

# HOUSE BILL REPORT

## 2ESHB 1224

---

**As Passed House:**  
May 13, 2011

**Title:** An act relating to a business and occupation tax deduction for amounts received with respect to mental health services.

**Brief Description:** Concerning a business and occupation tax deduction for amounts received with respect to mental health services.

**Sponsors:** House Committee on Ways & Means (originally sponsored by Representatives Green, Dammeier, Cody, Appleton, Darneille, Harris and Roberts).

**Brief History:**

**Committee Activity:**

Ways & Means: 2/1/11, 2/24/11 [DPS].

**Floor Activity:**

Passed House: 3/5/11, 92-5.

**First Special Session**

**Floor Activity:**

Passed House: 5/13/11, 83-5.

**Brief Summary of Second Engrossed Substitute Bill**

- Provides a deduction from business and occupation tax to regional support networks and nonprofit mental health service providers for amounts received under a government funded mental health program.

---

### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

---

*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.*

**Staff:** Rick Peterson (786-7150).

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Nonprofit organizations pay B&O tax unless specifically exempted by statute. Exemption from federal income tax does not automatically provide exemption from state taxes.

Nonprofit health or social welfare organizations are allowed a deduction under the B&O tax for payments from governmental entities for health or social services. Examples include: health care; mental health, family, drug, and alcoholism counseling and treatment; services for the sick, elderly, and disabled; daycare; vocational training and employment services; legal services for the indigent; and services for low-income homeowners and renters. The B&O tax deduction by health or social welfare organizations is provided only for payments made directly by federal, state, or local governments.

The Department of Social and Health Services contracts with Regional Support Networks (RSNs) to oversee the delivery of mental health services for adults and children who suffer from mental illness or severe emotional disturbance. The RSNs contract with local providers to provide an array of mental health services, monitor the activities of local providers, and oversee the distribution of funds under the state managed care plan. A RSN may be a county, group of counties, or a nonprofit or for-profit entity. The B&O deduction is only available for amounts received directly from a government.

**Summary of Second Engrossed Substitute Bill:**

A deduction from business and occupation (B&O) tax is provided to nonprofit health or welfare organizations for amounts received from regional support networks (RSNs) for compensation for mental health services provided under a government funded health program.

A deduction from B&O tax is provided to RSNs for amounts received from a government for distribution to a nonprofit health or social welfare organization for the provision of government funded mental health services.

The deduction applies to amounts received starting August 1, 2011.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) The Regional Support Network (RSN) in Pierce County is unique. Until 2005 only a county or group of counties could be a RSN. Nonprofit mental health service providers were tax exempt when they received payments from the RSN. Legislation in 2005 allowed nonprofit organizations or for-profit organizations to contract with the Department of Social and Health Services (DSHS) as a RSN. When Pierce County decided to end their role as the RSN, OptumHealth was selected by the DSHS to be the RSN in Pierce County. In 2005 the business and occupation statute was not linked up to the change in the organization of RSNs so now the payments to nonprofits providing mental health through OptumHealth is taxable.

(Opposed) None.

**Persons Testifying:** Representative Green, prime sponsor; and Dave Knutson and Joseph Tolbent, OptumHealth.

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