

HB 1219

Bill Analysis

January 30, 1997

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

Bill Sponsors: Representatives Pennington, Appelwick, B. Thomas, H. Sommers, Mulliken, Carrell, Morris, Mielke, Backlund, O'Brien, Zellinsky, Thompson Kastama and Mason.

Staff: Bob Longman, counsel (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 health maintenance organizations (HMOs) and health care service contractors (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 of 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 In 1995, portions of the Act were repealed and the remainder substantially revised.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.

Fiscal Note: Available

Effective Date: If enacted, this measure shall take effect ninety days after adjournment of session in which the bill is passed.