

SENATE BILL REPORT

EHB 1042

As Reported By Senate Committee On:
Ways & Means, March 10, 1998

Title: An act relating to taxation of dental appliances, devices, restorations, and substitutes.

Brief Description: Changing the taxation of dental appliances, devices, restorations, and substitutes.

Sponsors: Representatives Dyer, B. Thomas, Dunshee, Robertson, Grant, Thompson, Smith and Mielke.

Brief History:

Committee Activity: Ways & Means: 3/10/98 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Hochstatter, Kohl, Long, Loveland, McDonald, Roach, Rossi, Schow, B. Sheldon, Spanel, Swecker, Thibaudeau, Winsley and Zarelli.

Staff: Terry Wilson (786-7433)

Background: Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. As of July 1, 1998, the principal rates are:

Manufacturing & wholesaling	0.484%
Retailing	0.471%
Services	1.5%

For B&O tax purposes, dental laboratories are viewed as providing professional services and are taxable under the "other activities" classification at a rate of 1.5 percent. The product which results from those services is merely the evidence of those services.

The sales tax applies to most retail sales of tangible personal property and to most retail sales of repair services. Use tax is imposed on the use of an item in this state, when the acquisition of the item or service has not been subject to sales tax.

Property that would otherwise be subject to sales and use taxes is exempt if it is furnished in connection with an activity that is taxed as a service under the B&O tax. Thus, sales and use taxes do not apply to dental appliances, devices, restorations, substitutes, or other dental laboratory products because they are considered part of services rendered by a dental lab. Nor does sales tax apply to repair of these items.

Prosthetic devices, orthotic devices, hearing instruments, ostomic items, and medical oxygen systems are exempt from sales and use taxes. Repair of these is generally subject to sales tax, but the repair of hearing instruments is exempt from sales tax.

Summary of Bill: Dental laboratory activities are defined as manufacturing for B&O tax purposes, rather than as services. If the manufactured products of a dental lab are sold at retail, the 0.471 percent B&O tax rate applies. If the products are sold at wholesale, the 0.484 percent B&O tax rate applies.

Dental appliances, devices, restorations, and substitutes are exempt from retail sales and use tax. Repairs of dental appliances, prosthetic devices, orthotic devices, ostomic items, and medical oxygen system are also exempt from sales tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect October 1, 1998.

Testimony For: Dental laboratories are taxed as a service along with dentists. We can only sell to dentists, not to the public. What we do is manufacturing. L&I considers us manufacturers.

Testimony Against: None.

Testified: Robert Bragg, Washington State Dental Lab Association.