

---

**Finance Committee**

---

**HB 1517**

**Brief Description:** Concerning a business and occupation tax exemption for the Washington health benefit exchange established under chapter 43.71 RCW.

**Sponsors:** Representatives Cody, Jenkins, Ryu and Pollet; by request of Department of Revenue.

**Brief Summary of Bill**

- Provides a business and occupation tax exemption for the Washington health benefit exchange.

**Hearing Date:** 2/8/13

**Staff:** Jeff Mitchell (786-7139).

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.8 percent for services. Several lower rates also apply to specific business activities. As an example, interest income on loans is subject to the 1.8 percent B&O tax rate for services.

Generally, the B&O tax applies to any type of business activity, regardless of whether it is a private for-profit, nonprofit, or public entity performing the activity. However, state law does provide various exemptions for certain types of nonprofit or public entities or certain types of revenue received by nonprofit or public entities. For example, nonprofit health and social welfare organizations are exempt from the B&O tax for payments received from governmental entities for health or social services.

---

*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.*

The Washington Health Benefit Exchange (Exchange) was created in 2011, pursuant to requirements in the federal Patient Protection and Affordable Care Act, passed in March 2010. States must establish health insurance exchanges to facilitate the purchase of individual insurance and small employer group insurance and provide access to premium tax credits and cost-sharing reductions for individuals with family incomes between 133 percent and 400 percent of the federal poverty level. The federal subsidies for individuals are only available through the Exchange, or through a federal Basic Health option. The Exchange will act as a conduit for individuals to enroll in the program, purchase insurance, and receive federal subsidies once it begins operations in January 2014. The Exchange is created as a public-private partnership and, as such, will be subject to the B&O tax. State law requires the Exchange to be self-sustaining, and therefore, not requiring the support of state tax subsidies by January 1, 2015.

**Summary of Bill:**

The Washington Health Benefit Exchange is exempted from business and occupation (B&O) tax.

The definition of "self-sustaining" is modified to exclude the B&O exemption.

The bill applies both prospectively and retroactively.

**Appropriation:** None.

**Fiscal Note:** Available.

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