

SENATE BILL REPORT

HB 2732

As Reported By Senate Committee On:
Ways & Means, March 4, 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: 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: Ways & Means: 2/26/02, 3/4/02 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Brown, Chair; Regala, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Kline, Kohl-Welles, Long, Parlette, Poulsen, Rasmussen, Roach, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley and Zarelli.

Staff: Chelsea Buchanan (786-7446)

Background: Several types of nonprofit organizations qualify for specific business and occupation tax (B&O) exemptions and deductions. The eligibility conditions vary for each exemption or deduction.

Nonprofit and public hospitals are eligible for a B&O tax deduction for payments received directly from federal, state, and local governments, for the support of social welfare or health programs. B&O tax payments from nonprofit and public hospitals are currently deposited in the health services account.

SHB 1624, adopted in 2001, extended the B&O tax deduction for nonprofit and public hospitals to payments received from organizations under contract with the federal or state government to manage health benefits for medicare, medical assistance, children's health insurance program, or the Basic Health Plan.

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 Legislature finds that it is inconsistent with vital government functions to tax amounts received by nonprofit or public hospitals from federal or state government, or from organizations under contract with federal or state government.

The deduction available to nonprofit hospitals and public hospitals for payments for health benefits under Medicare, medical assistance, children's health, or the Basic Health Plan is restated. The deduction does not apply to patient co-payments 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: Prior to 1993, hospitals didn't pay B&O tax. Congress and state governments have decided it is more efficient to provide health care through managed care. This bill finishes last year's business by fairly addressing those hospitals that did pay and those that did not.

Testimony Against: None.

Testified: PRO: Len McComb, Washington State Hospital Association.