

HOUSE BILL REPORT

HB 1334

As Reported By House Committee On:

Finance

Title: An act relating to taxation of hospitals.

Brief Description: Modifying tax provisions of health reform.

Sponsors: Representatives Dyer, Carrell, Brumsickle, G. Fisher, Romero, Brown, Johnson, Backlund, Wolfe, B. Thomas, Boldt, Campbell, Morris, Van Luven, Sheldon, Scott, Kremen, Dellwo, Horn and Basich.

Brief History:

Committee Activity:

Finance: 2/27/95, 3/3/95 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon 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:

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|--|--------|
| Manufacturing, wholesaling, & extracting | 0.506% |
| Retailing | 0.471% |
| Services: | |
| - Business Services | 2.5% |
| - Financial Services | 1.7% |
| - Other activities | 2.09% |

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 Washington Health Service 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 2.0 percent (with the 4.5 percent surtax added the rate is 2.09 percent until July 1, 1997). The rate for nonprofit and government hospitals was not modified by the 1993 omnibus revenue act and so remained at 1.5 percent.

The general fund spending limit established by I-601 is reduced if monies are moved out of the general fund to another fund.

Summary of Bill: Starting July 1, 1995, the Business and Occupation tax rate applicable to for-profit hospitals is reduced to the 1.5 percent rate for nonprofit and government hospitals. The revenue collected from for-profit hospitals is deposited into the health services account rather than the general fund. The general fund spending limit will be reduced by about \$5 million for the 1995-97 biennium.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill is needed whether recent health care reform measures are allowed to stand or not. The bill will allow for-profit medical centers to be on equal footing with non-profits. Managed care makes this industry very competitive.

Testimony Against: None.

Testified: Representative Phil Dyer, prime sponsor; and Kelly Adams, and Jim Davenport, Capital Medical Center.