's website: www.tax.ri.gov.

Retailers

In some cases, a contractor may be considered a retailer. A contractor is a retailer:

1. where the contractor contracts to sell materials or supplies at an agreed price and to render service in connection therewith, either for an additional agreed price or on the basis of time consumed; or
2. where such contractor is engaged in the business of selling such materials or supplies at retail.

In either of the cases above, the contractor is a *Retailer* and must have a permit to make sales at retail. To register for a permit to make sales at retail, the retailer may complete a business application and registration form online through the Division's [website](#).⁹ The contractor (retailer) shall give the person selling such materials or supplies a valid Rhode Island resale certificate and collect the tax from the customer.

Example:

A contractor builds a deck for a client. When the work is completed, it is billed as follows:

Deck

Deck materials	= \$	12,000.00
Labor	= \$	15,000.00
Subtotal	= \$	27,000.00
Tax (\$12,000 x 7%)	= \$	840.00
Total	= \$	27,840.00

Complete Units of Standard Equipment

In some cases, a contractor or subcontractor acts as a retailer selling tangible personal property in the same manner as other retailers and is required to install a complete unit of standard equipment. For example, the retailer of an awning or blind shop agrees not only to sell it but to hang it, or an electrical shop sells electrical fixtures and agrees to install them. A person performing such contracts is primarily a RETAILER of tangible personal property and must have a permit to make sales at retail and should separate the full retail selling price of such property from the charge for installation, as the tax applies only to the retail price of the property. When the retail selling price of the tangible personal property is not separately stated from the installation charge, the entire charge is subject to sales tax.

⁹ A link to the business application and registration form in paper version is [here](#).

Example 1:

A lighting store sells wall sconces to a customer, requiring installation in their home. When the work is completed, it is billed as follows:

Wall sconce 2 @ \$100	= \$ 200.00
Installation	= \$ 150.00
Subtotal	= \$ 350.00
Tax (\$200 x 7%)	= \$ 14.00
Total	= \$ 364.00

Example 2:

An awning shop sells an awning to a local business owner, requiring installation to the customers store front. When the work is completed, it is billed as follows:

Awning	= \$ 1,500.00
Subtotal	= \$ 1,500.00
Tax (\$1,500 x 7%)	= \$ 105.00
Total	= \$ 1,605.00



Requirements

Recordkeeping

Keeping detailed business records is a requirement for a business for both federal and state purposes. Records must be maintained for review by the Division of Taxation in accordance with Regulation [280-RICR-20-70-12](#). The regulation outlines general record requirements.

A sample detail of record requirements which are necessary for contractors to prepare accurate and complete tax returns, are as follows:

- Supply and expense purchase invoices
- Contracts or sales invoices
- Bank statements
- Federal & State Income Tax returns
- Exemption certificates¹⁰
- Payroll records
- 1099k report(s)

All records should be retained for a minimum of 6 years and can be maintained in a paper or electronic format.

Payroll

Employers are required to withhold a portion of their employees' wages for work performed in the state of Rhode Island.

The amount of tax to be withheld from an employee's wages depends on a number of factors. Those factors include:

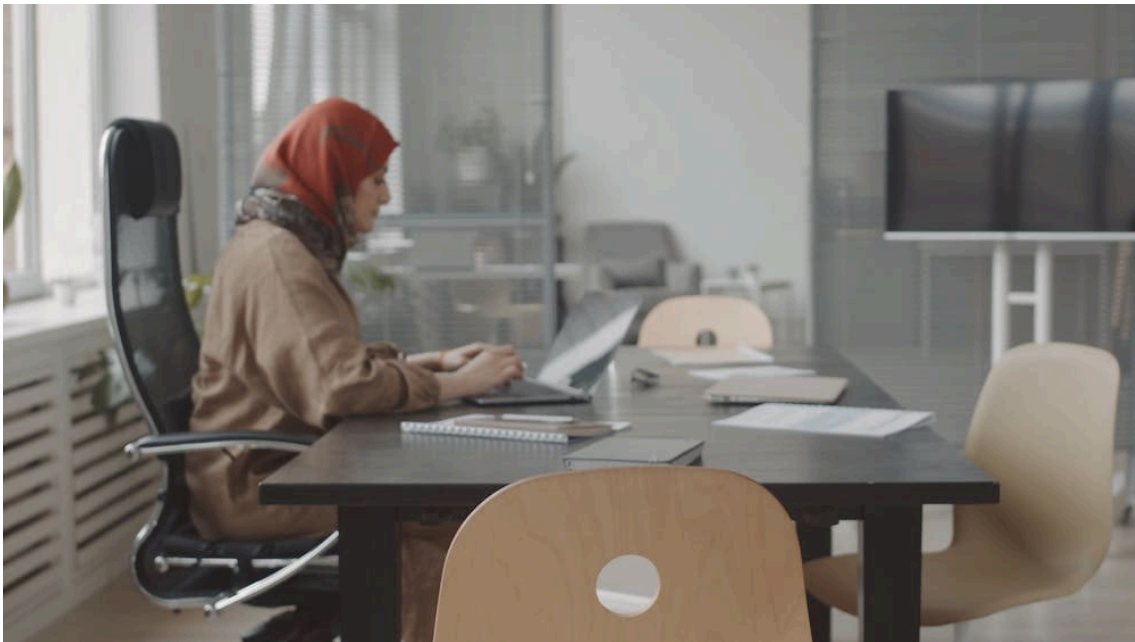
- Number of exemptions
- Amount of wages

For more information on a business's responsibilities as an employer, refer to the Rhode Island Withholding Tax Booklet (found on the Division's [Withholding forms page](#)) that may be used to determine the amount of withholding for each employee.

¹⁰ Valid exemption certificates must be secured at the time of purchase and kept on file to validate exempt transactions.

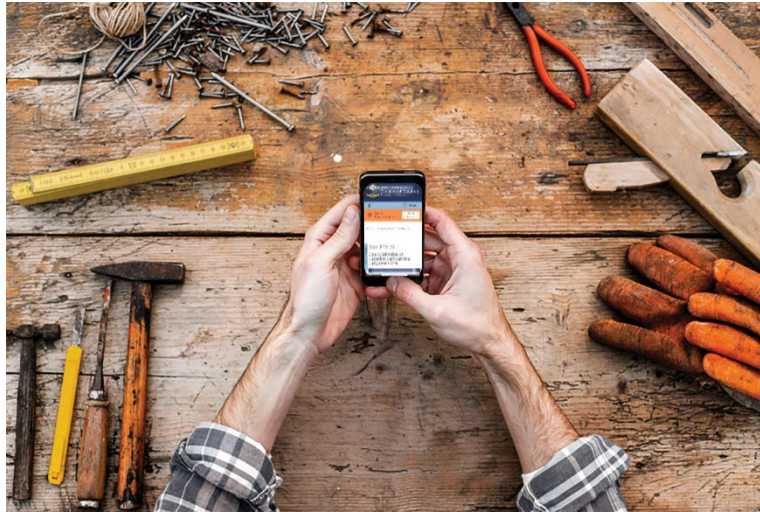
Electronic Filing and Payment

The Division of Taxation offers the use of its free and [secure portal](#) to file and pay taxes. For more information on electronic filing and payment options, visit our website at www.tax.ri.gov. Effective for periods beginning January 1, 2023, businesses whose combined annual tax liability exceeds \$5,000 in tax, or exceeds \$100,000 in gross income, are required by law to file returns and remit tax electronically. If a business fails to file returns and remit tax electronically, a penalty of five percent (5%) of the tax or five hundred dollars (\$500), whichever is less, would be imposed for each failure to pay and a penalty of fifty dollars (\$50) would be imposed for each failure to file.



Contact Us

The Division of Taxation is available to answer any specific questions relating to your business's tax account and obligations.



Online

- Division of Taxation website
 - <https://tax.ri.gov/>
- Email
 - Excise Tax Section: Tax.Excise@tax.ri.gov
- Newsletter - To receive tax news updates, [sign up here](#).

Phone

- Excise Tax Section: (401) 574-8955

In person

- Rhode Island Division of Taxation
One Capitol Hill
Providence, RI 02908

Hours are Monday – Friday: 8:30 AM – 3:30 PM