

SENATE BILL REPORT

SHB 2998

As Passed Senate - Amended, March 7, 2018

Title: An act relating to providing a business and occupation tax exemption for accountable communities of health.

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

Sponsors: House Committee on Finance (originally sponsored by Representatives Robinson, Cody, Jinkins, Tharinger and Ormsby).

Brief History: Passed House: 3/01/18, 85-12.

Committee Activity: Ways & Means: 3/06/18, 3/06/18 [DP, w/oRec].

Floor Activity:

Passed Senate - Amended: 3/07/18, 48-0.

Brief Summary of Bill
(As Amended by Senate)

- Provides that accountable communities of health and certain public hospitals may deduct Medicaid delivery system reform incentive payments from the measure of business and occupation (B&O) tax.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair; Braun, Ranking Member; Billig, Brown, Conway, Darneille, Hunt, Keiser, Mullet, Palumbo, Ranker, Rivers, Van De Wege and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senators Honeyford, Assistant Ranking Member; Bailey, Becker, Carlyle, Fain, Hasegawa, Pedersen, Schoesler and Wagoner.

Staff: Alia Kennedy (786-7405)

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.

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 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 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.

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

An ACH is a regional coalition of representatives from a variety of sectors, working together to improve health and health equity. Participants may include health and long-term care providers, health insurance companies, public health agencies, school districts, and criminal justice agencies.

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. The ACHs are funded partly with grants from the Washington State Health Care Authority, using money from the State Innovation Model grant issued by the federal Center for Medicare and Medicaid Innovation.

Summary of Amended Bill: The following entities may deduct from the measure of B&O taxation any delivery system reform incentive payments distributed by the Washington State Health Care Authority (HCA) as part of a Medicaid demonstration project approved by the Centers for Medicare and Medicaid Services:

- an accountable community of health;
- a hospital that is owned by a municipal corporation or political subdivision, or
- a hospital that is affiliated with a state institution.

Accountable community of health means an entity designated by the HCA as a community of health as provided in statute, and any additional accountable communities of health authorized by the HCA as part of its federal innovation waiver.

A tax preference performance statement outlines the public policy related to the new exemption. However, this exemption is not subject to the tax preference performance review or the automatic ten-year expiration date for tax preferences.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: Staff gave a brief, but accurate description of how this process works. Hospitals put up the state match. The Health Care Authority holds the funds for a while then sends the local funds back with the federal matching funds. We previously had this type of arrangement. It was replaced by the certified public expenditure program. Under the Innovation Waiver, the Health Care Authority chose to use a financial executor. Because of this intermediary, these intergovernmental transfer (IGT) funds are now taxable. We have chosen to allow the state to use our local dollars for transformation activities. One mechanism that could be used to resolve this taxation issue would be to go back to the old way of doing IGT funds, which is directly with the Health Care Authority. Accountable Communities of Health are key partners in Medicaid transformation. What we are producing is a public good. Any reduction in funds means there are fewer dollars available for vulnerable areas.

Persons Testifying: PRO: Len McComb, Association of Washington Public Hospital Districts; Winfried Danke, CEO, Cascade Pacific Action Alliance Accountable Community of Health.

Persons Signed In To Testify But Not Testifying: No one.