

# HOUSE BILL REPORT

## HB 1624

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### As Reported by House Committee On:

Finance

**Title:** An act relating to the business and occupation tax deduction for health or social welfare services as applied to government-funded health benefits paid through managed care organizations.

**Brief Description:** Clarifying the taxation of amounts received by public entities for health or welfare services.

**Sponsors:** Representatives Morris (co-prime sponsor), Cairnes (co-prime sponsor), Reardon, Conway, Dunshee, Ogden, Pennington, Van Luven, Doumit, Veloria, Dickerson, Fromhold, Anderson and Edwards.

### Brief History:

#### Committee Activity:

Finance: 2/14/01, 3/6/01 [DPS].

#### Brief Summary of Substitute Bill

- Exempts nonprofit hospitals and public hospitals from business and occupation tax on payments received from organizations under contract with the federal or state government to manage health benefits for medicare, medical assistance, children's health, and the basic health plan.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

**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. Nonprofit

organizations pay B&O tax unless specifically exempted by statute. Exemption from federal income tax does not automatically provide exemption from state taxes.

Specific B&O exemptions, covering all or most income, exist for several types of nonprofit organizations. The eligibility conditions vary for each exemption. The exemptions include: nonprofit agricultural fairs, nonprofit church day care, bazaars and rummage sales, fund-raising auctions, nonprofit student loan agencies, nonprofit consumer debt counseling organizations, nonprofit fraternal organization for premiums for death benefits, the Red Cross, sheltered workshops, youth organizations for membership fees and certain service fees, trade shows, kidney dialysis facilities, health or social welfare organizations, nonprofit artistic and cultural organizations, and public safety standards and testing organizations.

However, the B&O tax deduction for nonprofit organizations or local government jurisdictions for the support of health or social welfare programs is provided only for payments made directly by federal, state, or local governments.

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**Summary of Substitute Bill:**

Nonprofit hospitals, health and public hospitals are exempt from B&O tax on payments received from organizations under contract with the federal or state government to manage health benefits for medicare, medical assistance, children's health, or the basic health plan.

The exemption applies to taxes collected after the effective date of the bill, including amounts from reporting periods before the effective date of the bill.

**Substitute Bill Compared to Original Bill:**

The substitute bill inserts a missing word.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** Nonprofit hospitals serve all persons in the state without regard to their ability to pay. In order to reduce the cost of government health plans, nonprofit hospitals are allowed a deduction for serving the people covered by health plans paid for by governments. The governments used to pay for these health services directly. Now,

government uses managed care providers in order to reduce cost. They are still government programs. At issue here is whether the B&O tax is triggered because an intermediary steps between the hospitals and the state and federal governments. Nonprofit hospitals have not been paying this tax and were surprised when the Department of Revenue auditors said tax was due. Ninety-seven percent of medicaid and 16 percent of medicare recipients are served through managed care organizations. For some hospitals the majority of their revenue base is from these programs. Nonprofit hospitals do not have the margins to absorb the tax so the cost of providing care will go up. The nonprofit hospitals supported the imposition of the tax in 1993 assuming this exemption would continue. This would not be a precedent since there are already similar exemptions for subcontractors, for example, the exemption for public highway construction.

**Testimony Against:** None.

**Testified:** Eugene Johnson, Southwest Washington Medical Center; Phil Watkins, MultiCare Health System; Len McComb, Washington State Hospital Association; and Cami Gearhart, Washington State Hospital Association.