

# HOUSE BILL REPORT

## HB 2168

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to tax preferences.

**Brief Description:** Relating to tax preferences.

**Sponsors:** Representative Tarleton.

**Brief History:**

**Committee Activity:**

Finance: 4/26/19 [DPS].

<p><b>Brief Summary of Substitute Bill</b></p> <ul style="list-style-type: none"><li>• Relates to tax preferences.</li></ul>
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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Chapman, Macri, Morris, Orwall, Springer and Wylie.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Stokesbary and Vick.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Young, Assistant Ranking Minority Member.

**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

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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.

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.

#### Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include: tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

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

The substitute bill provides a B&O tax exemption for qualifying hospitals.

#### **Substitute Bill Compared to Original Bill:**

The substitute bill adds:

- a B&O tax exemption for an "eligible hospital;"
- a definition of "eligible hospital;"
- an effective date; and
- a TPPS.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect on July 1, 2019.

#### **Staff Summary of Public Testimony:**

(In support) The policy of this bill is similar to part of a bill the Finance Committee heard and passed out of committee earlier this session.

Although Harborview Medical Center (HMC) is owned by King County, governed by the Harborview Board of Trustees, operated by the University of Washington (UW) Medicine, and managed under contract by the UW, it is really the state's public hospital. Its mission is to provide health care for the most vulnerable residents of King County and Washington state. A substantial number of patients are uninsured or on Medicare or Medicaid. During the recent snowstorm, the number of vulnerable persons admitted increased substantially, unscoring the essential safety net role for HMC. It is not only the first line of defense for public health in Washington—it is the last line of defense as well.

As the only Level I Adult and Pediatric Trauma and Burn Center in Washington, the HMC provides specialized comprehensive emergency services to patients throughout the region. The HMC partnership with UW Medicine will provide for the education of our health care workforce.

Indeed, each biennial state budget contains language recognizing the unique position the HMC has as a public hospital. This tax exemption will stabilize the financial foundation of the HMC and assist in providing essential health care services to the region.

(Opposed) None.

**Persons Testifying:** Representative Tarleton, prime sponsor; Lindsey Grad, Service Employees International Union Healthcare 1199 Northwest; and Ian Goodhew, University of Washington Medicine Harborview Medical Center.

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