

# HOUSE BILL REPORT

## HB 1296

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**As Passed House:**

March 9, 2021

**Title:** An act relating to providing a business and occupation tax preference for behavioral health administrative services organizations.

**Brief Description:** Providing a business and occupation tax preference for behavioral health administrative services organizations.

**Sponsors:** Representatives Young, Thai, Robertson and Rule.

**Brief History:**

**Committee Activity:**

Finance: 1/25/21, 2/4/21 [DP].

**Floor Activity:**

Passed House: 3/9/21, 96-0.

**Brief Summary of Bill**

- Provides a business and occupation tax deduction for behavioral health administrative services organizations and health or social welfare organizations on certain amounts received for government-funded behavioral health care.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 17 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Chase, Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Stokesbary, Thai, Vick, Wylie and Young.

**Staff:** Nick Tucker (786-7383).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not 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.

### Government-Funded Behavioral Health Services.

Behavioral health services are treatments for mental health and substance use disorders. Generally, state and federal funding for behavioral health services is distributed through behavioral health administrative services organizations (BHASOs). A BHASO subcontracts with mental health and substance use disorder treatment providers, including health or social welfare organizations, to provide behavioral health services.

### Business and Occupation Tax Deduction for Government-Funded Behavioral Health Care.

Health or social welfare organizations and BHASOs were permitted to deduct certain amounts of government funding spent on behavioral health services. This preference expired January 1, 2020.

### Tax Preferences.

A range of tax preferences confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are 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 may 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 Bill:**

Health or social welfare organizations may take a business and occupation (B&O) tax deduction on amounts received as compensation for providing mental health services or substance use disorder treatment services under a government-funded program.

Behavioral health administrative services organizations may take a B&O tax deduction on amounts received from the state for distribution to a health or social welfare organization that is also eligible for the deduction.

Taxpayers claiming a deduction are required to file an annual tax performance report with the Department of Revenue.

The tax preference expires January 1, 2031.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) The current public health crisis has deeply impacted thousands of individuals, and their families, facing behavioral health issues or substance use disorders. Treatment providers are paying a business and occupation (B&O) tax on amounts already received from the state. As such, overhead costs are greater, so there are fewer services available to those in need. This bill seeks to provide help and support by allowing a deduction for amounts received for government-funded behavioral healthcare. This is timely, needed, and will be an effective solution. Ultimately, this bill will maximize the dollars sent to providers and used to expand services.

This bill addresses an unintended consequence that occurred when behavioral health organizations transitioned to become behavioral health administrative services organizations. Through this transition, an existing tax credit did not carry over to the new entities. Also, the B&O tax on behavioral health administrative services organizations is not uniform across the state. Some are limited liability companies and some are run by local governments, so not everyone is subject to the B&O tax. This bill would make the treatment of these organizations uniform across the state.

(Opposed) None.

**Persons Testifying:** Representative Young, prime sponsor; and Brad Banks, County Behavioral Health Administrative Services Organizations.

**Persons Signed In To Testify But Not Testifying:** None.