

SENATE BILL REPORT

SHB 3096

As Reported By Senate Committee On:
Financial Institutions, Insurance & Housing February 26, 1998

Title: An act relating to declaring the state's preemption of the field of excise or privilege taxes on health maintenance organizations and health care service contractors.

Brief Description: Declaring the state's preemption of excise or privilege taxes on health care services.

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Zellinsky and L. Thomas).

Brief History:

Committee Activity: Financial Institutions, Insurance & Housing: 2/25/98, 2/26/98 [DPA].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

Majority Report: Do pass as amended.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Finkbeiner, Hale, Heavey, Kline and Prentice.

Staff: David Cheal (786-7576)

Background: Insurance companies pay a premium tax of 2 percent on premiums. These taxes are collected by the Insurance Commissioner for deposit in the general fund. Health care service contractors and health maintenance organizations also pay a 2 percent tax on premiums or prepayments. These taxes are deposited in the health services account.

Local governments are preempted by the state from imposing excise or privilege taxes on insurance companies.

Summary of Amended Bill: Beginning January 1, 2000, local governments are preempted by the state from imposing excise or privilege taxes on premiums or payments for health benefit plans provided by health care service contractors and health maintenance organizations. The preemption does not apply to health care services delivered by employees of health maintenance organizations.

Amended Bill Compared to Substitute Bill: The committee amendment excludes health care services delivered by employees of health maintenance organizations from the preemption.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: Health maintenance organizations and health care service contractors should have the same tax treatment as indemnity health care insurers. Currently, HMOs and HCSCs are subject to local excise and privilege taxes and indemnity health care insurers are not. There is no logical reason for this inequitable treatment.

Testimony Against: Preemption of local taxing authority is a drastic action that should not occur without a compelling state interest, which has not been demonstrated here. These entities are different than insurers which is well demonstrated in statute. Different tax treatment is justified. Local governments provide significant services to HMOs and HCSCs.

Testified: Mel Sorensen, Washington Physicians Service (pro); Rick Wickman, Blue Cross (pro); Ken Bertrand, Group Health (pro); Mike Doubleday, Mel McDonald, City of Seattle (con); Ron Rosenbloom Association of Washington Cities (con).