



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

OCTOBER 12, 2016

**Expired Jan. 1, 2020**

## **Update: Chemical dependency services added to B&O tax deduction for providing mental health services under a government-funded program**

Effective April 1, 2016, RCW 82.04.4277 was expanded to include chemical dependency services, and the expiration date for the deduction was extended to January 1, 2020.

([Engrossed Third Substitute House Bill 1713, Chapter 29, Laws of 2016](#)).

From August 1, 2011 to March 31, 2016 the deduction was limited to mental health services.

Business and occupation (B&O) tax deductions are provided as follows:

- Health or social welfare organizations may deduct amounts received as compensation for providing mental health services or chemical dependency services under a government-funded program; and
- Behavioral Health Organizations (BHO) may deduct amounts received from the state of Washington for distribution to a health or social welfare organization that is eligible for the above deduction. BHOs who are not themselves health or social welfare organizations may not deduct amounts received from the state of Washington that they do not distribute to health or social welfare organizations eligible for the above deduction.

### **Background**

The Department of Social and Health Services (DSHS) contracts with BHOs to oversee the delivery of mental health services and chemical dependency services. The BHOs contract with local providers to provide various mental health services and chemical dependency services, monitor the activities of local providers and oversee the distribution of funds. Before the deduction in [RCW 82.04.4277](#), health or social welfare organizations were only allowed a deduction for B&O tax when the payment came directly from a governmental agency (see [RCW 82.04.4297](#)).

## How do I report?

Persons claiming the deduction provided by [RCW 82.04.4277](#) must electronically file an annual tax incentive report with the department. This is due by May 31 (new filing date for reports due for 2016 forward) of the year *following the year* when the person became eligible to claim the deduction. In addition, the person is required to file electronically all returns, reports, etc., with the Department ([RCW 82.32.534](#), [RCW 82.32.600](#)).

Health or social welfare organizations and BHOs claiming this deduction should continue to report their gross income under the Service and Other Activities B&O tax classification. They can then take a deduction for “Government-funded mental health & chemical dependency services.”

There is no change in reporting for health and welfare organizations that receive payment directly from a governmental agency. These organizations continue to report under the Service and Other Activities B&O tax classification, then take a deduction under “Other” and write in “Exempt income under [RCW 82.04.4297](#).” Businesses claiming this deduction are not required to file an annual tax incentive report.

## Expiration date

This B&O tax deduction expires January 1, 2020.

## Definitions

- Health or social welfare organization: [RCW 82.04.431](#)
- Mental health services and Behavioral Health Organization: [RCW 71.24.025](#)
- Chemical dependency: [RCW 70.96A.020](#)

## For more information

Contact the Telephone Information Center at 360-705-6705.