



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

AUGUST 17, 2011

B&O Tax Deduction for Amounts Received for Providing Child Welfare Services

Summary

Engrossed Substitute House Bill 1902; Chapter 163, Laws of 2011, provides business and occupation (B&O) tax deductions as follows:

- (1) Health and social welfare organizations may deduct amounts received as compensation for providing child welfare services under a government-funded program; and
- (2) Persons may deduct amounts received from the State of Washington and distributed to a health or social welfare organization that is eligible for the above deduction.

Background

Prior to this legislation nonprofit health and 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)

The Department of Social and Health Services (DSHS) contracts with multiple private providers for the purchase of various child welfare services.

In 2009, Second Substitute House Bill 2106 was enacted which, among other things, requires DSHS to consolidate and convert its existing child welfare services to performance-based contracts. DSHS has chosen a lead-agency model to address the legislative directive to reduce the number of contracts. Under the lead-agency model, services may be provided directly by the lead agency or through subcontracts and agreements with service providers.

Purpose

This legislation will allow both the lead agency and those health or social welfare organizations receiving payments for child welfare services under a government funded program a B&O deduction for amounts received for providing child welfare services.

Effective date

This legislation applies to amounts received on or after August 1, 2011.

How do I report?

Health and welfare organizations, as well as lead-agencies, should continue to report their gross income under the service and other activities classification of the B&O tax. They may then take a deduction on the tax return and itemize it on the deduction detail page under "Other" as "Payments received for government funded child welfare program."

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Definitions

For a definition of health or social welfare organization please see RCW 82.04.431.

For a definition of child welfare services please see RCW 74.13.020.

**For more
information**

Contact the Department's Telephone Information Center at 1-800-647-7706