

FINAL BILL REPORT

EHB 1042

C 168 L 98

Synopsis as Enacted

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

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

House Committee on Health Care
House Committee on Finance
Senate Committee on Ways & Means

Background: Washington's major business tax is the business and occupation (B&O) tax. In 1997, the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July, the principal B&O tax rates will be:

Manufacturing, wholesaling, and extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Out-of-state companies that bring goods into Washington and sell these goods in Washington must pay B&O tax.

In its excise tax rules, the Department of Revenue views dental laboratories as providing professional services. The product that results from those services is merely the evidence of those services. Therefore, dental laboratories are taxed at the services B&O tax rate of 1.5 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 has not been subject to sales tax. Repair services are not subject to use 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 items is generally subject to sales tax, but the repair of hearing instruments is exempt from sales tax.

Summary: Dental laboratory activities are defined as manufacturing activities, rather than as services, for B&O tax purposes. 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.

Votes on Final Passage:

House 88 0

Senate 46 3

Effective: October 1, 1998