

**SENATE BILL REPORT**

**SSB 6608**

**AS PASSED SENATE, MARCH 10, 1994**

**Brief Description:** Relating to the business and occupation taxation of moneys received by health or social welfare organizations from governmental entities for health or social welfare services.

**SPONSORS:** Senate Committee on Ways & Means (originally sponsored by Senators Rinehart and Gaspard)

**SENATE COMMITTEE ON WAYS & MEANS**

**Majority Report:** That Substitute Senate Bill No. 6608 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Bauer, Bluechel, Cantu, Gaspard, Hargrove, Hochstatter, Ludwig, Moyer, Snyder, Spanel, Sutherland, Talmadge, Williams and Wojahn.

**Staff:** Terry Wilson (786-7715)

**Hearing Dates:** March 2, 1994

**BACKGROUND:**

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts from all activities engaged in for profit, except for specific activities and types of income that are exempted from the tax.

Hospitals operated by nonprofit corporations or by the state or any of its political subdivisions were exempt from B&O tax until July 1, 1993. As part of the Health Care Reform Act of 1993, this exemption was phased out and the resulting revenue deposited in the Health Services Account. The exemption phase-out subjected these hospitals to B&O tax at a rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter. The latter rate was also the rate applicable to most service business, including for-profit hospitals.

As part of the 1993 Omnibus Revenue Act, the Legislature raised most B&O tax rates, effective July 1, 1993. The service rate applicable to for-profit hospitals was raised to 2.13 percent. The rate for nonprofit and government hospitals remained at 1.5 percent.

The Health Care Reform Act failed to address an existing deduction from the B&O tax for governmental payments to nonprofit organizations and political subdivisions for health and social welfare services, such as federal Medicaid and Medicare payments. Failure to correct this error will result

in revenues significantly less than those assumed by the Legislature in adopting the Health Care Reform Act.

**SUMMARY:**

The bill clarifies that state-operated hospitals are subject to the B&O tax.

The B&O tax rate applicable to for-profit hospitals is reduced to 1.5 percent and the revenues are deposited into the Health Services Account.

The B&O tax exemption for amounts received from governmental entities for health and social welfare services is modified to exclude amounts received by hospitals.

The bill takes effect July 1, 1995. However, if a court determines that any part of this act must be submitted to the people under Initiative 601, the act is null and void.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested

**TESTIMONY FOR:**

Hospitals were surprised when the Department of Revenue informed them that the tax did not apply to some revenues. The rate and base is different for different hospitals. They should be the same.

**TESTIMONY AGAINST:** None

**TESTIFIED:** Dave Broderick, WA Hospital Assn. (pro)