
Finance Committee

HB 1289

Brief Description: Exempting certain prepayments from the health care service premium and prepayment tax.

Sponsors: Representatives Cody and Morrell.

Brief Summary of Bill

- Removes the tax exemption for health care service contractors that provide coverage for dental care services.

Hearing Date: 3/4/05

Staff: Rick Peterson (786-7150).

Background:

A health maintenance organization (HMO) is an organization that provides comprehensive health care to enrolled participants through a group medical practice and charges per capita prepayments. Group Health Cooperative is an example of an HMO. A health care service contractor (HCSC) is an organization that provides health care in exchange for prepayments, but is organized differently than HMOs or insurance companies. Blue Cross affiliates are examples of HCSCs.

Every year HMOs and HCSCs are required to pay two percent of all premiums and prepayments for health care services to the Office of the Insurance Commissioner. The funds collected are deposited in the Health Services Account. The Health Services Account is an appropriated account that may be used for purposes related to access to health services for low-income residents; the public health system; maintenance and expansion of the capacity of the health care system; the containment of health care costs; and the regulation and administration of the health care system.

Amounts received by HCSCs for dentistry services are exempt from the two percent tax on prepayments.

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the state General Fund.

There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

HMOs and HCSCs are not taxable under the B&O tax on prepayments that are taxed under the two percent tax on prepayments for health care services.

Summary of Bill:

The exemption from the two percent tax on prepayments for health care services is removed for HCSCs that provide dentistry services. These HCSCs are exempt from the B&O tax on the prepayments that are taxed under the two percent tax on prepayments for health care services.

Appropriation: None.

Fiscal Note: Requested on March 2, 2005.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.