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**Finance Committee**

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**HB 2118**

**Brief Description:** Providing a business and occupation tax credit to alleviate the additional costs incurred by small businesses that previously provided health insurance through an association health plan and currently provide nongrandfathered small group coverage.

**Sponsors:** Representatives Orwall, Cody, Stokesbary and Pollet.

**Brief Summary of Bill**

- Provides a business and occupation (B&O) tax credit to small businesses that offer a health plan through a non-grandfather small group plan but previously provided coverage through an association health plan.
- Provides a maximum credit amount for each taxpayer per year and a statewide annual cap.
- Requires electronic filing for taxpayers that claim the credit.

**Hearing Date:** 2/20/15

**Staff:** Dominique Meyers (786-7150).

**Background:**

Business and Occupation Tax.

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Current law authorizes multiple exemptions, deductions and credits to reduce the B&O tax liability for specific taxpayers and business industries.

Health Insurance Plans.

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In general, large group health plans may be purchased by businesses with more than 50 employees, and small group health plans may be purchased by businesses with 50 or fewer employees. Prior to passage of the Affordable Care Act (ACA), Washington law regulated group plans sold through associations as large group plans, regardless of the size of the association's members. Under federal regulations implementing the ACA however, an association health plan may only be regulated as a large group plan if the association is a bona fide association under federal law. All other health plans sold through associations made up of small businesses are subject to requirements under the ACA applicable to small group plans, such as rate review, community rating, and the requirement to cover essential health benefits.

Group and individual health plans that were created before the ACA became effective may be "grandfathered" and do not have to meet all the requirements of the ACA, so long as the health carrier does not make certain changes to the plan.

**Summary of Bill:**

Small businesses that previously provided employees health insurance through an association health plan and now provide coverage through a non-grandfathered small group plan may qualify for a B&O tax credit. Taxpayers qualify if they are no longer permitted to purchase insurance through an association health plan and the cost of the new non-grandfathered small group plan exceeds the previous per employee cost of the association health plan coverage previously offered. Unused credits may be carried forward for up to three years past the initial year the credit is authorized. Taxpayers must file electronically with the department of revenue to claim the credit.

The maximum amount of credit a taxpayer may use is \$5,000 per year. There is a statewide annual cap of \$3.5 million. No credits may be claimed after December 31, 2019

**Appropriation:** None.

**Fiscal Note:** Requested on February 13, 2015.

**Effective Date:** The bill takes effect August 1, 2015.