

HB 1042

Bill Analysis

February 20, 1997

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

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

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%
Retailing	0.471%
Services	
- Selected Business Services	2.0%
- Financial Services	1.6%
- Other activities	1.75%

The sales tax applies to most retail sales of tangible personal property and to most retail sales of repair services. Most nonrepair 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 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.

Fiscal Note: Available.

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