

# HOUSE BILL REPORT

## HB 2943

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### As Passed Legislature

**Title:** An act relating to providing a business and occupation tax preference for behavioral health administrative services organizations.

**Brief Description:** Providing a business and occupation tax preference for behavioral health administrative services organizations.

**Sponsors:** Representatives Robinson, Chapman and Tharinger.

#### Brief History:

##### Committee Activity:

Finance: 2/27/20, 3/2/20 [DP].

##### Floor Activity:

Passed House: 3/7/20, 97-0.

Passed Senate: 3/11/20, 48-1.

Passed Legislature.

#### Brief Summary of Bill

- Provides a business and occupation tax deduction for behavioral health administrative services organizations and health or social welfare organizations on certain amounts received for government-funded behavioral health care.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Nick Tucker (786-7383).

#### Background:

Business and Occupation Tax.

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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.

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.

#### Government-Funded Behavioral Health Services.

Behavioral health services are treatments for mental health and substance use disorders. The majority of government funding for behavioral health care in the state is from Medicaid. Medicaid is funded by the state and federal government and is available to those who meet certain income and eligibility requirements.

Generally, state and federal funding for behavioral health services is distributed through behavioral health administrative services organizations (BHASO). A BHASO subcontracts with mental health and substance use disorder treatment providers, including health or social welfare organizations, to provide behavioral health services.

#### Business and Occupation Tax Deduction for Government-Funded Behavioral Health Care.

Health or social welfare organizations and BHASOs were previously permitted to deduct certain amounts of government funding spent on behavioral health services. This preference expired January 1, 2020.

#### Tax Preferences.

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 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.

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

Health or social welfare organizations are permitted to take a B&O tax deduction on amounts received as compensation for providing mental health services or substance use disorder treatment services under a government-funded program.

Behavioral health administrative services organizations are permitted to take a B&O tax deduction on amounts received from the state for the distribution to a health or social welfare organization that is also eligible for the deduction.

Taxpayers claiming a deduction are required to file an annual tax performance report with the Department of Revenue.

The tax preference expires January 1, 2031.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 2020.

**Staff Summary of Public Testimony:**

(In support) The previous exemption expired in January, but because of the recent changes with regard to behavioral health integration, the expiration was overlooked. These are non-Medicaid funded state services and so there is no other private funding that would support these services. If the exemption is not provided, the state will have to use revenue collections to cover these services in order to mitigate the loss of any crisis behavioral health services. This is essentially status quo because the exemption existed in the past.

(Opposed) None.

**Persons Testifying:** Jason McGill, Health Care Authority; and Brad Banks, County Behavior Health Administrative Services Organizations.

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