

HOUSE BILL REPORT

HB 1483

As Reported by House Committee On: Finance

Title: An act relating to extending the business and occupation deduction for government-funded behavioral health services.

Brief Description: Extending the business and occupation deduction for government-funded behavioral health services.

Sponsors: Representative Young.

Brief History:

Committee Activity:

Finance: 2/26/19, 2/27/19 [DPS].

Brief Summary of Substitute Bill

- Extends the expiration date for the behavioral health organization business and occupation tax from January 1, 2020, to January 1, 2025.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Richelle Geiger (786-7139).

Background:

Managed Care Health System Integration – Behavioral Health Services and Medical Care Services.

Except in regional service areas with fully integrated medical care, the Health Care Authority (Authority) contracts with behavioral health organizations (BHOs) to oversee the delivery of services related to mental health and substance use disorders, collectively known as behavioral health, for adults and children. The BHOs provide services to Medicaid enrollees

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and limited services to non-Medicaid enrollees. The BHOs also administer the Involuntary Treatment Act and associated crisis services. A BHO may be a county, a group of counties, or a nonprofit or for-profit entity. Each BHO provides services for counties within the boundaries of the regional service area in which it operates. Regional service areas are 10 geographic areas used by the Authority for purchasing health care services across the state.

The Authority also provides medical care services to eligible low-income state residents and their families, primarily through the Medicaid program. Coverage for medical services is provided through fee-for-service and managed care systems. Managed care is a prepaid, comprehensive system for delivering a complete medical benefits package that is available for eligible families, children under age 19, low-income adults, certain disabled individuals, and pregnant women.

In 2014 legislation was enacted that requires that all behavioral health services and medical care services be fully integrated in a managed care health system for Medicaid clients. Statewide full integration is required to occur by January 1, 2020: however, counties were authorized to shift services to a fully integrated system beginning January 1, 2016. As of January 2019, six of the 10 regional service areas had adopted a fully integrated medical care model.

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. Currently, a health or social welfare organization receives a B&O deduction for providing mental health services or chemical dependency services under a government-funded program. The same deduction applies to BHOs for amounts received by the state for distribution to a health or social welfare organization that also qualifies for the deduction.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Substitute Bill:

The expiration date for the B&O tax deduction for behavioral health services provided under a government-funded program is extended from January 1, 2020, to January 1, 2025.

Behavioral health administrative service organizations (BHASOs) are added as an eligible entity that may qualify for the government-funded behavioral health services B&O tax deduction. The term "BHASO" is defined as an entity contracted with the Health Care Authority to administer behavior health services and programs, including crisis services and administration of the Involuntary Treatment Act for all individuals in a defined regional service area.

The bill contains a tax preference performance statement. It is the intent of the Legislature to extend the expiration date of the tax preference if the amount of funding available for behavioral health services to taxpayers who qualify for this tax preference increases.

Substitute Bill Compared to Original Bill:

The expiration date for the B&O tax deduction is extended from January 1, 2020, to January 1, 2025.

The BHASOs are added as an eligible entity that may qualify for the B&O tax deduction. The term "behavioral health administrative service organizations " is defined.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 27, 2019.

Effective Date of Substitute Bill: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 3, relating to behavioral health administrative service organizations, which takes effect January 1, 2020 if House Bill 1393 takes effect.

Staff Summary of Public Testimony:

(In support) This tax preference helps support behavioral health efforts, an area of great need that has positive effects on many people. This is an important bill because it extends a tax preference that has been proven to have a positive impact on individuals and families.

(Opposed) None.

Persons Testifying: Representative Young, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.