

FINAL BILL REPORT

ESHB 1902

C 163 L 11
Synopsis as Enacted

Brief Description: Concerning a business and occupation tax deduction for amounts received with respect to child welfare services.

Sponsors: House Committee on Ways & Means (originally sponsored by Representatives Kagi, Goodman and Stanford).

House Committee on Ways & Means
Senate Committee on Ways & Means

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 providing 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 Second Substitute House Bill 2106 was enacted which, among other things, requires the DSHS to consolidate and convert its existing child welfare services to performance-based contacts. The DSHS has chosen a lead-agency model to address the legislative directive to

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reduce the number of contracts. The DSHS 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.

Summary:

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 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.

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

Votes on Final Passage:

House	95	2	
Senate	47	0	(Senate amended)
House	95	2	(House concurred)

Effective: July 22, 2011