



# Construction Use Tax & Building Permit/Tap Fees Frequently Asked Questions

*Updated 9/16/2022*

## *Construction Use Tax*

### **Why does the City collect a building use tax for materials and what is it used for?**

Use tax is a reciprocal of sales tax, which means the use tax is paid to the city up front, instead of at the point of sale when purchasing materials. Per City Code, construction materials are taxable. The total tax rate on construction materials is 3.650%. There are various restrictions on building use tax revenue, including:

- 3.000% is restricted for capital improvements or debt service on capital improvements. This is per Ordinance 1989-981, which originally taxed only non-residential building. Residential building was added when Louisville voters passed the Consumer Use Tax in November 2010.
- 0.375% is restricted for acquisition and maintenance of land in and around the city used for open space buffer zones, trails, wildlife habitats, wetlands preservation and parks. This restriction was last approved by Louisville voters in November 2012.
- 0.125% is restricted for historic preservation purposes. This restriction was last approved by Louisville voters in November 2017. Voters also authorized 20% of annual sales tax revenue to be spent on operating and maintaining the Louisville Historical Museum Campus.
- 0.150% is restricted for operating and maintaining the Louisville Recreation & Senior Center and pool facilities at Memory Square Park. This tax was approved by Louisville voters in November 2016.

### **How is use tax calculated?**

The Louisville use tax rate of 3.65%, and the Boulder County use tax rate of 0.985% is applied to fifty percent (50%) of the total contract cost for your project (the total value including profit and overhead but excluding any land costs). Simplified, this calculation assumes that half of the total valuation of your project will be in building materials, which are taxable, and half will be in non-taxable labor and services.

If an individual wants to pay the actual cost rather than the estimate, they are still required to pay the estimate up front at time of permit issuance. At the completion of the project, they can show the actual building material costs to demonstrate the taxable amount and request a refund.

### **How is project valuation determined?**

The valuation submitted for the project should include all costs related to the design and construction of the home, including design and engineering fees, labor and overhead, and building material costs. Furniture, window coverings, kitchen appliances, and other similar items are not required to be included in the valuation. The cost of land is not included in the valuation.

The City's existing minimum valuation for single-family homes is \$180 per sq. ft. This minimum is generally based on cost data published by the International Code Council and is similar to neighboring municipalities. However, the full valuation (if higher than the minimum) is expected to be stated for the purposes of tax collection and permit fees. For instance, if a project is estimated to be \$200 per sq. ft., this figure should be used to calculate the total project valuation, which is then used to determine permit fees and use tax.

### **How do I use my building permit to avoid double-paying municipal/county sales tax?**

Your building permit, on which you pre-paid municipal and county use tax, allows you to purchase construction materials needed for your project without paying additional municipal or county sales tax, regardless of where you purchase your materials. You must provide a copy of your permit to each vendor from which you will purchase materials in order to avoid paying additional sales tax. You will still be required to pay any state and special district sales tax on the materials. By law, if you do not provide a copy of your building permit, the vendor must collect all applicable sales tax on your purchase. This means you would be paying tax twice.

If you are using sub-contractors, and their work is included in the permit valuation for your project, you must provide them a copy of the permit so they too may use the permit to purchase materials for your project without paying additional municipal sales tax. Your permit only allows you to purchase building materials that become permanently incorporated into real property and thus, lose their identity.

Sales tax will still be due on the cost of all tools, supplies, and any equipment leased or rented. Items such as furnishings, window coverings, appliances etc., are not to be purchased using your building permit. You must pay any applicable sales tax at the time of purchase for such items. Remember, the permit issued is for the project listed only, and for building materials that become permanently incorporated into the structure. Improper or fraudulent use of this permit is a violation of the Louisville Municipal Code.

### **Can I purchase materials outside of Louisville?**

Yes, please keep in mind that the same rules and process apply as explained above. You must provide a copy of your building permit to the vendor from which you are purchasing materials in order to avoid paying additional municipal and county sales tax. Also remember that some jurisdictions have a higher sales tax rate than Louisville. In this case, the vendor may be required to charge you the difference between that city's rate and Louisville's rate.

### **What happens if there is an over-collection?**

Since the use tax paid with your permit is an estimate, if you believe that the amount of use tax pre-paid exceeds the 3.65% of the purchase price paid for qualified building materials for your project, you may submit a request for a refund of the excess tax paid. Copies of all material invoices showing the tax paid, including a detailed summary of all the material costs for the project. Additional information may be required by the City to evaluate your request and determine the refund due, if applicable.

### **How are use tax audits conducted?**

The use tax pre-paid with the building permit is just an estimate of the taxes due. As such, all residential, commercial and industrial construction projects within the City are subject to audit within three years of receiving a certificate of occupancy or final inspection. Should it be determined through audit that the use tax due on the actual material costs exceeds the amount pre-paid at the time the permit was issued, additional use tax may be due from you and assessed by the City. In turn, if it is determined through audit that the use tax estimate paid upfront exceeded the actual material cost use tax, you would be issued a refund.

### **What if I purchased items prior to obtaining my building permit?**

This is strongly discouraged, however, should you be charged Louisville sales tax for qualified building materials purchased before you applied for a building permit (double taxed), you may apply to the City for a refund of the City portion of the sales tax paid. The items purchased must have been included in your initial permit valuation and use tax pre-paid. Additionally, the City may delay any refund requested until the project is complete to verify that a sufficient amount of use tax was paid on your overall project.

If you purchased your items outside Louisville, and did not present your building permit at the time of purchase, you must contact the City in which the purchase was made to inquire about receiving a sales tax refund. Some cities may not permit such a refund. Louisville will not refund any portion of the use tax paid on a permit for purchases made outside the City.

### *Building Permit Fees*

#### **Why does the City collect building permit fees?**

Permit fees are used to directly cover expenses for City services like reviewing and administering permit applications and conducting inspections throughout the rebuilding process. As the City is experiencing an influx in the number of permits issued for properties that were destroyed, permit fees from these permits will be used to hire additional staff and consultants to ensure the rebuilding process goes smoothly and as quickly as possible.

#### **What is the City planning to use permit fees related to Marshall Fire rebuilding on?**

The Department of Planning & Building Safety is committed to administering the permit process quickly and efficiently. To that end, an additional Plans Examiner and an additional Building Inspector have been hired. This is in addition to 5 part-time on call plans examiners for permit review. Finally, the City has two consultant teams in place that can conduct plan reviews and inspections if demand cannot be met with full-time staff. The Public Works Department has contracted with a consultant team to provide

additional inspection and monitoring staff, along with assistance for review of grading and drainage plans.

### **How are permit fees determined and what are they used for?**

The City periodically reviews all costs associated with administering building permits, including direct, indirect and overhead costs, to ensure the fee structure covers these expenses and is not a revenue generating fee. These fees go towards planning, building, and public works staff members that review plans for compliance with City-adopted codes and conduct inspections during and after the construction process. Fees also go towards overhead costs such as computers, software, safety equipment, vehicles, and office space, as well as administrative staff throughout the city that support these services.

City fees are determined following study of the cost of providing services associated with the specific fee, and are adopted by City Council annually. The Planning & Building Safety Department and the Department of Public Works do not have the authority to modify, adjust, or waive fees.

### **Does the City monitor building permit revenue to prevent excess funds from being collected?**

The City will track revenues and expenses for administering the building permits for the rebuilding efforts. The City has hired additional staff and consultants to help make sure building permit and inspections can take place as quickly as possible. If the City determines that the permit fees collected are more than is needed to administer the building permits for the rebuilding efforts, the City will consider options to ensure excess revenues are addressed.

### *Water/Sewer Tap Fees*

### **Why does the City collect water/sewer tap fees? How are tap fees determined and what are they used for?**

A tap fee is a one-time charge paid by customers to connect or to increase a portion of the allocated capacity to the Utility System. Tap fees are based on and used for the capital costs of the overall Utility System and includes: water resources, water supply, water storage, transmission & pipelines and treatment & distribution facilities.

### **How is it determined if an increased water/sewer tap size is needed?**

Tap size is determined by the projected capacity requirements or demand to the Utility System. This demand is calculated by the Plumbing Code which assigns a flow rate to common plumbing fixtures (sinks, showers, toilets etc.) also known as a water supply fixture unit value. The more plumbing fixtures a home or business has, the greater the portion of the Utility System that must be allocated and therefore an increase in the share of the total cost. For residential services an exceedance of 30 fixtures triggers an increase in the standard tap size of ¾-inch. As an example a typical home with 3.5 bathrooms would have a fixture total around 24. For more information, see the [Fixture Count FAQs](#).

### **What is the cost to increase the water/sewer tap size?**

The standard and smallest residential tap size is ¾-inch, which accommodates up to 30 residential fixture counts. To increase to the next size of 1-inch, the fee is calculated as the difference between these taps fees or \$41,800.

*Other/Miscellaneous*

**Is the City looking into other funding sources to potentially offset building costs?**

The City is exploring all potential funding opportunities that could offset the costs of residential rebuilding and city infrastructure repairs/replacement from the Marshall Fire. This includes federal funding like FEMA assistance and the Community Development Block Grant for Disaster Recovery (CDBG-DR), state funds like those made available through [SB22-206](#), and donated funding through private organizations such as the Community Foundation Marshall Fire fund. If there are funds specifically available to reimburse or offset fees or taxes the City will determine if and how these could be applied to assist residents.

**Questions, Comments and Contact Information**

For questions on building permit fees/taxes, please contact the Planning & Building Safety Department by email [building@louisvilleco.gov](mailto:building@louisvilleco.gov) or phone 303.335.4585.

For questions on water/sewer tap fees, please contact the Public Works Department by email [pworks@louisvilleco.gov](mailto:pworks@louisvilleco.gov) or phone 303.335.4608.