

HOUSE BILL REPORT

HB 1031

As Reported By House Committee On:
Finance

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 and B. Thomas.

Brief History:

Committee Activity:

Finance: 1/19/95 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives B. Thomas, Chair; Boldt, Vice Chair; Carrell, Vice Chair; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler and Van Luven.

Staff: Rick Peterson (786-7150).

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, & extracting	0.506%
Retailing	0.471%
Services:	
- Business Services	2.5%
- Financial Services	1.7%
- General Service and Other Activities	2.09%

For B&O tax purposes, dental laboratories are viewed as providing professional services. The product which results from those services is merely the evidence of

those services. Therefore, dental laboratories are taxable under the other services classification at the 2.09 percent rate.

The sales tax applies to most retail sales of tangible personal property and to most retail sales of repair services. Most non-repair services are exempt from sales tax. Property that would otherwise be subject to sales tax is exempt if it is furnished in connection with a service that is exempt from sales tax. Dental lab services are not considered repair services, and are thus exempt from sales tax. Sales tax does not apply to dental appliances, devices, restorations, substitutes, or other dental laboratory products, because they are considered part of the service rendered by a dental lab.

Items produced by manufacturers are generally subject to sales tax when sold at retail, unless specifically exempted by statute.

Prosthetic devices, orthotic devices, hearing aids, ostomic items, and medical oxygen systems are exempt from sales tax. It is unclear whether repair of these items is exempt from sales tax.

Summary of Substitute 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 exempted from retail sales and use tax. Repairs of prosthetic devices, dental appliances, orthotic devices, hearing aids, ostomic items, and medical oxygen system are also exempted from sales tax.

Substitute Bill Compared to Original Bill: The substitute bill adds a sales tax exemption for repairs of prosthetic devices, dental appliances, orthotic devices, hearing aids, ostomic items, and medical oxygen system.

Appropriation: None.

Fiscal Note: New fiscal note requested for substitute bill on January 20, 1995.

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

Testimony For: There is currently an inequity in the treatment of dental labs. They are treated as service providers in the tax law but as manufacturers for the Department of Labor and Industries. For zoning purposes, dental labs are treated as light industrial activities. Dental labs have high overhead costs, they are not like

most service businesses which have low overhead costs. Dental labs should be taxed the same as other manufacturers not as service providers.

Testimony Against: None.

Testified: (Pro) Representative Phil Dyer, prime sponsor; Dene LeBeau, LeBeau Dental Lab; and Bob Bragg, Washington State Dental Lab Association.