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**Finance Committee**

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**HB 3110**

**Brief Description:** Concerning the taxation of nonprofit nursing homes.

**Sponsors:** Representatives Simpson, Green, Williams and Sullivan.

**Brief Summary of Bill**

- Restricts the availability of the business and occupation and property tax exemptions for nursing homes by adding additional qualification requirements.

**Hearing Date:** 2/15/08

**Staff:** Jeff Mitchell (786-7139).

**Background:**

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law.

The gross income derived from services provided by a nonprofit nursing home is exempt from business and occupation tax.

The real and personal property used by a nonprofit nursing home is exempt from property taxes. The primary requirements to qualify for this exemption is that the property be used exclusively for the purposes of the nonprofit nursing home and that the benefits of the exemption must be retained by the home.

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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 a part of the legislation nor does it constitute a statement of legislative intent.*

The Joint Legislative Audit and Review Committee (JLARC) periodically reviews tax preferences. A tax preference is an exemption, exclusion, or deduction from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. For each reviewed tax preference, the JLARC provides recommendations to continue, modify, schedule for future review, or terminate the preference.

In 2007 the JLARC reviewed the property tax exemption for nonprofit nursing homes. In the analysis, the JLARC concluded that nonprofit nursing homes' share of total revenue from medicaid patients has been lower than other nursing homes on average over the past four years. The JLARC recommended that if the Legislature intended to provide a property tax exemption under the assumption that a nonprofit nursing home is providing more charity or low-income care, the Legislature should modify the property tax exemption to make it dependent upon meeting a threshold amount of charity or low-income care.

**Summary of Bill:**

The business and occupation tax exemption for nonprofit nursing homes is narrowed to homes that meet both of the following conditions:

- (1) the ratio of medicaid patient days to total patient days is at or above 50 percent according to the most recent annual nursing home cost report data collected by the department of social and health services; and
- (2) the net earnings received by the religious or charitable organization only benefit the organization.

The property tax exemption for nonprofit nursing homes is narrowed to homes that meet both of the following conditions:

- (1) the ratio of medicaid patient days to total patient days is at or above 50 percent according to the most recent annual nursing home cost report data collected by the department of social and health services; and
- (2) the property tax exemption benefits only the nursing home.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.