



Commercial Repair/Remodel Sales Tax Revenue City Auditor Executive Summary

February 1, 2025

BACKGROUND

Pursuant to the Texas Comptroller of Public Account's Publication 94-116 (06/2016), a service provider who repairs or remodels nonresidential real property should collect state sales tax plus any local sales tax on the total charge for the job. This figure includes all costs passed on to the customer except separately stated building permit fees paid on the customer's behalf. Local sales tax is to be collected for labor and materials based on the location of the job site.

A service provider who performs new construction jobs under separate contracts must issue its suppliers' resale certificates and then collect state sales tax plus any local sales tax on the charges for materials. The local sales tax on the separately stated charges for materials is based on the location of the job site. Also, the charges for the materials must be at least as much as the service provider paid for the materials.

OBJECTIVES

The objective of this summary is to determine if the appropriate state and local sales tax, if any, was collected and remitted on Commercial Repair/Remodel construction jobs.

SCOPE

The audit scope included documentation from January 1, 2022, through September 3, 2024, for Commercial Repair/Remodel permits. The geographical scope is the local taxing jurisdiction for the City of Galveston.

METHODOLOGY

To accomplish our Audit Objectives, we performed the following steps:

- Provided proof that the job was non-residential by documenting the description of the building permit and physical inspection.
- Provided proof that the job was a Repair/Remodel by documenting the building permit and project description.
- Provided proof that the job was not part of a Governmental Unit, Non-Profit Organization, or National Heritage Register through documentation of the Appraisal District certifications.
- Provided proof that the Property Owner (Customer) did not include the taxable construction costs as taxable purchases on its Sales and Use Tax Report by analyzing the applicable Confidentiality Report.



City of Galveston

City Auditor's Office
SAL2024-2025

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SUMMARY RESULTS

During our audit, we identified 15 (fifteen) Construction Projects totaling \$17,859,638 for which sales tax was not paid to the City. The City Auditors Office uses a 60% Sales Tax was not Paid to 40% Sales Tax was Paid ratio to calculate the Sales Tax Due. The City receives 2% of the 8.25% total sales tax due. The City is owed \$214,316 in sales tax.