

HOUSE BILL REPORT

HB 2732

As Passed House:

February 18, 2002

Title: An act relating to the tax treatment of revenue from federal or state subsidized health care.

Brief Description: Excluding government subsidized social welfare compensation from taxation.

Sponsors: By Representatives Gombosky, Cairnes, Berkey, Nixon, Morris, Armstrong, Esser, Fromhold, Ogden, Conway, Hunt, Van Luven, Veloria, Romero, Reardon, Edwards, Chase, Morell, Santos, Kenney and Wood.

Brief History:

Committee Activity:

Finance: 2/4/02, 2/11/02 [DP].

Floor Activity:

Passed House: 2/18/02, 97-1.

Brief Summary of Bill

- Provides retroactive relief for nonprofit hospitals and public hospitals for business and occupation taxes on payments for health benefits under medicare, medical assistance, children's health, or the basic health plan.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, 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 and deductions, covering all or most income, exist for several types of nonprofit organizations. The eligibility conditions vary for each exemption or deduction.

SHB 1624, adopted in 2001, provided a deduction for nonprofit hospitals and public hospitals from B&O tax on payments they receive 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. A deduction already existed for these payments when made directly by federal, state, or local governments.

SHB 1624 contained a section that applied the deduction to taxes collected after the act's effective date, including amounts from reporting periods before the act's effective date.

The Governor vetoed this section of SHB 1624 stating that: "The retroactive nature of the provision is not fair to taxpayers who have timely reported and remitted their taxes. Taxpayers who failed to pay their taxes due before the effective date of this bill would have been rewarded for being delinquent, while those who paid on time would not receive a refund..."

Summary of Bill:

The deduction available to nonprofit hospitals and public hospitals for payments for health benefits until medicare, medical assistance, children's health, or the basic health plan is restated in a new section. The deduction does not apply to patient copayments or deductibles.

Nonprofit hospitals and public hospitals are entitled to retroactive relief for B&O taxes on payments for health benefits under medicare, medical assistance, children's health, or the basic health plan. Taxpayers who remitted tax are entitled to a refund dating back to January 1, 1998. Tax liability for unpaid taxes is waived.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: This tax was discovered in the audit process when the Department of Revenue decided that the B&O tax exemption for payments from governments did not apply when governments used managed care organizations to provide health care

services. The bill adopted last year provided this exemption. The Governor vetoed the tax relief for past periods. Last year's bill did not include retroactive refunds because the Department of Revenue had a problem with refunds. This bill addresses the Governor's concerns and treats all hospitals equally. The cost of the bill should not exceed \$10 million. Collecting this tax for prior tax reporting periods will have a serious impact on small rural hospitals.

Testimony Against: None.

Testified: Len McComb, Washington State Hospital Association; and Keith Baldwin, Samaritan Health Care.