

# SENATE BILL REPORT

## HB 1296

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As Passed Senate, April 10, 2021

**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 Young, Thai, Robertson and Rule.

**Brief History:** Passed House: 3/9/21, 96-0.

**Committee Activity:** Ways & Means: 3/23/21, 3/25/21 [DP, DNP].

**Floor Activity:** Passed Senate: 4/10/21, 47-2.

### 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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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Capital; Robinson, Vice Chair, Operating & Revenue; Wilson, L., Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Schoesler, Assistant Ranking Member, Capital; Braun, Carlyle, Conway, Darneille, Dhingra, Gildon, Hunt, Keiser, Liias, Mullet, Muzzall, Pedersen, Rivers, Van De Wege, Wagoner, Warnick and Wellman.

**Minority Report:** Do not pass.

Signed by Senator Hasegawa.

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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 part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** Alia Kennedy (786-7405)

**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.

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. State and federal funding for behavioral health services is distributed through behavioral health administrative services organizations (BHASOs). 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 permitted to deduct certain amounts of government funding spent on behavioral health services. This preference expired January 1, 2020.

Tax Preferences. A range of tax preferences confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are 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 may use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

**Summary of Bill:** Health or social welfare organizations may 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 may take a B&O tax deduction on amounts received from the state for 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.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: Changes in the behavioral health organization structure meant that they were no longer eligible for tax benefits, so this bill is intended to fix that. The bill allows state funding to go directly toward behavioral health treatment at the local level, instead of going back to the state.

OTHER: The deduction only applies to nonprofit organizations, including those providing behavioral health services to government funded clients. Limiting the exemption to non-profits excludes many servicing people on Medicaid. Expanding the B&O tax deduction to include those entities would incentivize services to take on Medicaid clients.

**Persons Testifying:** PRO: Brad Banks, Behavioral Health Administrative Services Organizations.

OTHER: Mark Streuli, Northwest Resources II.

**Persons Signed In To Testify But Not Testifying:** No one.