

SENATE BILL REPORT

SB 5599

As of February 16, 1995

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: Senator Loveland.

Brief History:

Committee Activity: Ways & Means: 2/14/95.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7715)

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. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, and extracting	0.506%
Retailing	0.471%
Services	
- Business Services	2.5%
- Financial Services	1.7%
- Other activities	2.09%

For B&O tax purposes, dental laboratories are viewed as providing professional services and are taxable under the miscellaneous services classification at a rate of 2.09 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. Property that would otherwise be subject to sales tax is exempt if it is furnished in connection with an activity that is taxed as a service under the B&O tax. Thus, sales tax does not apply to dental appliances because they are considered part of the service rendered by a dental lab. However, service providers are considered the consumers of property used in providing the service and therefore pay the sales tax when purchasing the items.

Prosthetic devices, orthotic devices, hearing aids, ostomic items, and medically prescribed oxygen systems are exempt from sales tax.

Summary of Bill: Dental laboratory activities are defined as manufacturing for B&O tax purposes, rather than services. Thus, if the manufactured products of a dental lab are sold at retail, the 0.471 percent rate would apply. If the products are sold at wholesale, the 0.506 percent rate would apply.

Dental appliances, devices, restorations, and substitutes are exempt from retail sales and use tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 1995.

Testimony For: This is manufacturing activity and not a service. It should be taxed as such. Dental labs make dental protheses. Dental labs can only make a product for sale to dentists and are prohibited from providing services. Dental labs can only operate in areas zoned for manufacturing. This is a fairness issue.

Testimony Against: None.

Testified: Senator Loveland, prime sponsor (pro); Robert Bragg, WA State Dental Lab Assn (pro); Dene LeBeau, LeBeau Dental Inc. (pro).