

HOUSE BILL REPORT

HB 1042

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, B. Thomas, Dunshee, Robertson, Grant, Thompson, Smith and Mielke.

Brief History:

Committee Activity:

Finance: 3/7/97 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Van Luven.

Staff: Linda Brooks (786-7153).

Background: Washington's major business tax is the business and occupation tax (B&O) tax. It is imposed on the gross receipts of business activities within the state. After a temporary surtax expires on July 1, 1997, the principal B&O rates will be as follows:

Manufacturing, wholesaling and extracting	0.484 percent
Retailing	0.471 percent
Services	
- Selected Business Services	2.0 percent
- Financial Services	1.6 percent
- Other activities	1.75 percent

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. 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. Repair services are not subject to use tax.

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 1.75 percent rate.

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 subject to sales tax.

Summary of Bill: Dental laboratory activities are defined as manufacturing for B&O tax purposes, rather than 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, hearing instruments, ostomic items, and medical oxygen system are also exempt from sales tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1997.

Testimony For: The Department of Labor and Industries classifies dental labs under a miscellaneous manufacturing code. A manufacturing classification is the correct classification, because dental labs make dental prostheses. Dental labs should be taxed under the B&O tax rate for manufacturers.

Testimony Against: None

Testified: (Pro) Representative Dyer; Robert Bragg, Washington State Dental Laboratories Association.