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**Finance Committee**

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**HB 2998**

**Brief Description:** Providing a business and occupation tax exemption for accountable communities of health.

**Sponsors:** Representatives Robinson, Cody, Jinkins and Tharinger.

**Brief Summary of Bill**

- Authorizes a business and occupation tax exemption for funds received by an Accountable Community of Health from federal, state, or local government.

**Hearing Date:** 2/24/18

**Staff:** Tracey O'Brien (786-7152).

**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. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all

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other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

Accountable Communities of Health.

In 2015 the United States Congress enacted the Medicare Access and Children's Health Insurance Program Reauthorization Act (MACRA). Part of MACRA restructures how certain health services are paid for through Medicaid.

An Accountable Community of Health (ACH) is a regional coalition of representatives from a variety of sectors working together to improve health and health equity. Washington's nine ACHs were organized to implement the MACRA goals related to Medicaid. They have entered into an agreement with the federal government allowing the state to test new and innovative approaches to providing health coverage and care.

**Summary of Bill:**

Any funds received after the effective date of this act by an ACH from federal, state, or local government are exempt from the B&O tax. This exemption is not subject to the tax preference performance review or the automatic 10-year expiration date for tax preferences.

**Appropriation:** None.

**Fiscal Note:** Requested on February 22, 2018.

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