

CERTIFICATION OF ENROLLMENT

**SUBSTITUTE HOUSE BILL 1624**

Chapter 23, Laws of 2001

(partial veto)

57th Legislature  
2001 Second Special Legislative Session

HEALTH OR SOCIAL WELFARE SERVICES--TAX DEDUCTION

EFFECTIVE DATE: 7/13/01

Passed by the House June 4, 2001  
Yeas 87 Nays 0

FRANK CHOPP  
**Speaker of the House of  
Representatives**

CLYDE BALLARD  
**Speaker of the House of  
Representatives**

Passed by the Senate June 14, 2001  
Yeas 48 Nays 0

BRAD OWEN  
**President of the Senate**

Approved July 13, 2001, with the  
exception of section 3, which is  
vetoed.

GARY LOCKE  
**Governor of the State of Washington**

CERTIFICATE

We, Timothy A. Martin and Cynthia Zehnder, Co-Chief Clerks of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1624** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN  
**Chief Clerk**

CYNTHIA ZEHNDER  
**Chief Clerk**

FILED

July 13, 2001 - 3:14 p.m.

**Secretary of State  
State of Washington**

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**SUBSTITUTE HOUSE BILL 1624**

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Passed Legislature - 2001 <sup>m</sup> Special Session

**State of Washington**

**57th Legislature**

**2001 Regular Session**

**By** House Committee on Finance (originally sponsored by Representatives Morris, Cairnes, Reardon, Conway, Dunshee, Ogden, Pennington, Van Luven, Doumit, Veloria, Dickerson, Fromhold, Anderson and Edwards)

Read first time . Referred to Committee on .

1 AN ACT Relating to the business and occupation tax deduction for  
2 health or social welfare services as applied to government-funded  
3 health benefits paid through managed care organizations; amending RCW  
4 82.04.4297; creating new sections; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** The legislature finds that the deduction  
7 under the business and occupation tax statutes for compensation from  
8 public entities for health or social welfare services was intended to  
9 provide government with greater purchasing power when government  
10 provides financial support for the provision of health or social  
11 welfare services to benefited classes of persons. The legislature also  
12 finds that both the legislature and the United States congress have in  
13 recent years modified government-funded health care programs to  
14 encourage participation by beneficiaries in highly regulated managed  
15 care programs operated by persons who act as intermediaries between  
16 government entities and health or social welfare organizations. The  
17 legislature further finds that the objective of these changes is again  
18 to extend the purchasing power of scarce government health care  
19 resources, but that this objective would be thwarted to a significant

1 degree if the business and occupation tax deduction were lost by health  
2 or social welfare organizations solely on account of their  
3 participation in managed care for government-funded health programs.  
4 In keeping with the original purpose of the health or social welfare  
5 deduction, it is desirable to ensure that compensation received from  
6 government sources through contractual managed care programs also be  
7 deductible.

8       **Sec. 2.** RCW 82.04.4297 and 1988 c 67 s 1 are each amended to read  
9 as follows:

10       In computing tax there may be deducted from the measure of tax  
11 amounts received from the United States or any instrumentality thereof  
12 or from the state of Washington or any municipal corporation or  
13 political subdivision thereof as compensation for, or to support,  
14 health or social welfare services rendered by a health or social  
15 welfare organization or by a municipal corporation or political  
16 subdivision, except deductions are not allowed under this section for  
17 amounts that are received under an employee benefit plan. For purposes  
18 of this section, "amounts received from" includes amounts received by  
19 a health or social welfare organization that is a nonprofit hospital or  
20 public hospital from a managed care organization or other entity that  
21 is under contract to manage health care benefits for the federal  
22 medicare program authorized under Title XVIII of the federal social  
23 security act; for a medical assistance, children's health, or other  
24 program authorized under chapter 74.09 RCW; or for the state of  
25 Washington basic health plan authorized under chapter 70.47 RCW, to the  
26 extent that these amounts are received as compensation for health care  
27 services within the scope of benefits covered by the pertinent  
28 government health care program.

29       ***\*NEW SECTION. Sec. 3. This act applies to taxes collected after***  
30 ***the effective date of this act, including taxes collected on reporting***  
31 ***periods prior to the effective date of this act.***

32 *\*Sec. 3 was vetoed. See message at end of chapter.*

33       **NEW SECTION. Sec. 4.** This act is necessary for the immediate  
34 preservation of the public peace, health, or safety, or support of the  
35 state government and its existing public institutions, and takes effect  
36 immediately.

Passed the House June 4, 2001.  
Passed the Senate June 14, 2001.  
Approved by the Governor July 13, 2001, with the exception of  
certain items that were vetoed.  
Filed in Office of Secretary of State July 13, 2001.

1 Note: Governor's explanation of partial veto is as follows:

2 "I am returning herewith, without my approval as to section 3,  
3 Substitute House Bill No. 1624 entitled:

4 "AN ACT Relating to the business and occupation tax deduction for  
5 health or social welfare services as applied to government-funded  
6 health benefits paid through managed care organizations;"

7 Substitute House Bill No. 1624 authorizes a business and occupation  
8 (B&O) tax deduction for amounts received by a health or social welfare  
9 organization that is a non-profit hospital or a public hospital, from  
10 a managed care organization or other entity that is under contract with  
11 the federal or state government to manage certain health care benefits.  
12 The deduction is equal to the amount of payments the entity receives  
13 for health benefits for Medicare; medical assistance, children's  
14 health, or other programs authorized pursuant to RCW 74.09; or the  
15 Washington Basic Health Plan. The credit amount is limited to the  
16 extent these payments are received as compensation for health care  
17 services within the scope of benefits covered by the pertinent  
18 government health care program.

19 Section 3 of this bill would have applied the deduction to taxes  
20 collected in the future, on reporting periods prior to the effective  
21 date of this act. The retroactive nature of the provision is not fair  
22 to taxpayers who have timely reported and remitted their taxes.  
23 Taxpayers who failed to pay their taxes due before the effective date  
24 of this bill would have been rewarded for being delinquent, while those  
25 who paid on time would not receive a refund (such refunds are  
26 prohibited by Article VIII, Section 7 of the Washington Constitution as  
27 interpreted by the Washington Supreme Court).

28 For this reason, I have vetoed section 3 of Substitute House Bill  
29 No. 1624.

30 With the exception of section 3, Substitute House Bill No. 1624 is  
31 approved."