



# 2009 Tax Preference Performance Reviews Proposed Final Reports

Joint Legislative Audit and Review Committee  
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Mary Welsh, Keenan Konopaski, and David Dean  
JLARC Staff

## Mandate for Tax Preference Reviews



- Legislation in 2006 (EHB 1069) mandated JLARC performance reviews of tax preferences
- 500+ reviews over 10 years
- Outlined specific questions to be answered in reviews
  - Public Policy Objectives
  - Beneficiaries
  - Revenue and Economic Impacts
  - Other States

## Citizen Commission for Performance Measurement of Tax Preferences



- Seven members
  - Five voting members – appointed by each of the legislative caucuses and the Governor
  - Two non-voting members – JLARC Chair and State Auditor
- Three primary duties
  - Set the 10-year review schedule
  - Take public testimony on the reviews
  - Comment on the reviews

## Steps Completed for the Tax Preference Review Process



July	Preliminary reports presented to JLARC
August	Preliminary reports presented to the Citizen Commission
September	Commission conducted public hearing
October	Commission adopted comments
December	Presented to House Finance Committee
January 5	Proposed final report presented to JLARC
(TBD)	Presented to Joint Senate Ways & Means and House Finance committees

## 2009 Reports Include 25 Reviews



- Grouped into two reports

12 Full Reviews: Taxpayer Savings = \$3.6 Billion

13 Expedited Reviews:  
Taxpayer Savings = \$18.3 Million

- Reviewed preferences for the following types of taxes:

- Business & occupation taxes
- Retail sales and/or use taxes
- Insurance premium taxes
- Public utility taxes
- Property taxes
- Aircraft excise taxes

## JLARC Staff Recommends “Continue”



### Citizen Commission Endorses

Motor Fuel Taxes

Joint Utility Services

Cash Discounts

Income of Employees

Motor Vehicle and  
Special Fuel

Casual Sales

Feed and Seed

Municipal Utilities

Commercial Aircraft

Aircraft Held for Sale  
Aircraft Owned by  
Nonresidents

## JLARC Staff Recommends “Allow to Expire”



### Citizen Commission Endorses

Rural County Software & Help Desk Firms (B&O credits)

Equip Used to Reduce Field Burning (sales tax exemption)

Patient Lifting Devices (B&O tax credit)

## JLARC Staff Recommends “Re-examine/Clarify Intent”



### Citizen Commission Endorses

Newspapers (sales & use exemption)

Fraternal Benefit Societies (insurance premium exemption)

Ocean Marine Insurance (preferred insurance tax rate)

Manufacturers of Flour and Oil (preferred B&O rate)

## JLARC Staff Recommends “Continue”



Commission Comments

### Citizen Commission Endorses and Adds

#### Investments by Nonfinancial Firms (B&O deduction)

*The Legislature should consider whether investment income should be taxed by some means other than the B&O gross receipts tax.*

#### General Aviation (property tax exemption)

*...the Legislature should consider whether excise fees should be raised and whether the level...should more closely correspond to the Legislature’s apparent original intent of approximately one percent of value.*

## JLARC Staff Recommends “Continue/Modify Expiration Date”



Commission Comments

### Citizen Commission Endorses and Adds

#### Electricity for Electrolyte Firms (public utility tax exemption)

*...the current expiration date of June 30, 2019, (should) be considered the final date for this preference... the Legislature should explore other alternative means of achieving the goal of preserving family wage jobs.*

#### Aluminum Industry (variety of credits, exemptions, etc.)

*...the Legislature should consider establishing a final expiration date... (and) should explore other alternative means of achieving family wage jobs in rural communities.*

## JLARC Staff Recommends “Allow to Expire”



Commission Comments

### Citizen Commission Endorses and Adds

#### Rural Electric Utility Contributions

(public utility tax credit)

*The Legislature should consider requesting that an economic impact study be conducted by December 31, 2010, which is enabled by relevant data gathering. Such a study would provide a more informed basis for determining whether to let this preference expire as scheduled, whether to extend the expiration date, or whether to modify the preference and extend the expiration date.*

## JLARC Staff Recommends “Continue”



Commission Comments

### Citizen Commission Does Not Endorse

#### Tuition and Fees (B&O deduction)

*...the Legislature (should) clarify the intended public policy purpose of the (deduction) and define more precisely the term “education institution” for purposes of determining which institutions are entitled to the B&O tax deduction.*

#### Janitorial Services (sales tax exemption)

*...the State Legislature (should) terminate this preference.*

Discussion – the Commission raised questions about the underlying policy purpose.

## JLARC Staff Recommends “Re-examine/Clarify Intent”



Commission Comments

### Citizen Commission Does Not Endorse

#### Kidney Dialysis, Nursing Homes, Hospice (B&O deduction)

*...the Legislature (should) eliminate the B&O tax deduction for nursing homes, kidney dialysis facilities, and hospice centers.*

Discussion – Nonprofit hospitals were historically excluded from the B&O tax. Exemptions were extended to nursing homes, kidney dialysis, and hospice because they provide services traditionally provided at hospitals. But now nonprofit hospitals are no longer exempt.

## Agencies Noted JLARC Reviews are Accurate and Added Comments



- Department of Revenue
  - ✓ *Newspapers: JLARC recommended DOR update WAC to be consistent with current law; DOR concurs*
  - ✓ *No formal position on other recommendations*
- Office of Financial Management
  - ✓ *No formal position on recommendations*
- Department of Transportation
  - ✓ *Supports recommendations to continue preferences for Commercial Aircraft, Non-resident Aircraft, and General Aviation Aircraft*
- Office of the Insurance Commissioner
  - ✓ *Accepts recommendations to clarify preferences for Fraternal Benefit Societies and Ocean Marine Insurance*

## Summary of Tax Preference Work to Date



- Three years of JLARC reviews have now been completed (75 reviews in total)

Recommendation	Taxpayer Savings	Count
Continue or Modify Expiration Date	\$5 Billion	50
Re-examine or Clarify	\$257 Million	17
Terminate or Allow to Expire	\$9 Million	8

Find a summary of recommendations to date at:  
[www.citizentaxpref.wa.gov/whatsnew.htm](http://www.citizentaxpref.wa.gov/whatsnew.htm)

## Contact Information



Mary Welsh  
360-786-5193

Welsh.mary@leg.wa.gov

David Dean  
360-786-5293

Dean.david@leg.wa.gov

Keenan Konopaski  
360-786-5187

Konopaski.keenan@leg.wa.gov

[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)