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**Ways & Means Committee**

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**HB 1902**

**Brief Description:** Modifying the business and occupation tax deduction for organizations providing child welfare services.

**Sponsors:** Representatives Kagi, Goodman and Stanford.

**Brief Summary of Bill**

- Provides a deduction from business and occupation tax for compensation paid to nonprofit child welfare service providers.

**Hearing Date:** 2/16/11

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

**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 or social welfare organizations are allowed a deduction under the B&O tax for payments from governmental entities for health or social services. Examples include: health care; mental health, family, drug, and alcoholism counseling and treatment; 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. The B&O tax deduction by health or social welfare organizations is provided only for payments made directly by federal, state, or local governments.

The Department of Social and Health Services (DSHS) contracts with multiple private providers for the purchase of various child welfare services, including: voluntary and in-home services, out-of-home care, case management, and adoption services. These services are intended to (1) resolve problems which may result in families in conflict, or neglect, abuse, exploitation, or

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criminal behavior of children; (2) care for dependent, abused, or neglected children; (3) assist parents and children in conflict; and (4) promote the welfare of children by strengthening their own homes or providing, where needed, adequate care of children away from their homes.

In 2009 the Legislature enacted Second Substitute House Bill 2106 (SSHB 2106), which, among other things, requires DSHS to consolidate and convert its existing child welfare services to performance based contracts. The DSHS has chosen a lead-agency model to address the legislative directive to reduce the number of contracts. The DSHS currently has approximately 1,600 separate contracts for services. Under the lead-agency model services may be provided directly by the lead agency or through subcontracts and agreements with service providers.

**Summary of Bill:**

A deduction from business and occupation tax is provided to nonprofit health or social welfare organizations for amounts received as compensation for providing child welfare services provided under a government funded program.

**Appropriation:** None.

**Fiscal Note:** Requested on February 15, 2011.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.