Medicaid incentive payments business and occupation tax deductions expanded

What’s new?

Starting July 28, 2019, Substitute House Bill (SHB) 2024 expands the business and occupation (B&O) deductions allowed for Medicaid incentive payments. Qualifying hospitals, managed care organizations, and accountable communities of health may claim a B&O tax deduction for certain Medicaid incentive payments as follows.

Qualifying hospitals

A hospital can take a deduction if it meets one of the following:

- it is owned by a municipal corporation or political subdivision
- it is affiliated with a state institution

Starting July 28, 2019, these hospitals can take a B&O tax deduction for Medicaid Quality Improvement Program Incentive Payments established through 42 C.F.R. 438.6(b)(2).

Since March 15, 2018, these hospitals can take a B&O tax deduction for Delivery System Reform Incentive Payments sourced from the Medicaid Transformation Project (Section 1115 Medicaid demonstration project number 11-W-00304/0).

Managed care organizations

Starting July 28, 2019, managed care organizations can take a B&O tax deduction for Medicaid Quality Improvement Program Incentive Payments received for achieving quality performance standards established through 42 C.F.R. 438.6(b)(2).
Accountable communities of health

Since March 15, 2018, an accountable community of health can take a B&O tax deduction for Delivery System Reform Incentive Payments sourced from the Medicaid Transformation Project and received from the Washington State Health Care Authority (Section 1115 Medicaid demonstration project number 11-W-00304/0).

How do I file my tax return?

You must report these incentive payments under the Service and Other Activities B&O tax classification. You may then claim the appropriate deduction for these payments as follows:

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<th>Qualifying hospitals</th>
<th>Managed care organizations</th>
<th>Accountable communities of health</th>
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<tr>
<td>Delivery System Reform Incentive Payments</td>
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<td>Medicaid Quality Improvement Program Incentive Payments</td>
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Definitions

Accountable community of health means:

- an entity designated by the Health Care Authority as a community of health under RCW 41.05.800
- any additional accountable communities of health authorized by the Health Care Authority as part of Section 1115 Medicaid demonstration project number 11-W-00304/0

Managed care organization has the same meaning as provided in RCW 74.60.010.

More information

- SHB 2024 (Chapter 350, Laws of 2019)
- RCW 82.04.43395
- SHB 2998 (Chapter 102, Laws of 2018)

Note: These deductions don't expire. You aren't required to file an annual tax performance report for them because they aren't subject to RCW 82.32.805 and RCW 82.32.808.

Questions

Email us at Rulings@dor.wa.gov.

For tax assistance or to request this document in an alternate format, visit http://dor.wa.gov or call 1-800-647-7706. Teletype (TTY) users may use the Washington Relay Service by calling 711.