

# State & Local Taxes for Healthcare Entities – Turning Risks into Opportunities

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# State & Local Taxes – Washington/Alaska Overview

- Washington
  - Business and Occupation (B&O) Tax
  - Sales/Use Tax
  - Property Tax (Real and Personal Property)
  
- Alaska
  - Corporate Income Tax
  - Sales/Use and Property Tax (Imposed only by certain cities and boroughs)

- Washington B&O Tax Reporting
  - Proper classification of receipts: Service & Other Activities (1.5% tax rate); Public / Nonprofit Hospitals (1.5%), For Profit Hospitals / Scientific R&D (1.5%), Retailing (0.471%), Wholesaling (0.484%) Chemical Dependency Centers (0.484%), Assisted Living Facilities (0.275%), Prescription Drug Warehousing (0.138%)
  - Treatment of pass-through expenses and costs: generally not deductible from measure of B&O tax
  - Other specific exclusions and deductions (e.g. payments from Medicare / Medicaid, Washington Community and Basic Health Plans)

- Washington Sales/Use Tax Reporting
  - Many healthcare related items are specifically exempted from Washington sales/use tax:
    - Prescription drugs and drug delivery devices
    - Prescription lenses and frames
    - Dietary supplements dispensed pursuant to a prescription
    - Prosthetic and orthotic devices
    - Medical oxygen
    - Insulin
    - Hearing aids

- Washington Property Tax Exemptions
  - Nonprofit hospitals (includes owned and leased property)
  - Nonprofit nursing homes, convalescent and hospice facilities
  - Nonprofit outpatient dialysis facilities
  - Nonprofit blood and tissue banks
  - Nonprofit cancer clinics and cancer centers
- Must apply to Department of Revenue for property tax exemption; however, exemption may be granted retroactively to obtain refunds for up to three prior

# Case Study #1: Property Tax Exemptions on Satellite Facilities

- For purposes of the nonprofit hospital exemption, “hospital” includes the inpatient hospital facility and integral/necessary administrative and support facilities.
- Washington Board of Tax Appeals held in 2007/2008 cases that a qualifying facility may be physically separate from the inpatient hospital, as long as it is included on the hospital’s Acute Care Hospital License and engages in provider-based billing for Medicare reimbursed services.

# Case Study #1: Property Tax Exemptions on Satellite Facilities

- Kadlec Regional Medical Center had historically claimed exemption on its hospital building but not on satellite facilities.
- In 2014, Kadlec submitted exemption applications for ten parcels. All ten applications were approved, resulting in over \$250K of refunds and over \$500K of annual savings for future periods.
- Kadlec has identified a number of additional facilities that should qualify for exemption, and plans to submit exemption applications for those facilities in the near future.

## Case Study #2: Washington B&O Tax Refund on Receipts from Government Payors

- RCW 82.04.4297 provides a B&O tax exemption on amounts received from the federal government or from Washington state or local government for health or social welfare services provided by a health or social welfare organization.
- “Health or social welfare organization” is defined by statute as an organization which renders health or social welfare services, is organized under RCW Chapter 24.03, and is managed by a governing board of at least 8 individuals, none of whom is a paid employee of the organization.



## Case Study #2: Washington B&O Tax Refund on Receipts from Government Payors

- B&O tax exemption applies to payments from:
  - Federal Medicare/Medicaid programs (including Medicare copayments/deductibles charged to Medicaid)
  - Veterans Administration
  - US Department of Labor
  - CHAMPUS/TriCare
  - Washington Basic Health Plan
  - Washington Community Health Plan
  - Washington Department of Corrections
  - School districts, other state/municipal payors

## Case Study #2: Washington B&O Tax Refund on Receipts from Government Payors

- Grays Harbor Community Hospital was able to obtain B&O tax refund in excess of \$500K on exemptions not claimed on originally filed returns
- Refund period was extended because of prior Washington audit (assessment paid within period open under statute of limitations for years that would otherwise be out of statute)

- Fee arrangements: fixed fee, hourly rates, contingent fee, or hybrid arrangement?
  - Fixed fee may provide cost certainty, but lacks incentive to service provider to pursue refunds or other tax minimization strategies
  - Contingent fee may provide windfall to service provider if a substantial tax refund is obtained
  - Hourly rates can insure service provider is paid only for the work they do, but are generally not tied to results
  - Hybrid fee arrangements can be an attractive alternative to a strict fixed fee, contingent fee or hourly rates
  - Limitations on fee arrangements may exist if the service provider is also the financial statement auditor



# Thank You!

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