

March 4, 2024

Esteemed Chairs Felipe and Moore,
Members of the Housing Committee:

The Western Connecticut Council of Governments (WestCOG) appreciates the opportunity to comment on Raised Bill 269, *An Act Reducing the Sales and Use Taxes for Certain Goods Used in New Housing Construction*.

In 2022, the National Association of Homebuilders reported that, as a national average, 60.8% of the sales price of a home results from construction costs (with 17.8% and 10.1% accounted for by finished lot costs and builder profit).¹ Typically, building materials account for approximately 50% of construction costs, with the remaining 50% consisting of labor. Using this cost allocation and a \$250 per square foot total cost, materials would cost \$150,000 for a 2,000 square foot home.

Reducing the sales tax on materials would help bring these costs down, but it would also create significant challenges for building materials suppliers, who would have to add a new sale tax rate, to update their processes to accept documentation to qualify for that rate, and to apply that rate on a purchase-by-purchase basis. Questions this proposal raises include:

- Will the state provide documentation that purchasers can use to show that purchases should be taxed at a lower rate, and how long will issuance of these documents take? (Without such documentation, vendors may be reluctant to reduce the sales tax.)
- What will it cost the state to create this documentation? Unlike a sales tax exemption, which applies based on organizational status and thus must only be granted once, under this proposal, eligibility would need to be determined anew for each large housing project.
- How much effort will it take vendors to review and accept this documentation at sale?
- Can existing order and sale systems handle an additional sales tax rate and apply it on a purchase-by-purchase basis? If not, what will it cost to upgrade these systems?
- Is it expected that out-of-state vendors will modify their processes and systems to enable this new tax rate, even if the number of sales where it would apply is small?

Because of this complexity, many suppliers may either a) fail to grant the reduced sales tax rate or b) discount the cost of the product by an equivalent amount, without reducing the sales tax rate, thus eating into their own bottom line (which is not the intent of the proposal).

Instead of creating a new sales tax rate, WestCOG instead suggests that your Committee instead **allow homebuilders an annual refund on their state taxes equivalent to what their savings under the new sales tax rate would have been**. Such an arrangement would provide the same financial benefit as a lowered sales tax without creating new costs and compliance challenges for the state and for building material suppliers.

¹ [Cost of Constructing a Home - 2022 \(National Association of Homebuilders\)](#)

Should you have questions or require additional information, please do not hesitate to contact me.
Thank you for your consideration.

A handwritten signature in black ink that reads "Francis R. Pickering". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Francis R. Pickering
Executive Director