

SENATE BILL REPORT

SB 5857

As Passed Senate, March 15, 2005

Title: An act relating to the business and occupation taxation of nonprofit community health centers.

Brief Description: Authorizing a business and occupation tax deduction for certain nonprofit community health centers.

Sponsors: Senators Prentice and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 3/04/05, 3/7/05 [DP].

Passed Senate: 3/15/05, 46-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Terry Wilson (786-7433)

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.

Nonprofit health and social welfare organizations are allowed a deduction under the B&O tax for payments directly from governmental entities for health or social services. Examples include: health care; family and drug counseling; services for the sick, elderly, and disabled; day care; vocational training and employment services; legal services for the indigent; and services for low-income homeowners and renters. This exemption has been construed to apply to Medicaid and Medicare payments. In addition, nonprofit hospitals and public hospitals are allowed a deduction under the B&O tax for amounts received as compensation for health care services covered under medicare, medical assistance, children's health, or the basic health plan. This deduction does not apply to patient copayments or deductibles.

Summary of Bill: The tax deduction available to nonprofit hospitals and public hospitals for amounts received as compensation for health care services covered under medicare, medical assistance, children's health, or the basic health plan is extended to nonprofit community health centers and networks of nonprofit community health centers.

"Community health center" is defined as a federally qualified health center as defined in 42 U.S.C. 1396d as existing on the effective date of this act.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on August 1, 2005.

Testimony For: This cleans up previous errors. Historically nonprofit health and welfare organizations could deduct government payments for health care. There was a move in the 1990's to managed care. The Department of Revenue said these third party payments were taxable and it was fixed for hospitals. This fixes it for community health centers. The tax has not been collected.

Testimony Against: None.

Who Testified: PRO: Len McComb, Community Health Plan of Washington.