

# HOUSE BILL REPORT

## HB 1902

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### As Reported by House Committee On: Ways & Means

**Title:** An act relating to modifying the business and occupation tax deduction for organizations providing child welfare services.

**Brief Description:** Modifying the business and occupation tax deduction for organizations providing child welfare services.

**Sponsors:** Representatives Kagi, Goodman and Stanford.

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 2/16/11, 2/24/11 [DPS].

#### **Brief Summary of Substitute Bill**

- Provides a deduction from business and occupation tax for compensation paid to nonprofit child welfare service providers.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 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 and Wilcox.

**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

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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 (DSHS) contracts with multiple private providers for the purchase of various child welfare services, including: voluntary and in-home services, out-of-home care, case management, and adoption services. These services are intended to: (1) resolve problems which may result in families in conflict, or neglect, abuse, exploitation, or criminal behavior of children; (2) care for dependent, abused, or neglected children; (3) assist parents and children in conflict; and (4) promote the welfare of children by strengthening their own homes or providing, where needed, adequate care of children away from their homes.

In 2009 the Legislature enacted Second Substitute House Bill 2106, which, among other things, requires the DSHS to consolidate and convert its existing child welfare services to performance based contracts. The DSHS has chosen a lead-agency model to address the legislative directive to reduce the number of contracts. The DSHS currently has approximately 1,600 separate contracts for services. Under the lead-agency model services may be provided directly by the lead agency or through subcontracts and agreements with service providers.

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### **Summary of Substitute Bill:**

A deduction from the business and occupation (B&O) tax is provided to nonprofit health or social welfare organizations for amounts received as compensation for providing child welfare services provided under a government funded program.

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

Deductions apply to amounts received starting August 1, 2011.

### **Substitute Bill Compared to Original Bill:**

The substitute bill allows the business and occupation (B&O) tax deduction for nonprofit health or social welfare organizations for amounts received from any organization rather than just from a supervising agency under contract with the Department of Social and Health Services. The substitute bill creates a B&O tax deduction for amounts received from a government for distribution to a nonprofit health or social welfare organization for the provision of government funded child welfare services. The substitute bill starts the deductions on August 1, 2011.

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**Appropriation:** None.

**Fiscal Note:** Requested on February 15, 2011.

**Effective Date of Substitute Bill:** 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 Legislature directed the Department of Social and Health Services (DSHS) to reform the child welfare system. Currently there are about 1,600 contracts with providers in our communities and this is not a manageable system. The DSHS is required to consolidate these contracts and implement performance based contracts by July 1, 2011. At this point it is unknown how many lead agencies there will be. This bill keeps the nonprofit service providers from paying business and occupation tax on income they do not pay tax on today. The bill also allows for-profit lead agencies an exemption on the pass-through dollars to subcontractors. With the diminishing resources available today, this bill is critical to protecting services for vulnerable children and families. There has been great success in other states providing these sorts of services. There is plenty of room for similar success in Washington.

(Opposed) None.

**Persons Testifying:** Representative Kagi, prime sponsor; Mary Fisher, Institute of Family Development; Chris Card, Providence Service Corporation; and Laurie Lippold, Children's Home Society of Washington.

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