



# Overhead and Profit Settings on Sales Tax in Property Estimating Solutions Products

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# Introduction

This document describes the various ways sales taxes are calculated within Verisk's estimating products (Xactimate®, XactContents®, 360Value®) and to further explain the available settings which define whether general overhead and profit (O&P) should be calculated on sales tax or sales tax should be calculated on O&P.

When using the zip/postal code matching feature in Xactimate, the system will attempt to default to the corresponding tax jurisdiction to the estimate based on the location of the loss and tax tables Verisk has received from the user. If more than one rate or type of sales tax jurisdiction applies, Xactimate will list the possible options to choose from. It's important to remember that individual states can change both sales tax rates and rules during the periods between the publication of pricing information by Verisk.

As such, each estimator should be aware of and verify sales tax rates and rules to ensure that the system default is correct.

## Sales tax rates and rules

The governing authority of each state/province in the US and Canada determine the laws concerning how sales tax should be applied to an estimate. While most states and provinces use similar rules, there's a wide variety of sales tax applications in many states and provinces. The following is a general overview.

### United States

- The governing authority of each state defines the laws for the application of sales tax (i.e., which items in an estimate are subject to tax).
  - A base sales tax rate is also defined at the state level and applied in all zip codes throughout the state.
- The governing authority of each individual jurisdiction (county, city, etc.) within the state may also apply additional sales tax by increasing the base rate applied by the state.
  - While individual jurisdictions may modify the rate to be used, they do not generally modify the laws that define the items subject to tax (this is typically done only at the state level).
- The laws defining how sales tax should be applied, as well as the rates, may be revised or amended by the authorities in control. This is generally done on an annual basis.

### Canada

- The federal governing authority defines the laws for applying federal sales tax (i.e., what items in an estimate are subject to tax) and the rates to be applied.
- The governing authority of each province defines the laws for applying provincial sales tax (i.e., what items in an estimate are subject to tax).

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- The provincial government authority also defines the sales-tax rates to be used throughout the province. (Provincial sales tax doesn't vary among cities or towns within the province.)
  - The laws defining how sales tax should be applied, as well as the rates, may be revised or amended by the authorities in control. This is generally done on an annual basis.

## Applying sales tax

As stated earlier, many various laws define the items in an estimate (real or personal property) that are subject to sales tax. In general, however, the application of sales tax falls into one of two categories:

- Sales tax on the goods purchased to affect the repair or replacement (e.g., building materials or personal property items)
- Sales tax on an entire service (including all labor, material, equipment, markup, etc.)

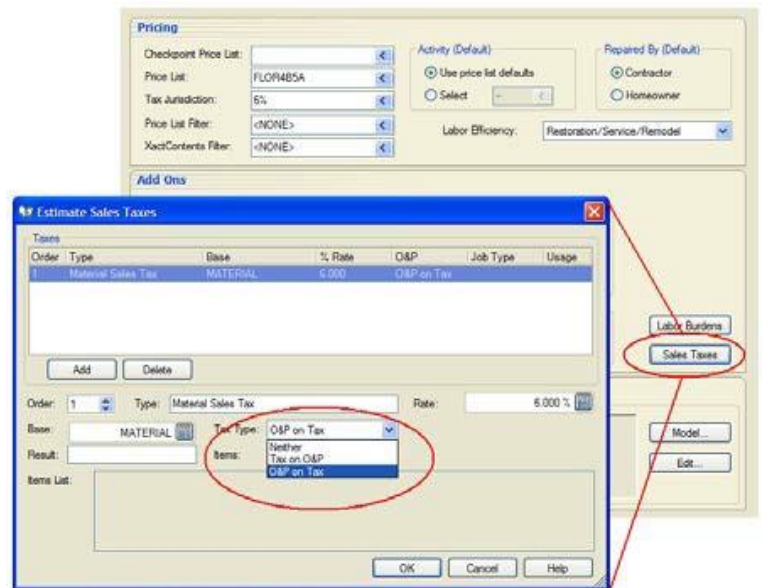
The most common application used by many states/provinces is the first option: in a repair or replacement of real or personal property, only the materials purchased (or products in the case of personal property) are subject to sales tax.

A mixture of the two methods is becoming more common. This is done when the governing authority designates that all materials or products are subject to sales tax as well the entire charge resulting from and related to specific activities defined by the authority. For example, the governing authority may require that sales tax apply to the total services dealing with cleaning and/or mitigation or floor covering; for all other services, sales tax only applies to materials or product purchases. Some states in the US even separate the type of job further by defining different rules for commercial vs. residential losses, or improvements vs. repairs.

# Sales-tax-related O&P settings

Verisk Property Estimating Solutions products offer users three options for defining how general overhead and profit (O&P) works with the applied sales tax. These options are modifiable by the user in both Xactimate and XactContents within the Estimate Parameters screen (see image).

- O&P on Tax – includes the sales tax amount in the base calculation of the overhead and profit (i.e. applies O&P to sales tax).
- Tax on O&P – includes the O&P amount in the base calculation of sales tax (i.e. applies sales tax to the O&P).
- Neither – calculates no sales tax on O&P, nor O&P on sales tax.



## Default O&P settings

The application of “Tax on O&P” for sales tax jurisdictions within Verisk Property Estimating Solutions products are set according to the laws defined by the respective state or province. The application of “O&P on Tax” is set based on general industry guidelines and/or tradition regarding the job expenses and the application of general overhead and profit.

For states that mandate applying sales tax to the entire repair (labor, material, equipment, markup, etc.), the default setting is “Tax on O&P.” In states whose laws specify that only a portion of the line-item cost is subject to tax (i.e., building materials and products), the default setting is “O&P on Tax.” These Verisk products do not set any default tax jurisdiction to “Neither.”

The default settings are based on the consideration that both sales tax and general overhead and profit are real expenses or costs related to a job.

Ultimately, the settings chosen are up to each individual estimator or directed by a company, based on its policy or normal practices. The Verisk team recommends that prior to changing any sales-tax setting, you first verify with the governing authority in your state or province to ensure you are complying with the intended application of sales tax law.

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