

FINAL BILL REPORT

SHB 1328

C 174 L 04

Synopsis as Enacted

Brief Description: Modifying the tax treatment of boarding homes.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Fromhold, Cairnes, Sullivan, Veloria, Skinner, Alexander, Morris, Moeller, Benson, Darneille, Linville, Jarrett, Miloscia, Clibborn, Cox, Pettigrew, Clements, McCoy, Campbell, Romero, O'Brien, Talcott, Ahern, Schindler, Hinkle, Hunt, Rockefeller, Wallace, Quall, Conway, Flannigan, Chase, Blake, G. Simpson, Upthegrove, Kenney, Newhouse, Buck, Woods and Bush).

House Committee on Finance

Senate Committee on Ways & Means

Background:

A licensed boarding home is a facility that provides board and domiciliary care to seven or more residents. Domiciliary care includes assisting with the activities of daily living and assuming general responsibility for the safety and well-being of the resident. Some boarding homes offer limited nursing services and others specialize in serving people with mental health problems, developmental disabilities, or dementia.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Although there are several different rates, the most common rates are 0.471 percent for retailing, 0.484 percent for wholesaling, and 1.5 percent for service activity. Businesses that are involved in more than one kind of business activity are required to segregate their income and report under the appropriate tax classification based on the nature of the specific activity.

The income derived from the rental of real estate is exempt from the B&O tax. Until recently the Department of Revenue (Department) allowed boarding homes with sufficient supporting documentation to separate the charges for renting rooms from the charges for personal and professional services and meals. The Department has now concluded that the primary purpose of assisted living facilities is to provide daily living assistance and care, not the rental of real estate. This means that boarding homes may no longer separate their charges and must pay B&O tax at the service rate (1.5 percent) on their entire fee. This makes the tax treatment of boarding homes the same as that for nursing homes.

There are some B&O deductions and exemptions that apply in this area. Nonprofit health and social welfare organizations are allowed a deduction from the B&O tax for payments from

governmental entities for health or social services. Adult family homes are exempt from B&O taxes.

Summary:

Licensed boarding homes providing room and domiciliary care to residents pay B&O taxes at a rate of 0.275 percent. Amounts received from the Department of Social and Health Services (DSHS) for adult residential care, enhanced adult residential care, or assisted living services for medicaid recipients are deducted from income before B&O taxes are determined.

Votes on Final Passage:

House 97 0

Senate 47 0

Effective: July 1, 2004