

# New 2% Minnesota Income Tax Withholding on Construction Contractors Starts January 2009

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Starting January 1, 2009, construction contractors will be required to withhold 2 percent of any payments made to independent contractors "carrying on a trade or business" that exceed \$600 in total payments in a calendar year. This is similar to employers that are required to withhold state income tax on an employee's paychecks. The new withholding requirement for independent contractors is one way for the state to track income reporting, which has been an issue in the industry for years.

The law applies to all construction trades as defined by the North American Industry Classification System (NAICS) codes 23 through 23890 and will only apply to work that is done in Minnesota. In order to be considered an independent contractor as of January 1, 2009, you will also be required to obtain from the Department of Labor and Industry an Independent Contractor Exemption Certificate (ICEC). [See "Legal Change Will Turn Some Contractors Into Employees" article in the September 2008 issue of Construction Views.]

If you are providing goods or performing services in return for payment/income, you are "carrying on a trade or business." Total payments reaching the \$600 threshold includes such things as cost of materials, the services of the construction contractor and any subcontracted labor.

The 2 percent withholding starts once the payments reach \$600 and must include the first \$600. The withholding should be reported on the IRS 1099-MISC form and be recorded under "State Tax Withheld."

For more information on the new tax you can check out the FAQs at:  
[http://www.taxes.state.mn.us/taxes/withholding/tax\\_information/frequently\\_asked\\_questions/withholding\\_construction\\_contractors\\_faq.shtml](http://www.taxes.state.mn.us/taxes/withholding/tax_information/frequently_asked_questions/withholding_construction_contractors_faq.shtml)

For information on the ICEC certificate, go to: <http://www.doli.state.mn.us/ic.html>

*Grant joined the Tax Advisory Group of BPK&Z in 2000 and became a shareholder in 2006. He has a wide range of experience in corporate, individual, and partnership taxation in a variety of industries. As BPK&Z's Construction Practice Group leader, Grant focuses on construction and real estate with a special focus on multiple business structures. Grant can be reached at [grentis@bpkz.com](mailto:grentis@bpkz.com) or (763) 546-6211.*



Phillip Baum with John Crudele after his wonderful presentation for the November MCA meeting. John came highly recommended, was well received and his remarks touched a chord with everyone. He reminded our members to seriously reflect upon what is important and a priority in both work and life. He can be contacted at [john@johncrudele.com](mailto:john@johncrudele.com).