

# Special Notice

*Intended audience: accountable communities of health, hospitals, managed care organizations, CPAs*

**July 11, 2019**

## 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).

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## 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:

	Qualifying hospitals	Managed care organizations	Accountable communities of health
<b>Delivery System Reform Incentive Payments</b>	✓		✓
<b>Medicaid Quality Improvement Program Incentive Payments</b>	✓	✓	

## 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](mailto:Rulings@dor.wa.gov).

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