

# FINAL BILL REPORT

## HB 1858

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Synopsis as Enacted

**Brief Description:** Regarding taxation of persons providing chemical dependency services.

**Sponsors:** By Representatives Morris, McIntire, Gombosky, Cairnes, Roach and Shabro.

**House Committee on Finance**

**Senate Committee on Ways & Means**

### **Background:**

The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The rate at which gross receipts derived from the provision of chemical dependency services are taxed is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

In addition to exemptions, credits, and deductions, certain activities are taxed under the B&O tax at preferential rates relative to the principal classification rates. For example, while services generally are taxed at a 1.5 percent rate, nonprofit businesses that conduct research and development services are taxed at a rate of 0.484 percent.

The Department of Social and Health Services certifies specialists to provide chemical dependency treatment services in Washington under the Department's Division of Alcohol and Substance Abuse. These persons may receive funding from the state, federal, and local governments to provide such services.

Two forms of chemical dependency treatment are intensive inpatient treatment and recovery house treatment. Intensive inpatient treatment is a highly structured program in a residential setting, and services emphasize alcohol and drug education and individual or group therapy. Recovery house treatment involves social, recreational, and occupational therapy as well as treatment in a residential setting. The recovery house approach emphasizes helping patients to re-enter the community and the outpatient phase of treatment.

**Summary:**

The tax rate under the B&O tax is reduced from 1.5 percent to 0.484 percent, on certain income received by persons certified by the Department of Social and Health Services to provide intensive inpatient or recovery house residential treatment services for chemical dependency. The preferential tax rate applies to income received from any federal, state, or local governmental entity by such certified persons for the provision of these services.

**Votes on Final Passage:**

House 94 0

Senate 46 2 (Senate amended)

House 91 0 (House concurred)

**Effective:** July 27, 2003