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CLIENT ALERT

New Jersey Sales Tax – Charges for Water Damage Restoration Services

The New Jersey Division of Taxation has issued a memorandum regarding the application of sales and use tax to charges for water restoration services. In general, water damage restoration services (drying and extracting water) performed on buildings is subject to sales tax since the building is being restored to working condition. However, if the work consists of new construction, it is a capital improvement and is not subject to sales tax. For example, charges for the installation of new walls, siding, and a garage door are exempt capital improvements when rebuilding a garage destroyed by water damage. However, if the garage is simply repaired from the damage inflicted (i.e, replacing shattered glass or fixing the garage door but not replacing it), the charges are sales taxable as a repair. Rebuilding a deck that was damaged from the water and/or sand constitutes new construction, thus this work is considered an exempt capital improvement to real property. If the existing deck is simply repaired, however, the labor charges are subject to sales tax. Charges for water damage restoration services performed on household goods such as furniture, decorative items, personal items, bric-a-brac, etc., are subject to sales tax as charges for maintaining or serving tangible personal property. Charges for bleaching, deodorizing and other cleaning services, including charges for carpet cleaning and sand removal services, are sales taxable maintenance services.

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