

# Bidding on construction projects

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Both landowners and contractors bidding on a project should determine the taxability of the project before finalizing the bid. In certain cases, the contractor is the consumer of the materials they install or incorporate into the project. The contractor owes sales/use tax on the value of those materials. A bid by the contractor should reflect any possible sales/use tax obligation.

## Custom construction – retail/wholesale

Generally, when the landowner hires the custom contractor, the contractor must collect sales tax from the landowner on the gross contract price. The custom contractor will not owe sales/use tax on the materials installed or incorporated into such projects.

## Specialized construction activities

With specialized contracting services such as government contracting, public road construction, or logging road construction, the contractor, whether prime or subcontractor, is the consumer of the materials they install or incorporate into the project. The contractor owes retail sales/use tax on those materials, even if the landowner provides the materials without charge.


## Examples

1. The FAA (a federal government agency) is bidding out a project for the installation of a radar dish on federally owned land. The FAA will provide the radar dish to the contractor without charge. In this case, the value of the radar dish is \$100,000. In bidding for this project, contractors need to be aware that they are subject to use tax on the \$100,000 value of the radar dish they are hired to install, even though the radar dish is being provided without charge (WAC 458-20-17001).
2. A housing authority hired a prime contractor to install an air conditioning unit at a property that the housing authority owns. The successful bidder (prime contractor) subcontracts the actual installation of the unit to an HVAC specialist. Since the contract with the housing authority is taxable as government contracting, both the prime contractor and the subcontractor are taxable under the government contracting B&O tax classification.

If the subcontractor purchases the air conditioning unit for the project, they cannot use a reseller permit to buy the unit and must pay sales tax on the purchase. However, if the subcontractor get the air conditioning unit without paying retail sales tax (such as from an out-of-state vendor), the subcontractor owes use tax on the value of the unit.



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