BILL ANALYSIS

Ways & Means Committee

HB 2150

Brief Description: Generating revenue from community residential service businesses.

Sponsors: Representatives Pettigrew, Hunter and Kenney; by request of Department of Social and Health Services.

Brief Summary of Bill

- Adds community residential service businesses to the public utility tax at a rate of 5.029 percent.
- Places revenue into an account to provide for vendor rates and oversight of community residential services businesses.

Hearing Date: 1/11/12

Staff: Rick Peterson (786-7150).

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. 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 1.8 percent.

The state public utility tax (PUT) 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).

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 the 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. Support 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.

Summary of Bill:

Community residential service businesses are added to the public utility tax (PUT) at a rate of 5.029 percent.

A community residential service business is a business that is licensed or certified by the Department of Social and Health Services (DSHS) to provide services to individuals who have a developmental disability. The business must also have a contract with the Division of Developmental Disabilities within DSHS to provide group home services, group training home services, supported living services, or voluntary placement services.

All of the revenue from the tax on community residential service businesses is deposited into the new Developmental Disabilities Community Residential Investment Account (Account). Money in the Account must be used for payments to community residential service businesses and for oversight of community residential service businesses providing services for adult clients of DSHS's Division of Developmental Disabilities. The DSHS must establish payment rates for community residential service businesses that includes the cost of the tax.

The new tax ends if federal matching funds are not available. Existing rate caps on local B&O taxes on community residential service businesses are retained.

The Joint Legislative Audit and Review Committee (JLARC) is directed to conduct a review of the new tax. The review will consider the benefits of the tax, compliance with the tax, and determinations by the Centers for Medicaid and Medicare Services related to the tax, administrative costs, other administrative issues and other appropriate issues. The JLARC will consult with interested stakeholders and the DSHS and the Department of Revenue. The report is due by December 1, 2016.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.