

HOUSE BILL REPORT

HB 1517

As Reported by House Committee On: Finance

Title: An act relating to a business and occupation tax exemption for the Washington health benefit exchange established under chapter 43.71 RCW

Brief Description: Concerning a business and occupation tax exemption for the Washington health benefit exchange established under chapter 43.71 RCW.

Sponsors: Representatives Cody, Jinkins, Ryu and Pollet; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 2/8/13, 2/25/13 [DPS].

Brief Summary of Substitute Bill

- Provides a business and occupation tax exemption for the Washington health benefit exchange.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer and Wilcox.

Minority Report: Without recommendation. Signed by 4 members: Representatives Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta and Vick.

Staff: Jeffrey 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. Businesses must pay the B&O tax even though

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they may not have any profits or may be operating at a loss. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.8 percent for services. Several lower rates also apply to specific business activities. For example, interest income on loans is subject to the 1.8 percent B&O tax rate for services.

Generally, the B&O tax applies to any type of business activity, regardless of whether it is a private for-profit, nonprofit, or public entity performing the activity. However, state law does provide various exemptions for certain types of nonprofit or public entities or certain types of revenue received by nonprofit or public entities. For example, nonprofit health and social welfare organizations are exempt from the B&O tax for payments received from governmental entities for health or social services.

The Washington Health Benefit Exchange (Exchange) was created in 2011, pursuant to requirements in the federal Patient Protection and Affordable Care Act, passed in March 2010. States must establish health insurance exchanges to facilitate the purchase of individual insurance and small employer group insurance and provide access to premium tax credits and cost-sharing reductions for individuals with family incomes between 133 percent and 400 percent of the federal poverty level. The federal subsidies for individuals are only available through the Exchange, or through a federal Basic Health option. The Exchange will act as a conduit for individuals to enroll in the program, purchase insurance, and receive federal subsidies once it begins operations in January 2014. The Exchange is created as a public-private partnership and, as such, will be subject to the B&O tax. State law requires the Exchange to be self-sustaining, and therefore, not requiring the support of state tax subsidies by January 1, 2015.

Summary of Substitute Bill:

The Washington Health Benefit Exchange is exempted from the business and occupation (B&O) tax.

The definition of "self-sustaining" is modified to exclude the B&O exemption.

The bill applies both prospectively and retroactively.

The B&O exemption expires July 1, 2023.

Substitute Bill Compared to Original Bill:

The substitute bill provides a July 1, 2023, expiration date for the business and occupation exemption.

Appropriation: None.

Fiscal Note: Available.

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) This exemption is for income from state and federal sources only. It does not exempt any other future funds received by the Health Benefit Exchange (Exchange). This is very important for an administrative issue that needs to be addressed to move forward and meet challenging deadlines for implementation. The Exchange was created pursuant to Washington statute. The mandate and mission is to provide affordable health care for low to middle income people in Washington. The current funding source is funds from the federal government and this revenue is needed to implement the requirements by 2014.

(Opposed) None.

Persons Testifying: Drew Shirk, Department of Revenue; Pam MacEwan, Washington Health Benefit Exchange; and Bob Nakamara, Washington Health Benefit Exchange.

Persons Signed In To Testify But Not Testifying: None.