

# HOUSE BILL REPORT

## HB 2998

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### As Reported by House Committee On: Finance

**Title:** An act relating to providing a business and occupation tax exemption for accountable communities of health.

**Brief Description:** Providing a business and occupation tax exemption for accountable communities of health.

**Sponsors:** Representatives Robinson, Cody, Jinkins, Tharinger and Ormsby.

#### **Brief History:**

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

Finance: 2/24/18, 2/26/18 [DPS].

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

- Authorizes a business and occupation tax exemption for certain Medicaid demonstration project funds received by an Accountable Community of Health from federal, state, or local government.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Staff:** Tracey O'Brien (786-7152).

#### **Background:**

##### Business and Occupation Tax.

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 they may not have any profits or may be operating at a loss.

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*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.*

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

#### Accountable Communities of Health.

In 2015 the United States Congress enacted the Medicare Access and Children's Health Insurance Program Reauthorization Act (MACRA). Part of the MACRA restructures how certain health services are paid for through Medicaid.

An Accountable Community of Health (ACH) is a regional coalition of representatives from a variety of sectors, working together to improve health and health equity. Participants may include health and long-term care providers, health insurance companies, public health agencies, school districts, and criminal justice agencies.

Washington's nine ACHs were organized to implement the MACRA goals related to Medicaid. They have entered into an agreement with the federal government allowing the state to test new and innovative approaches to providing health coverage and care. The ACHs are funded partly with grants from the Washington State Health Care Authority, using money from the State Innovation Model grant issued by the federal Center for Medicare and Medicaid Innovation.

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

Any Medicaid demonstration project funds received after the effective date of this act by an ACH or public hospital from federal, state, or local government are exempt from the B&O tax.

A tax preference performance statement outlines the public policy related to the new exemption. However, this exemption is not subject to the tax preference performance review or the automatic 10-year expiration date for tax preferences.

**Substitute Bill Compared to Original Bill:**

The substitute bill adds a tax preference performance statement and extends the B&O exemption to the same funds received by a public hospital.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:**

(In support) The B&O taxes have not been collected from ACHs. In rural areas, the public hospitals are the ACHs. The Center for Medicare and Medicaid Services requires that the federal Medicaid demonstration project funds be matched dollar for dollar. The main match comes in the form of an intergovernmental transfer.

(Opposed) None.

**Persons Testifying:** Representative Robinson, prime sponsor; and Ben Lindekugel, Association of Washington Public Hospital Districts.

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