

SENATE BILL REPORT

SB 5283

As of February 5, 2013

Title: An act relating to a business and occupation tax exemption for the Washington health benefit exchange established under chapter 43.71 RCW

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

Sponsors: Senators Hill, Keiser, Hargrove and Kline; by request of Department of Revenue.

Brief History:

Committee Activity: Ways & Means: 2/04/13.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Juliana Roe (786-7438)

Background: 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 (FPL). 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 opens its doors in January 2014. The Exchange was created as a public-private partnership and, as such, will be subject to the business and occupation (B&O) tax.

Washington's major business tax is the 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. Revenues are deposited in the state general fund.

There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.8 percent for professional and personal services, and activities not classified elsewhere. The Exchange has received, and will continue to receive, grants from the federal government for things such as IT infrastructure. The Exchange will be subject to the 1.8 percent tax rate on these funds.

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 Housing Finance Commission and the Life Sciences Discovery Fund Authority are public-private partnerships that are exempt from the B&O tax.

Summary of Bill: A B&O tax exemption is provided to the Exchange, which applies both prospectively and retroactively, for amounts received from the state of Washington or the federal government.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This bill is meant to exempt only grant income and no future income. The Exchange is otherwise subject to the 1.8 percent B&O tax. Any future funding issues with regard to the exchange will have to be addressed by the Legislature in the future. Over the years, we have seen other public private partnerships for which government income is exempt.

Persons Testifying: PRO: Drew Shirk, DOR.