



Proposed Final Report

2018 Tax Preference Performance Reviews

December 2018

Citizen Commission endorsed all
Legislative Auditor recommendations
and added comments

Dana Lynn, Rachel Murata, Eric Thomas



Today's focus: Citizen Commission comments

July:
Presented preliminary report to JLARC

August:
Presented preliminary report to the Citizen Commission

September:
Citizen Commission heard public testimony

October:
Citizen Commission commented on the report

December:
Present proposed final report to JLARC

Commission endorsed all Legislative Auditor Recommendations

Preference	Citizen Commission Comments	Proposed Committee Comments
Nonprofit & Library Fundraising	X	
Corporate Headquarters Investment Projects	X	
Investment Projects in High Unemployment Counties and Community Empowerment Zones	X	X
Government Funded Behavioral Health Services	X	X
Custom Farming & Hauling Farm Products		X
Multifamily Housing in Mason County		
Aircraft for Air Ambulances		



Nonprofit and Library Fundraising Use Tax Exemption

Legislative Auditor's Conclusion

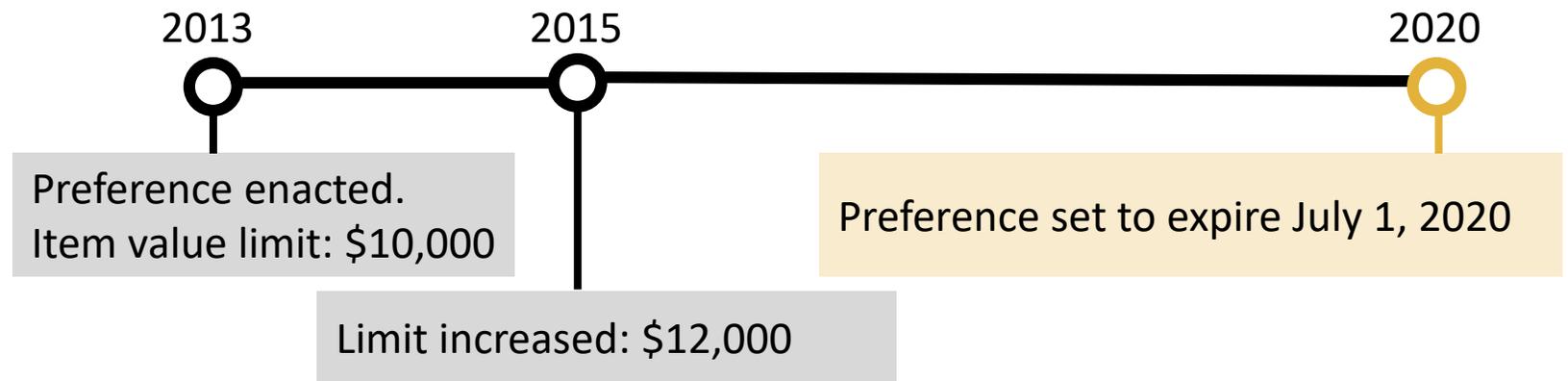
The Legislature should continue and clarify the preference to eliminate the expiration date, add a mechanism to increase the exempt amount over time, and recategorize the preference.

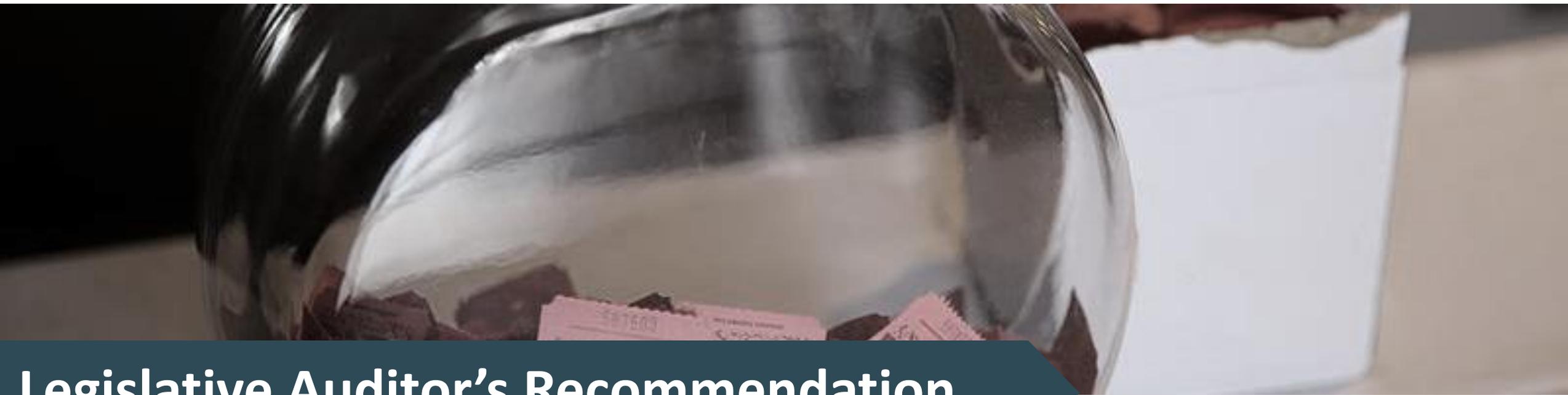
Estimated 2019-21 beneficiary savings: unknown

Stated objective met

Preference
provides tax
relief to people
supporting
charitable
fundraising

Value of exempted items has increased over time





Legislative Auditor's Recommendation

Continue and clarify (structural purpose – tax relief)

If the Legislature continues the preference, it should consider:

- Making the preference permanent.
- Adding a mechanism to increase the exempt value over time.
- Recategorizing as intended to provide tax relief to certain individuals.



Citizen Commission endorsed with comment

This preference is **important** from a **policy** and an **administrative efficiency** perspective. The stated objective to provide tax relief to donors is not likely the true purpose.

While donors get a tax benefit, the **preference primarily benefits the nonprofits**, which:

- 1) Avoid the administrative burdens of collecting and reporting use tax.
- 2) Avoid potential donation decreases that could result if use tax was due.



Corporate Headquarters Investment Projects in Community Empowerment Zones Sales and Use Tax Deferral

Legislative Auditor's Conclusion

Businesses have not used the tax preference
to locate headquarters in community empowerment zones.

The Legislature may want to consider other strategies to revitalize these areas.

Estimated 2019-21 beneficiary savings: \$0

Mixed results for the two inferred public policy objectives

Encourage private sector investment and employment in CEZs



- No businesses have applied since preference was enacted in 2009.

Better compete with Oregon and Idaho for private sector investment



- Removed potential competitive disadvantage with Oregon.
- Idaho repealed a similar preference in 2008.

Scheduled to expire December 31, 2020.



Legislative Auditor's Recommendation

Allow to expire and consider other strategies

The Legislature should allow the preference to expire if no business has applied to use it by December 31, 2020.

The Legislature may want to consider other strategies beyond tax incentives to encourage economic development in CEZs.

A low-angle photograph of a modern skyscraper with a glass facade, set against a clear blue sky. The building's lines are sharp and geometric, creating a sense of height and modernity.

Citizen Commission endorsed with comment

The Legislature should clarify the public policy objectives and performance before the December 31, 2020, expiration date, as it would be helpful to have clearly stated policy objectives and performance metrics if there is a future review.



Investment Projects in High Unemployment Counties and Community Empowerment Zones

Sales and Use Tax Deferral

Legislative Auditor's Conclusion

Businesses reported creating **87% fewer jobs** than they originally estimated. The preference likely had a **nominal impact on poverty rates**.

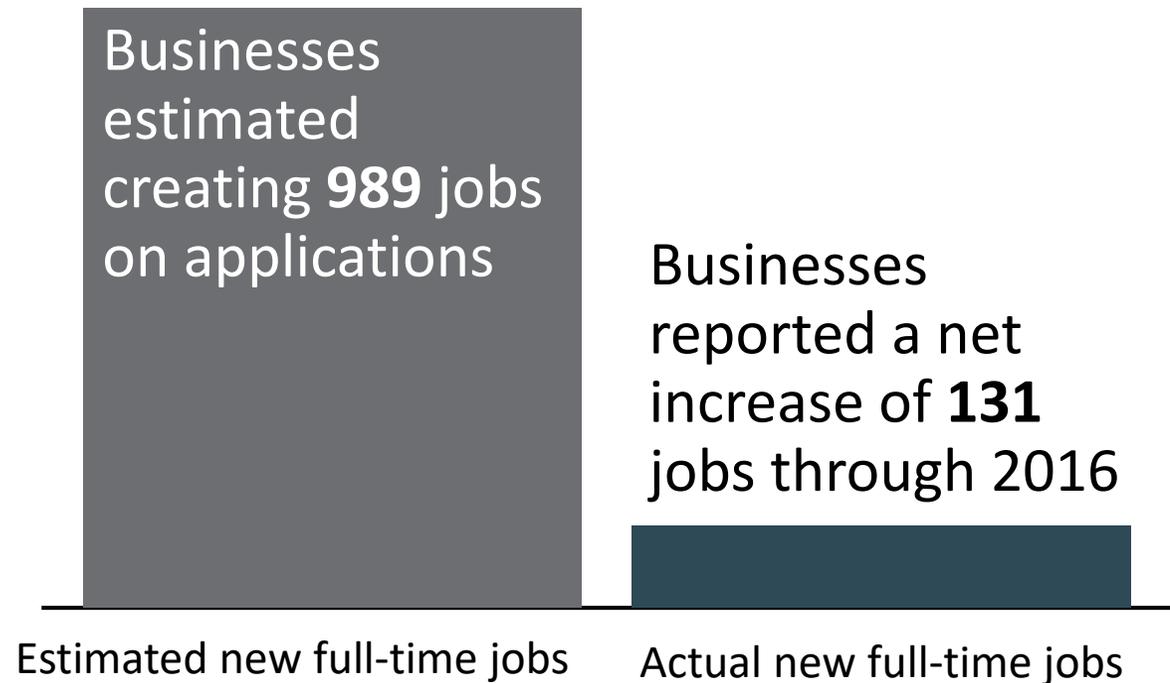
The Legislature should consider adding targets to help determine whether the preference is meeting expectations.

Estimated 2019-21 beneficiary savings: \$5.8M

Unclear if job growth meets legislative expectations

Stated objective #1: Stimulate economic development and job growth in distressed areas

Businesses using the preference have created new jobs, but 87% less than they originally estimated.



Unclear if preference impacted poverty rates

Stated objective #2: Reduce poverty in distressed areas

JLARC staff estimate at best a nominal potential poverty rate reduction of 0.07 percent (less than 1 in 1,000) in qualifying areas.

No new deferral certificates after June 30, 2020.

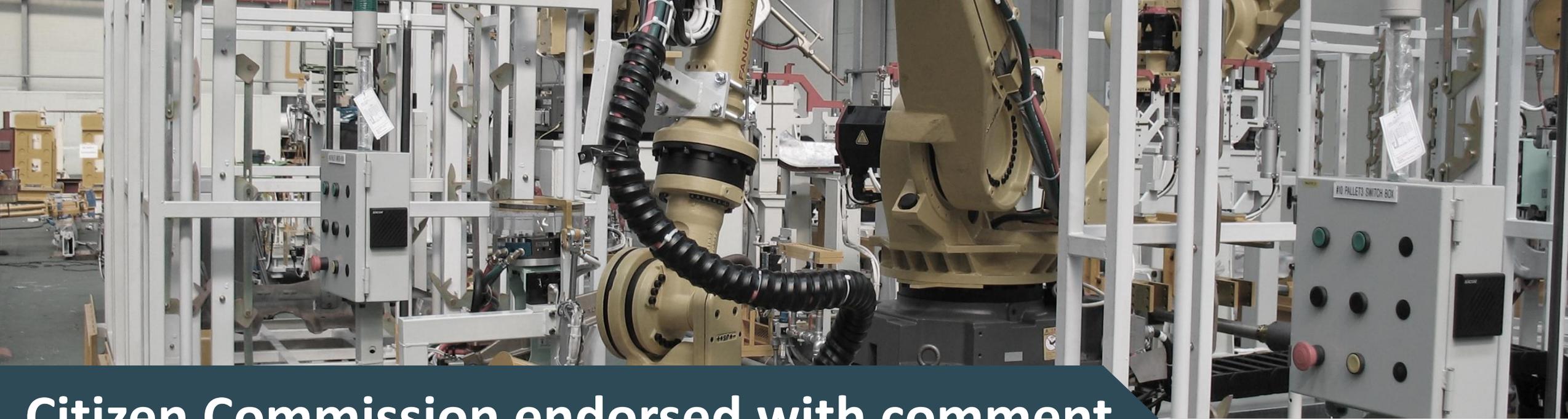


Legislative Auditor's Recommendation

Review sufficiency of outcomes and add metrics

The Legislature should **review this preference** before July 1, 2020.

While some businesses are using the preference in a few distressed areas, it is unclear if the number of jobs created or potential impact on poverty rates meets legislative expectations. The Legislature should **consider adding metrics** to reflect its expectations.



Citizen Commission endorsed with comment

Metrics should be designed to capture the impact of the preference across and within all applicable counties and CEZs. If the preference creates new jobs or otherwise has a positive economic impact on one county or CEZ, then it may be worth maintaining.

Specific to metrics, in many rural counties the unemployment rate is based on very small samples sizes and may be an incomplete indicator of economic distress.

Government-Funded Behavioral Health Services B&O Tax Deduction

Legislative Auditor's Conclusion

The preference increases the amount of funding available directly for behavioral health treatment.

With recent changes in the state's management of Medicaid, more providers are likely to use the preference before it expires in 2020.

Estimated 2017-19 beneficiary savings: \$10.9M

Behavioral health treatment in Washington

Treatments for mental health and substance use disorders

24-hour crisis services, residential treatment services, group treatment, medication management

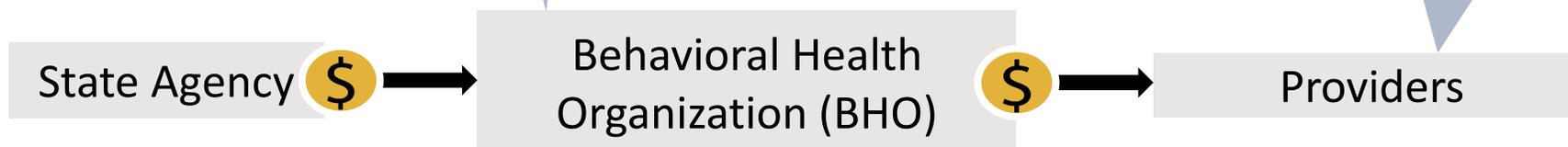
85% of government funding is Medicaid

In most regions, behavioral health funding is managed by Behavioral Health Organizations

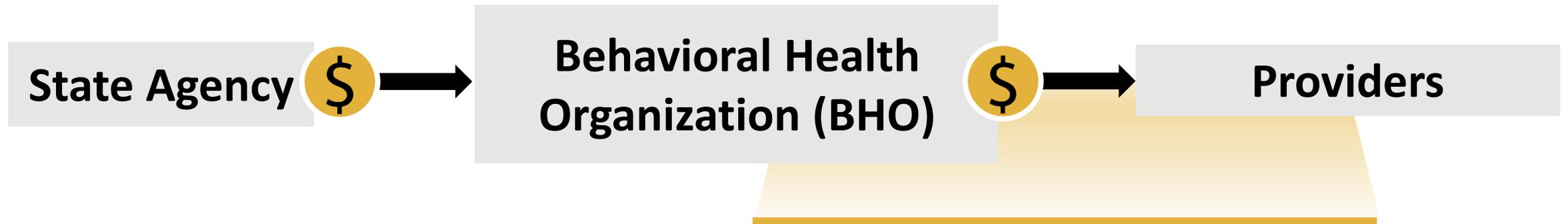
Regional entities that manage public funding for treatment

- 7 are government entities
- 1 is private

When BHOs are government, **some nonprofit providers** can deduct their income from B&O tax

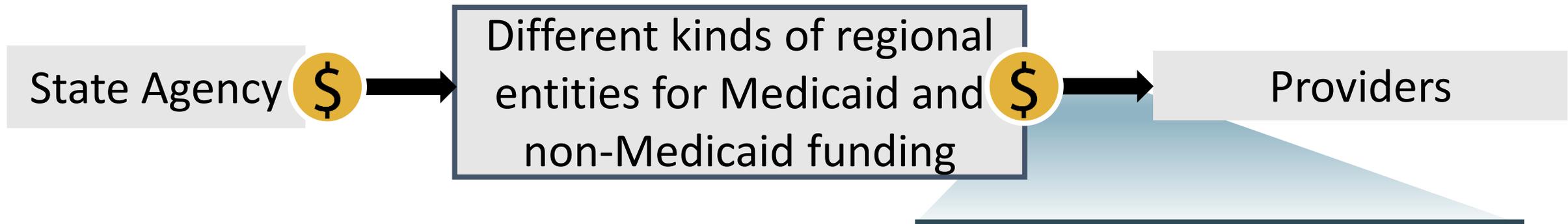


Preference reduces taxes, so more money can go directly to behavioral health treatment



Private BHO and qualifying nonprofit providers may deduct the amount the BHO pays for services.

Changes in how Washington manages Medicaid funding will affect how health care providers are taxed



Most of these new entities are private.

More providers are likely to use preference.

**When preference
expires in 2020,
more government-
funded behavioral
health treatment
will be taxed**

Nonprofit providers **will pay tax**
on receipts from private entities

Some may claim **other
deductions**

Taxed the same as entities
providing physical health
services



Legislative Auditor's Recommendation

Determine whether to continue (policy decision)

If the Legislature wants to continue the tax deduction for government-funded behavioral health care, it will **need to take action**. Otherwise, behavioral health will be treated the **same as physical health** and providers will **pay B&O taxes** beginning in 2020.



Citizen Commission endorsed with comment

Supports mental health services that can prevent more serious and costly health issues.



Custom Farming and Hauling Farm Products

B&O Tax Deduction

Public Utility Tax Deduction

Legislative Auditor's Conclusion

The Legislature should continue and clarify the two preferences to add performance statements, specify public policy objectives, and eliminate the expiration dates.

Estimated 2019-21 beneficiary savings: \$67,500; unknown

One of the two inferred objectives achieved

B&O tax exemption for custom farming is providing tax relief as intended.



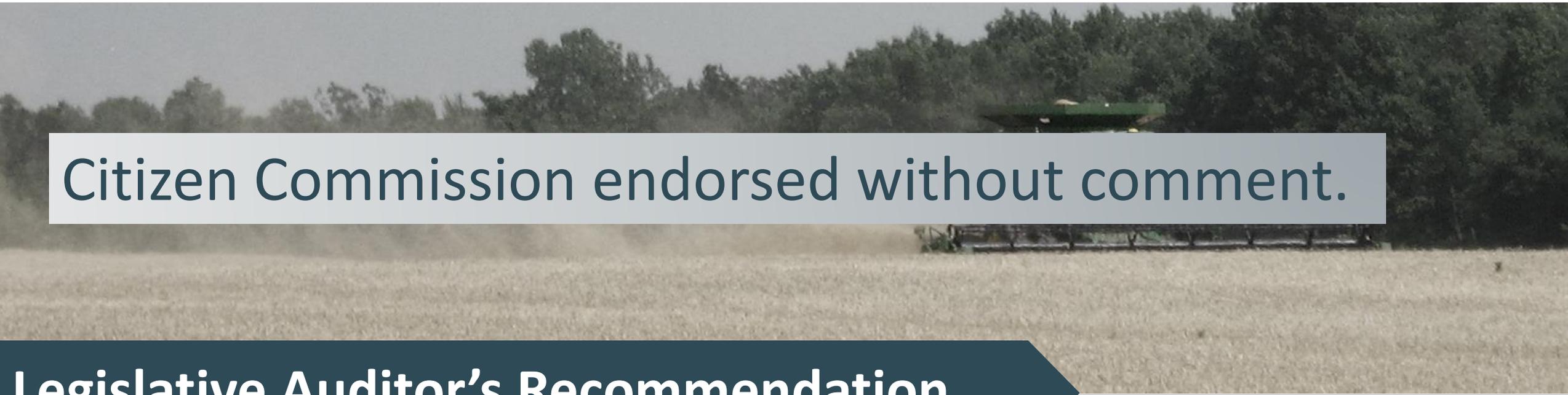
Five to seven beneficiaries annually

Unclear if the public utility tax exemption is providing tax relief



No data about use of the preference is available

Both preferences set to expire December 31, 2020.



Citizen Commission endorsed without comment.

Legislative Auditor's Recommendation

Continue and clarify (structural purpose – tax relief)

The Legislature should consider:

- **Adding performance statements** to specify public policy objectives.
- **Eliminating expiration dates.** If the objective was to provide tax relief due to a structural issue, it is unclear why an expiration date is needed.

Contact Us

Research Analysts

Dana Lynn

(360) 786-5177

dana.lynn@leg.wa.gov

Pete van Moorsel

(360) 786-5185

pete.vanmoorsel@leg.wa.gov

Eric Thomas

(360) 786-5182

eric.thomas@leg.wa.gov

Rachel Murata

(360) 786-5293

rachel.murata@leg.wa.gov

Eric Whitaker

(360) 786-5618

eric.whitaker@leg.wa.gov

Project Coordinator

