



Tax Preference Performance Review: Beef Processors Proposed Final Report

**Joint Legislative Audit &
Review Committee**

March 21, 2007

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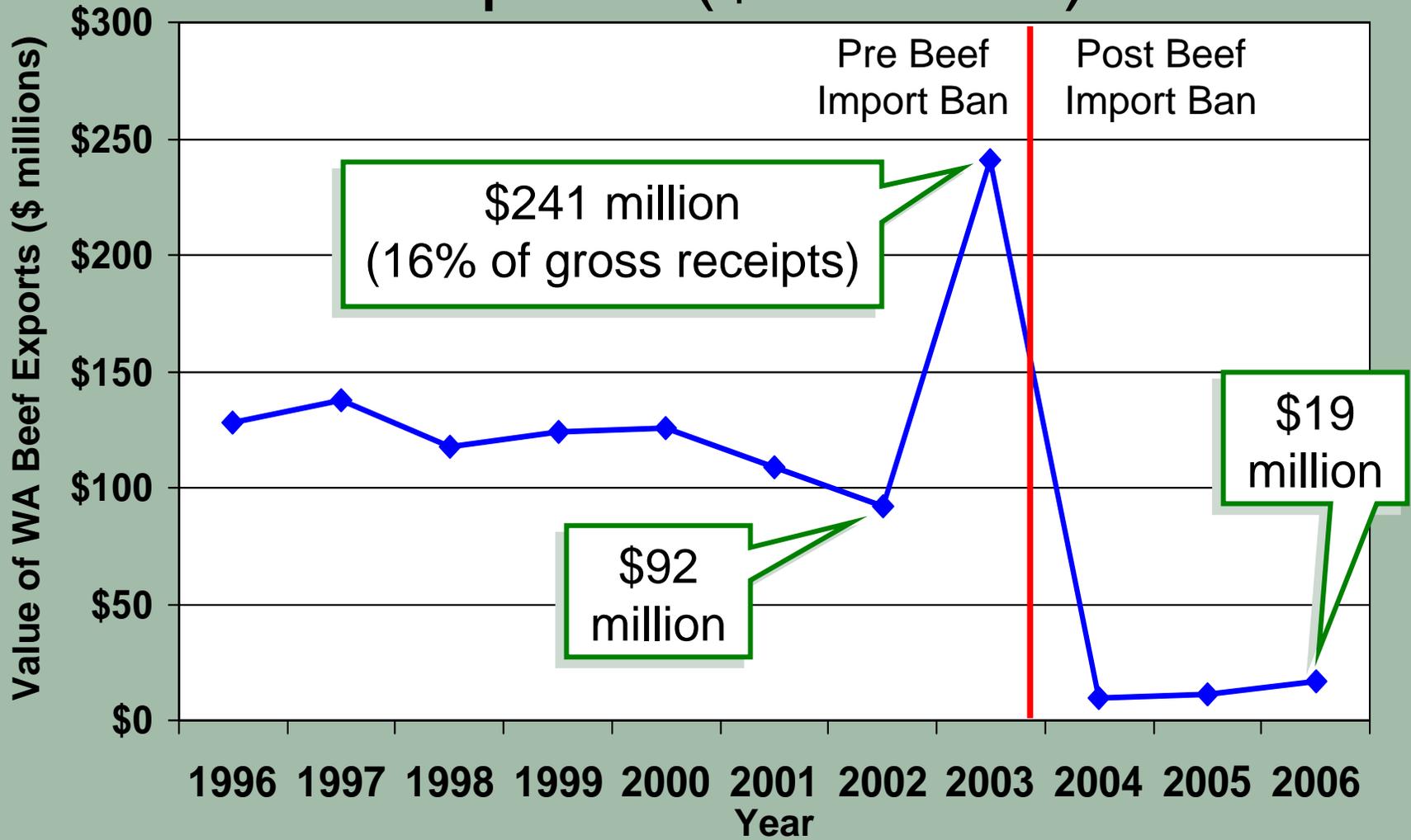
Presentation Overview

- Background
- Answers to Tax Preference Review Questions
- Recommendation and Responses
 - Legislature should retain the current law expiration date
 - Citizens Commission on Tax Preferences endorsed the JLARC recommendation
 - DOR and OFM both concurred in the JLARC recommendation

Beef Processors Tax Preference

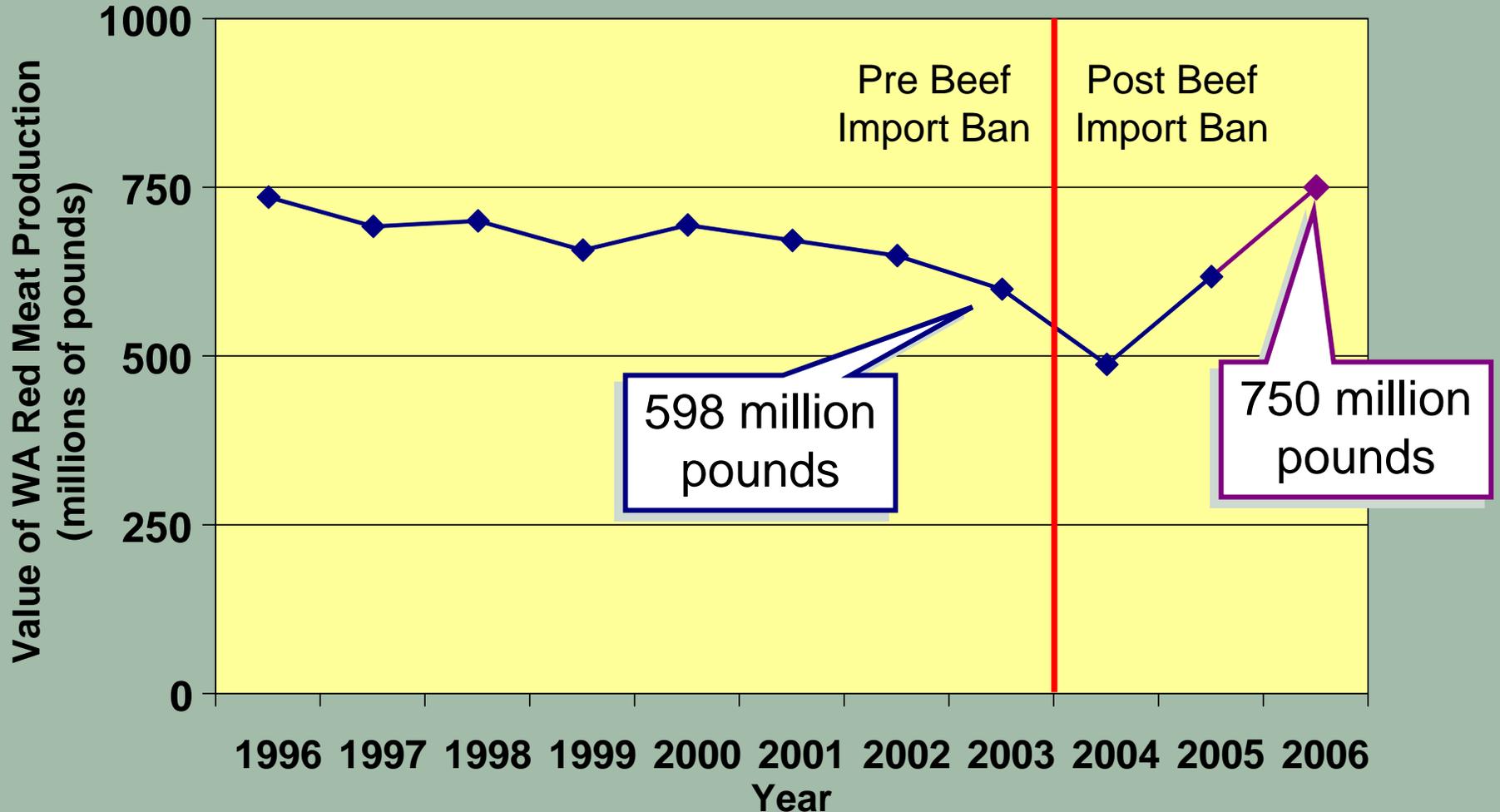
- HB 2929 (2004): temporary tax deduction on the business and occupation tax
- Due to foreign import bans on U.S. beef in response to the discovery of BSE in WA state
 - Concern over negative impact from bans
- Need to have both slaughtering and wholesaling activities to qualify
- Effective March 31, 2004
- Specific expiration date of December 2007 was added in 2005 (HB 1407)

Industry Health: Washington Beef Exports (\$ millions)



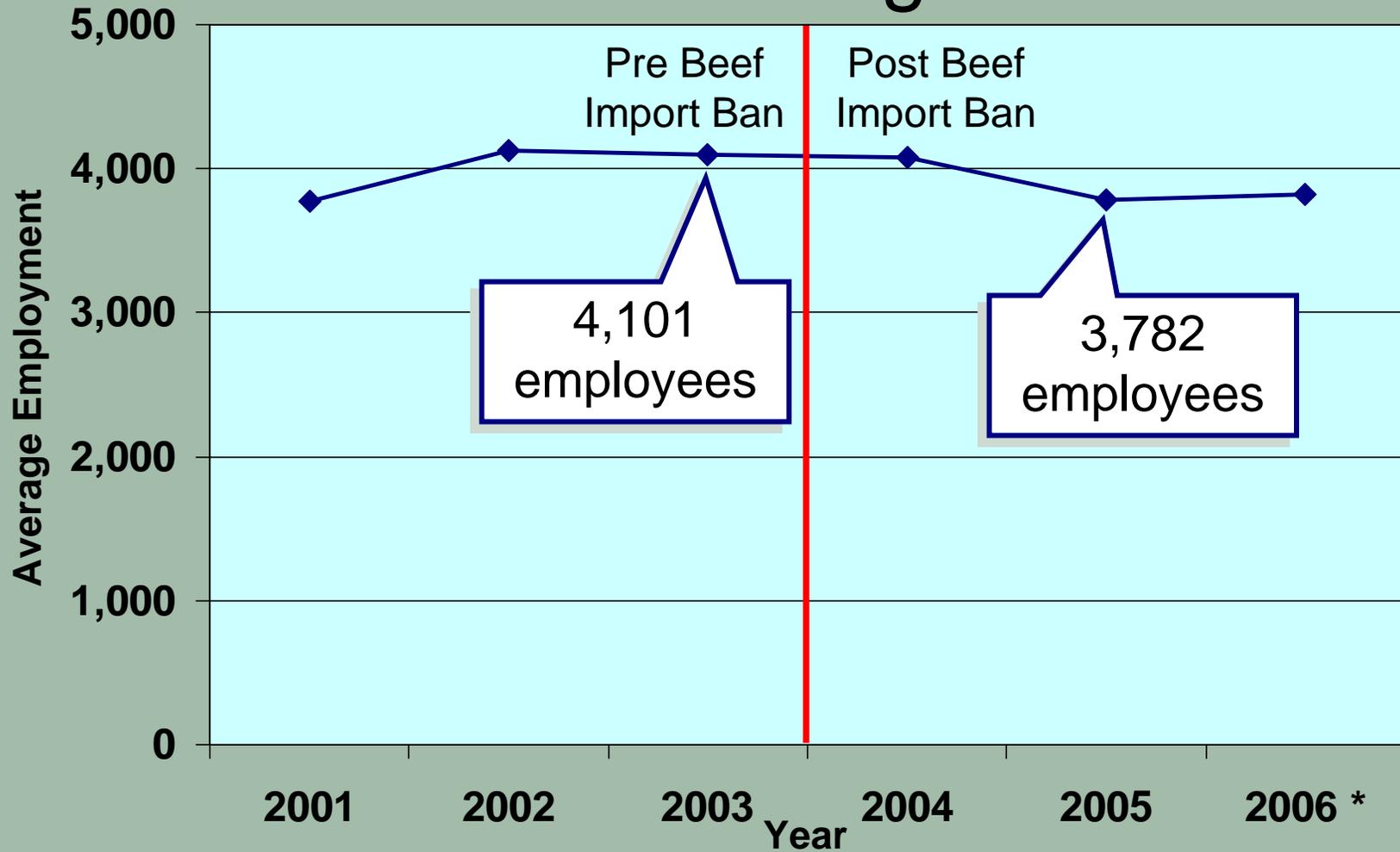
Source: WISER Trade Data. Dollars not adjusted for inflation.

Industry Health: Washington Red Meat Production (millions of pounds)



Source: USDA National Agricultural Statistics Service
Washington State 2006 Annual Agriculture Bulletin.

Industry Health: Washington Employment in Beef Processing Industries



* 2006 employment based on first quarter

Source: Washington Employment Security Department Covered Employment Data.

Public Policy Objectives - Questions and Responses

What are the public policy objectives that provide a justification for the tax preference?

- Compensate beef processors from the negative impact from foreign import bans placed on U.S. beef exports
- Targeted at beef processors slaughtering their own beef in Washington
- Temporary business and occupation tax relief

Public Policy Objectives - Questions and Responses

What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives?

- Utilized by beef processors slaughtering their own cattle in Washington State
- Does achieve the objective of providing temporary tax relief

Public Policy Objectives - Questions and Responses

To what extent will continuation of the tax preference contribute to these public policy objectives?

- Continuing the tax preference will only partially fulfill the public policy objectives outlined in law
 - Will violate the “temporary” nature of the public policy objective
 - Negative impact from foreign import bans on beef has diminished over time

Beneficiaries - Questions and Responses

Who are the entities whose tax liabilities are directly affected by the tax preference?

- Businesses slaughtering their own beef and selling at wholesale
- Six beef processors claimed the tax deduction in 2004 and 2005 and five beef processors in 2006

Revenue and Economic Impacts - Questions and Responses

What are the past and future tax revenue and economic impacts of the tax preference if it is continued?

- Estimated B&O tax loss was \$1.1 million (three quarters in 2004) and \$1.62 million (2005)
- Estimated future B&O tax loss would be \$1.1 million
- Total employment of those claiming the deduction was 2,416 in 2005 (64% of the employees in beef processing industry)
- Decline in employment from the firms claiming the deduction (-9%) is nearly the same as industry wide

Other States Similar Tax Preferences

- No other state has enacted this type of tax preference for beef processors

Recommendation: Beef Processors Tax Preference

The Legislature should retain the current law expiration date of December 31, 2007, on the beef processors tax preference

- No legislation is required with this recommendation
- Revenue impact from this recommendation is \$0 since there is already an expiration date in current law and the revenue impact is already incorporated into the state forecast



Tax Commission and Agency Responses

- Citizen Commission for Performance of Tax Preferences endorsed the recommendation in the JLARC report
- Office of Financial Management and the Department of Revenue also concurred with the recommendation in the report



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