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## **Business & Occupation Tax: Contract Assignments**

When prime contractors assign all or portions of the work contracted for to a subcontractor, which one is subject to imposition of business and occupation (B&O) tax?

When a prime contractor (ABC) assigns a contract to a subcontractor (XYZ), under an agreement strictly between themselves, ABC retains contractual responsibility to the customer and is subject to the B&O and retail sales (if applicable) taxes measured by the gross contract price. In such a case, the XYZ is also subject to the B&O tax measured by the gross price for the work performed under the subcontract.

These pyramiding features of the B&O tax are applicable in all cases of contract assignments except the following: If the customer is a party to the assignment, and relieves ABC of all contractual liability, then XYZ is taxable as the prime contractor and ABC is excused.

As indicated in WAC 458-20-170, prime contractors are taxable under the retailing classification, and subcontractors under the wholesaling classification upon their gross contract prices.

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