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**Finance Committee**

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**HB 3186**

**Brief Description:** Concerning the taxation of community residential services.

**Sponsors:** Representatives Pettigrew, Walsh, Williams, Hunt, Green, Dickerson, Kagi, Goodman, Orwall, Liias, Seaquist, White and Appleton.

**Brief Summary of Bill**

- Adds community residential service businesses, adult day health businesses, and home care agency businesses to the public utility tax at a rate of 5.029 percent.
- Places additional revenue into accounts to provide for increased vendor rates, compensation to staff, and expanded access to services.

**Hearing Date:** 2/23/10

**Staff:** Rick Peterson (786-7150).

**Background:**

The business and occupation (B&O) tax is Washington State'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. Depending on the types of activities conducted, a business may have more than one B&O tax rate. Firms that provide services are generally taxed at a rate of 1.5 percent.

The state public utility tax (PUT) applies to public service businesses. It applies to a variety of public and privately-owned utilities. The PUT is applied to the gross receipts of the business. The tax rate depends on the business classification. Classifications include distribution of water (5.029 percent), generation/distribution of electrical power (3.873 percent), telegraph, distribution of natural gas, and collection of sewerage (3.852 percent); urban transportation and watercraft vessels (0.642 percent), hauling of logs (1.3696 percent), and railroads and motor transportation (1.926 percent.)

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Neither the PUT nor the B&O tax permits deductions for the costs of doing business, such as payments for raw materials and wages of employees. A number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities under the PUT and B&O tax statutes. For example, B&O taxpayers with annual taxable activity under \$28,000 and PUT taxpayers with annual taxable activity under \$24,000 do not have to file tax returns. Businesses that pay the PUT are exempt from the B&O tax on the same activity.

The B&O tax provides a deduction of government payments made to nonprofit businesses that provide health care services and therapeutic, diagnostic, rehabilitative, or restorative services for the care of the sick, aged, physically-disabled, developmentally-disabled, or emotionally-disabled individuals. The PUT does not have a similar exemption.

Community residential service businesses provide habilitation, instruction, and support to persons with developmental disabilities who live in their own homes. Supports may vary from a few hours per month up to 24 hours per day of one-to-one support. Clients pay for their own rent, food, and other personal expenses.

Adult day health businesses provide a daytime program for adults who need skilled nursing care or a licensed rehabilitative therapist. An adult day health center provides skilled nursing services, rehabilitative therapy such as physical therapy, occupational therapy, or speech-language therapy; and brief psychological and/or counseling services.

Home care agency businesses recruit, hire, train, and supervise home care providers. These providers assist individuals with activities such as dressing, meal preparation, ambulation, eating, bathing, and travel to medical appointments. Most clients of home care agency businesses live in their own home or an adult family home.

**Summary of Bill:**

Community residential service businesses, adult day health businesses, and home care agency businesses are added to the PUT at a rate of 5.029 percent.

Ninety-five percent of the revenue from the tax on community residential service businesses is deposited into the new Community Residential Investment Account. Money in the account may be used to increase rates paid to community residential services businesses over amounts provided in the budget bill adopted in 2009, to increase compensation to staff, and to increase the number of individuals receiving services.

Ninety-five percent of the revenue from the taxes on adult day health businesses and home care agency businesses is deposited in the new Home and Community Based Services Investment Account. Money in the account may be used to increase rates paid for home care and adult day health care businesses, to provide grants to home care agencies that provide services to private pay populations, to prevent reductions in service, and to expand access to home care and adult day health care services.

**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed, except section 1 which provides definitions until June 30, 2013 for "community residential services business", "adult day health business", and "home care agency business" and section 3 which establishes the public utility tax rate for these business and designates the accounts that monies will be deposited into until June 30, 2013, and takes effect on July 1, 2010, and except section 2 which provides definitions for "community residential services business", "adult day health business", and "home care agency business" for after June 30, 2013 and section 4 which establishes the public utility tax rate for these business and designates the accounts that monies will be deposited into after June 30, 2013, and takes effect June 30, 2013.