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Virginia Contractors Only!

This article was provided to us by the Greater Reston Chamber of Commerce Government Contracting Alliance & Interest Group.

Virginia's government contracting and consulting firms face a problem unique to this state. If Virginia's Department of Taxation decides that the "true object" of their overall arrangement with the contracting government entity is providing a service, the contractor owes sales and use tax on all the tangible personal property it buys for the job - **including goods bought specifically for and delivered to the government client.**

Goods purchased by the government itself are tax exempt. Goods purchased for resale as part of a purchasing contract are tax-exempt. But the same items purchased for delivery to the government as part of an overall service contract...are *taxable*. No other state subjects its government contracting firms to this interpretation of the "true object test." It is not required by law - it's an interpretation by the state Department of Taxation.

- Adding the five percent sales and use tax to goods purchased for delivery to the government puts Virginia-based contractors at a competitive disadvantage.
- In recent years more federal contracts have been a mix of goods and services to save costs and provide more flexibility to the government, adding to this problem.
- Figuring out in advance whether the "true object" is services or goods is complicated. The nature of the contract can change. The Tax Department can and has audited companies long after the fact, reject your interpretation, and impose the tax with interest and penalties that in most cases cannot be recovered from the customer. A federal assurance of tax exemption is no protection.
- Some larger contractors are moving projects or parts of their projects out of Virginia to avoid this unfair and unpredictable tax treatment.
- The growing trend at all levels of government to outsource or privatize functions will lead to more cases where the government is increasing its own costs, or contractors end up with a surprise tax bill despite their efforts to comply.

It's time to end this practice. Join the *Coalition to Keep* statewide coalition of Virginia-based government contractors is working to reverse the administrative and regulatory rulings that support this tax - by legislation at the 2006 General Assembly, if necessary.

Concerned government contractors should contact Stephen D. Haner the administrator of the *Coalition to Keep Contractors Competitive* at northchase@earthlink.com. The Coalition is a growing statewide *Contractors Competitive*. This growing coalition of Virginia-based government contractors, Chambers and organizations working to reverse the administrative and regulatory rulings that support a sales and use tax for government contract goods. The coalition now includes Chamber of Commerce or Technology Councils in Prince William, Charlottesville, Richmond, Hampton Roads along with those in Northern Virginia and the more individual companies willing to express their concerns, the better chance we have of success.



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