

Pennsylvania Sales Tax Rules for Construction Projects for Governments, Schools and Purely Public Charities

Generally, a construction contractor will pay Sales Tax on the purchase price of all property, including materials, equipment, components, and supplies, which it purchases and installs in the performance of its construction contract. However, different rules apply to construction contracts with a government agency or a purely public charity holding a Sales Tax exemption. The purchase of certain items - defined as “building machinery and equipment” - are tax exempt when the construction contractor buys the items for a government agency or purely public charity.

When doing a project for a government or purely public charity, the contractor should issue an exemption certificate (form REV-1220) to the supplier, which will allow the contractor to purchase “building machinery and equipment” without paying the Sales Tax up front. It is important to remember that this exemption ONLY applies to “building machinery and equipment”; construction contractors are still required to pay Sales or Use Tax on all other taxable services, equipment, materials, supplies, and/or components that are installed on the real estate.

The Pennsylvania Department of Revenue has issued regulations that specifically define the items that qualify as “Building machinery and equipment.” They include:

- Air condition limited to heating, cooling, purification, humidification, dehumidification, and ventilation
- Electrical equipment (not including wire, conduit, receptacle and junction boxes)
- Plumbing equipment (not including pipes, fittings, pipe supports and hangers)
- Communications limited to voice, video, data, and sound
- Alarms limited to fire, security, and detection
- Control systems limited to energy management, traffic, and parking lot and building access
- Medical systems limited to diagnosis and treatment, medical gas, nurse call, and doctor paging
- Laboratory system
- Cathodic protection system
- Furniture, cabinetry, and kitchen equipment

This issue has caused considerable confusion for contractors in Pennsylvania over the years. If you are uncertain about which items can be purchased free of sales tax, or if you think you may have paid sales tax on an exempt item, you should consult with an attorney or accountant who can assist you. If a contractor inadvertently pays sales tax on items that qualify for the “building machinery and equipment” exemption, the law allows the contractor to file a refund claim with the Department of Revenue to recover the overpaid tax.

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