

SENATE BILL REPORT

EHB 1812

As of March 30, 2023

Title: An act relating to continuing the business and occupation tax deduction for federal funds received from a medicaid transformation or demonstration project or medicaid quality improvement program or standard.

Brief Description: Continuing the business and occupation tax deduction for federal funds received from a medicaid transformation or demonstration project or medicaid quality improvement program or standard.

Sponsors: Representatives Springer, Stokesbary, Chopp and Chapman.

Brief History: Passed House: 3/16/23, 96-0.

Committee Activity: Health & Long Term Care: 3/21/23 [w/oRec-WM].

Ways & Means: 3/30/23.

Brief Summary of Bill

- Updates the business and occupation tax deduction for Medicaid delivery reform incentive payments to capture Medicaid transformation project funding and subsequent project iterations.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Sandy Stith (786-7710)

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

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conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent or 1.75 percent for services and for activities not classified elsewhere, depending on the size of the business. Several preferential rates also apply to specific business activities.

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.

Medicaid Incentive Payments. 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 Accountable Community of Health (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.

In 2018, a B&O tax exemption was enacted for Medicaid demonstration project funds and delivery system reform incentive payments received after March 15, 2018, by an ACH or a public hospital from federal, state, or local government. In 2019, the B&O tax deductions were extended to include incentive payments received through a Medicaid quality improvement program. A B&O deduction is authorized for incentive payments received for achieving quality performance standards by managed care organizations.

The tax preference is not subject to the tax preference performance statement requirements, a Joint Legislative Audit and Review Committee review or the ten-year expiration.

Summary of Bill: The B&O deduction for Medicaid delivery system reform incentive payments to ACHs and public hospitals is updated to allow for deductions of Medicaid transformation project funding in addition to the delivery system reform incentive payments. The current reference to the obsolete definition of an ACH is removed and replaced with an updated definition.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: These federal and local funds were not previously taxed and it doesn't make sense to tax these funds now. What changes is the name of the waiver. This waiver now includes a new federal fund source. This would not be a loss of revenue because this revenue has never been collected.

Persons Testifying: PRO: Len Mc Comb, Association of Washington Public Hospital Districts; Melanie Smith, Washington's Accountable Communities of Health.

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