

SENATE BILL REPORT

ESHB 1902

As Reported by Senate Committee On:
Ways & Means, March 29, 2011

Title: An act relating to a business and occupation tax deduction for amounts received with respect to child welfare services.

Brief Description: Concerning a business and occupation tax deduction for amounts received with respect to child welfare services.

Sponsors: House Committee on Ways & Means (originally sponsored by Representatives Kagi, Goodman and Stanford).

Brief History: Passed House: 3/05/11, 95-2.

Committee Activity: Ways & Means: 3/16/11, 3/29/11 [DPA, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Baxter, Brown, Fraser, Hatfield, Hewitt, Holmquist Newbry, Kastama, Pflug, Pridemore, Regala and Tom.

Minority Report: That it be referred without recommendation.

Signed by Senators Conway, Honeyford, Keiser, Rockefeller and Schoesler.

Staff: Dianne Criswell (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 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; daycare; vocational training and employment services; legal services for the indigent; and services for low-income homeowners and renters. The

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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 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, which, among other things, requires the 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 1600 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 (Recommended Amendments): A deduction from B&O 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. A deduction from the measure of B&O tax is also allowed for amounts passed through a for-profit or nonprofit entity for distribution to a health or social welfare organization.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Amendments): Allows a deduction (for-profit and nonprofit entities) from the measure of tax amounts passed through the entity for distribution to a health or social welfare organization.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill applies to amounts received by a taxpayer on or after August 1, 2011.

Staff Summary of Public Testimony on Engrossed Substitute House Bill: PRO: This maintains the deduction for nonprofits providing child welfare services. This proposal preserves resources available for child welfare services, since the current funds and budgets for these services are decreasing. This deduction is critical for maximizing the limited monies to support children and their families. This bill will facilitate the implementation of performance based contracting for child welfare services. The change in the tax treatment of these amounts was an unintended consequence of last year's legislation. For-profit organizations should be included in the deduction. A deduction for all pass-through amounts

allows for partnerships between public and private entities, for-profit and nonprofit alike. Without a similar deduction for pass-through amounts for for-profit organizations, they will be competitively disadvantaged in the request for proposal process. That amendment would level the playing field.

Persons Testifying: PRO: Mary Fisher, Institute for Family Development; John Hill, Maple Star Washington; Richard Pannkuk, Children's Administration, DSHS; Laurie Lippold, Children's Home Society of Washington.