

SENATE BILL REPORT

SB 5070

As of February 3, 2003

Title: An act relating to modifying the qualification requirements for the health and social welfare organization business and occupation tax deduction.

Brief Description: Modifying the qualification requirements for the health and social welfare organization business and occupation tax deduction.

Sponsors: Senator Zarelli.

Brief History:

Committee Activity: Ways & Means: 2/3/03.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: The business & occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are generally no deductions for the costs of doing business. Currently, there are six different B&O tax rates. The three principal rates are:

| | |
|---------------------------|--------|
| Manufacturing/wholesaling | 0.484% |
| Retailing | 0.471% |
| Services | 1.5% |

Income from the provision of health care and social services is generally subject to tax. Nonprofit health and social welfare agencies, however, are allowed a deduction from the B&O tax for payments from governmental entities for health or social services. Examples include health care; Medicaid and Medicare payments to hospitals; family and drug counseling; services for the sick, elderly, and disabled; day care, vocational training and employment services; legal services for the indigent; and services for low-income homeowners and renters.

To be eligible for the deduction, the nonprofit organization must be managed by a governing board of at least eight individuals, none of whom is a paid employee of the organization, or the nonprofit organization must be a corporation sole. A corporation sole is a nonprofit corporation created by and consisting of the presiding officer of a church or religious denomination. In addition, the organization must satisfy the following conditions:

- (1) The members, stockholders, officers, directors, or trustees of the organization do not receive any part of the organization's gross income, except as payment for services rendered;

- (2) Salary or compensation paid to its officers and executives must be only for actual services rendered, and at levels comparable to the salary or compensation of like positions within the public service of the state;
- (3) Assets of the corporation are irrevocably dedicated to the exempt activities and, on the liquidation, dissolution, or abandonment by the corporation, may not inure directly or indirectly to the benefit of any member or individual except a nonprofit organization, association, or corporation which also would be entitled to the exemption;
- (4) The corporation must be licensed or certified if licensing or certification is required by law;
- (5) Exempt amounts must be used for the exempt activities;
- (6) Services must be available regardless of race, color, national origin, or ancestry; and
- (7) The Director of Revenue shall have access to its books to determine eligibility.

Summary of Bill: The minimum number of members of the governing board of a nonprofit organization eligible for the B&O tax deduction for health and social welfare payments from public entities is reduced to seven.

The act applies retroactively to July 1, 1996.

Appropriation: None.

Fiscal Note: Requested on January 14, 2003.

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

Testimony For: This can be solved by working with the Department of Revenue.

Testimony Against: None.

Testified: Senator Zarelli, prime sponsor.