HOUSE BILL REPORT
SHB 1219

As Passed House
March 14, 1997

Title: An act relating to a tax exemption for prepayments for health care services provided under Title XVIII (medicare) of the federal social security act.

Brief Description: Extending a tax exemption for prepayments for health care services provided under Title XVIII (medicare) of the social security act.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Pennington, Appelwick, B. Thomas, H. Sommers, Mulliken, Carrell, Morris, Mielke, Backlund, O'Brien, Zellinsky, Thompson, Kastama and Mason).

Brief History:
Committee Activity:
Finance: 1/30/97, 3/7/97 [DPS].
Floor Activity:
Passed House: 3/14/97, 95-1.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Boldt; Conway; Kastama; Morris; Pennington; Schoesler and Thompson.

Minority Report: Do not pass. Signed by 4 members: Representatives Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Butler and Mason.

Staff: Bob Longman (786-7139).

Background: A health maintenance organization (HMO) is an organization that provides comprehensive health care to enrolled participants through a group medical practice and charges per capita prepayments. Group Health Cooperative is an example of an HMO. A health care service contractor (HCSC) is an organization that provides health care in exchange for prepayments, but is organized differently than HMOs or insurance companies. Blue Cross affiliates are examples of HCSCs.

The 1993 Health Services Act imposed a 2 percent tax on premiums and prepayments received by HMOs and HCSCs. Revenue from this tax is deposited in the health services account, along with revenue from other tax increases enacted in 1993, including tobacco tax increases, hospital tax increases, and some alcohol tax increases. The health services account is appropriated for subsidized enrollment in the state's Basic Health Plan, public health system improvements, and other health programs. Before 1993, HMOs and HCSCs were subject to business and occupation tax on a portion of their gross receipts. Health insurance companies that are not HMOs or HCSCs are subject to a 2 percent tax on premiums, which is deposited in the general fund and has been in effect since 1891.

The federal government makes prepayments to HMOs and HCSCs for Medicare benefits provided to patients. These premiums are exempt from the premiums and prepayments tax. This exemption expires June 30, 1997.

The 1993 Health Services Act called for significant changes in delivery and payment of health services. Among its many changes, the act required state officials to negotiate with the federal government to obtain "waivers" or changes in the amount and manner in which the federal government pays for Medicare, Medicaid, and other federally-funded health services. In 1995, portions of the act were repealed and the remainder substantially revised. The state is no longer seeking comprehensive changes in the amount and manner in which the federal government pays for Medicare, Medicaid, and other federally-funded health services.

Summary of Bill: The exemption for Medicare prepayments under the health care premiums and prepayments tax is made permanent.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The exemption for Medicare services in the 1993 Health Services Act was intended to provide equality in the taxation of Medicare revenues and premiums. An expiration was provided for the exemption because it was anticipated that the state would receive a federal waiver which would allow the taxation of all Medicare revenues and premiums through certified health plans. However, the requirement to provide all medical services through certified health plans was eliminated in 1995. The exemption from premium taxes for Medicare premiums will expire without the bill. These payments have never been taxed. Managed care carriers will have to pass the premium tax on to senior citizens in the form of higher premiums or reduced benefits. The increase in cost would be about $100 per year, which would be hard on senior citizens. This would appear as a new tax without justification. It would be appropriate to tax alcohol, gambling, or other unhealthy activities instead.

Testimony Against: None.

Testified: (Pro) Nancee Wildermuth and Mimi Haley, PacifiCare of Washington; Mel Sorensen, Washington Physicians Service; Rick Wickman, Blue Cross; Nancy Harris, Group Health; C. Peter Escalante, Citizen; Don Petersen, Washington State Legislative Committee AARP; Bruce Reeves, Senior Citizens' Lobby; and Gene Lux, Washington State Senior Citizens Lobby.