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# Self-Contractors

*The purpose of this tax fact is to provide general information about how South Dakota contractor's excise tax applies to self-contractors. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.*

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## **What is the contractor's excise tax (CET)?**

In 1979, the South Dakota Legislature removed the tax on personal property. The legislature broadened the sales tax and created the contractor's excise tax to replace that money.

South Dakota imposes an excise tax of 2% on the gross receipts of a prime contractor engaged in realty improvement contracts. A prime contractor builds for or contracts directly with the project owner. Gross receipts include the total amount received directly or indirectly in money, credits, or property in consideration for the performance of a contract. Gross receipts also include barter transactions—for example, legal services traded for installation.

South Dakota Taxes and Rates	
<b>State Sales Tax and Use Tax</b> – Applies to all sales or purchases of taxable products and services.	<b>4.2%</b>
<b>Contractor's Excise Tax</b> – Imposed on the gross receipts of all prime contractors engaged in construction services or realty improvement projects in South Dakota. The gross receipts include the tax collected from the consumer.	<b>2%</b>

## **Do self-contractors need a CET license?**

If you accept payment for performing construction work (including painting, carpentry, concrete work, etc.), you are a contractor and must obtain a license. Subcontractors must also have a license.

If your project is solely for your use and you do not intend to sell or lease it, you do not need a contractor's excise tax license. A project owner acting as the general contractor on their construction project does not owe the contractor's excise tax on their work. However, any contractor hired by the project owner to work on the construction project will owe the contractor's excise tax on their total gross receipts, including any materials furnished by the project owner.

If you intend to sell or lease all or part of a building you build, you are a speculative builder and must apply for a contractor's excise tax license. Realtors, investors, individuals, and contractors are examples of people who may be spec builders. (See the DOR's tax fact titled "Speculative Builders and \$100,000 Rule".)

## **Is there any additional tax liability when I furnish building materials to a contractor?**

Yes. The contractor who installs the materials you furnish will owe contractor's excise tax on the value of the materials. You must provide the contractor with a receipt or other documentation of the cost you paid for the materials.

## **Can I use prime contractor exemption certificates?**

Contractors performing construction projects for their use CANNOT give out prime contractor's exemption certificates to their subcontractors. Each subcontractor should report and pay excise tax on their total gross receipts, including any furnished materials.

No provision in the contractor's excise tax law allows the owner to provide prime contractor's exemption certificates to the contractors and pay the excise tax himself.

## **If I sell my building or property, are there additional tax liabilities?**

In some cases, yes. If a contractor or speculative builder sells the building within four years of the completion date, contractor's excise tax is due on the selling price. If a contractor or speculative builder sells the building four years after completion, contractor's excise tax does not apply.

If you paid contractor's excise tax on the realty improvements then contractor's excise tax applies to the selling price of the realty improvement less the cost or fair market value, whichever is greater, of any land and realty improvement. Land improvements include water, sewer, power, curb and gutter, and sidewalks.

### **Example:**

CC Contracting buys a lot for \$25,000 and hires two contractors to help him build a home for his use. CC pays the contractors \$50,000, which includes contractor's excise tax. Two years later, CC sells this home for \$250,000. At closing, CC will owe contractor's excise tax on \$175,000 (\$250,000 less \$25,000 for land cost and \$50,000 paid to contractors that included the contractor's excise tax).

## **Other Tax Publications to Review**

- [License Requirements for Sales, Use & Contractor's Excise Tax Fact](#)
- [Speculative Builders \\$100,000 Rule Tax Fact](#)
- [Sales and Use Tax Guide](#)
- [Contractor's Excise Tax Guide](#)

### **Contact Us**

If you have any questions, please contact the **South Dakota Department of Revenue**.

**Call toll-free:** 1-800-829-9188

**Business Tax Division Email:** [bustax@state.sd.us](mailto:bustax@state.sd.us)

**Website:** <https://dor.sd.gov/>

**Mailing address and office location:** South Dakota Department of Revenue  
445 East Capitol Ave  
Pierre, SD 57501