



Overview of Tax Preference Performance Reviews

Joint Legislative Task Force on School
Construction Funding

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JLARC

What is a State Tax Preference?



- Definition Includes:
 - Exemptions, exclusions or deductions from the base of a tax
 - Credits against a tax
 - Deferrals of a tax
 - Preferential tax rates
- There are currently over 560 tax preferences enacted in state law

Tax Preference Reviews



- EHB 1069 (2006) mandated performance reviews of Washington's tax preferences – over 10 years
- Outlined specific questions to be answered in reviews
 - Public Policy Objectives
 - Beneficiaries
 - Revenue and Economic Impacts
 - Other States
- Created a Citizen Commission for Performance Measurement of Tax Preferences (Tax Preference Commission)

Main Provisions of EHB 1069



- Citizen's Commission establishes a schedule of tax preferences to be reviewed over ten years
- Staff from the Joint Legislative Audit and Review Committee (JLARC) independently conduct the reviews
- Commission adds comments to the JLARC report—but cannot modify it
- Legislature holds hearings, may take action to continue, abolish or modify a preference

Schedule Requirements



- Orderly review of tax preferences every 10 years
- In the order that the tax preferences were enacted into law, except those with an expiration date may be included anywhere
- Certain exemptions are to be omitted
- Other “critical” exemptions may be omitted
- Exemptions with impact under \$10 million may have an expedited review
- Revise the 10 year schedule annually

94% of the taxpayer savings are from three taxes



Tax Source	Number of Exemptions	Savings (\$ billions)
Retail Sales & Use	158	\$ 39.1
Bus. & Occupation	161	\$ 8.6
Property	103	\$ 44.7
All Other	145	\$ 6.0
Total	567	\$ 98.4

Source: Department of Revenue "Tax Exemptions 2008"

Savings are for 2007-09 biennium and include both state and local government taxes

“Taxpayer savings...”



- Are reduced tax payments by taxpayers who would have had the legal obligation to pay the tax
- Do not necessarily indicate the potential revenue to the taxing entity if the tax preference did not exist

2008 Reviews Are:



- Grouped into 27 chapters in the two reports
 - 14 Full reviews
 - 13 Expedited reviews
- Reviewed preferences for the following types of taxes:
 - Property tax
 - Leasehold excise tax
 - Business & occupation tax
 - Public utility tax
 - Retail sales and/or use tax
 - Fuel taxes

Highlights of Tax Preferences



- Legal History / Current Law
- Answers to Select Tax Preference Review Questions
 - Public Policy Objectives
 - Achievement of Objectives & Areas of Uncertainty
 - Beneficiaries
 - Taxpayer Savings
- Recommendations and Comments

Possible recommendations for each preference include:



- Continue;
- Modify;
- Add an expiration date and conduct another review prior to the expiration date;
or
- Terminate.

Property Tax Preferences Enacted in 1891

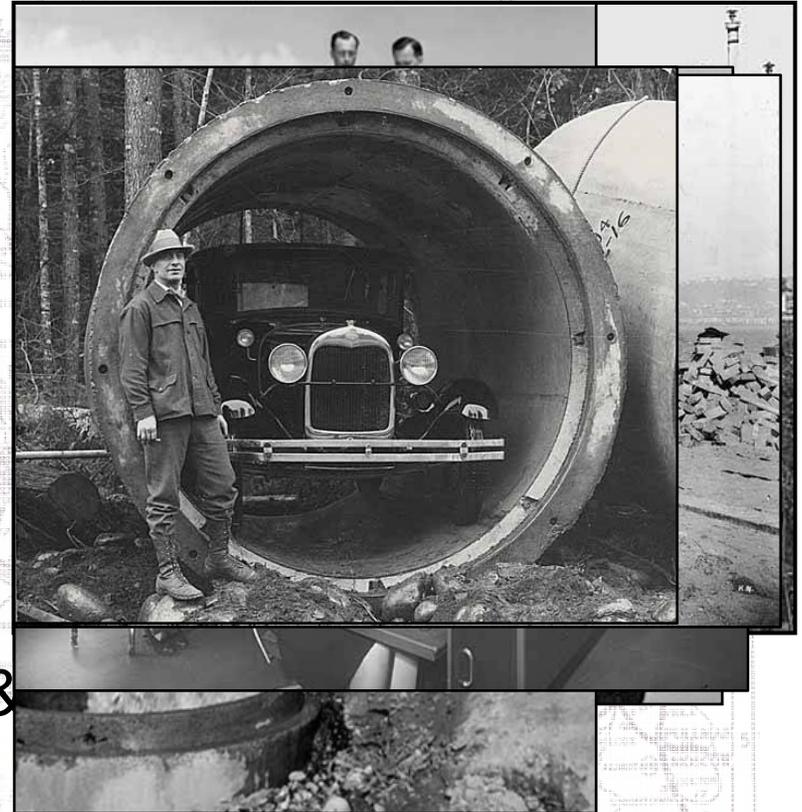
- Schools
- Churches
- Cemeteries
- Government Property
- Fire Equipment
- Libraries
- Hospitals
- Orphanages
- Institutions for reform of fallen women
- Homes for the aged or infirm
- Personal property
- Growing crops (from the assessment of agricultural land)



AGRICULTURAL PROPERTY
(from the assessment
of agricultural land)

Some Tax Preferences Enacted in 1935

- Real Estate Sales/Rental/Leasing
- Agricultural Producers
- Processing Horticultural Products
- Irrigation Water
- Insurance Premiums
- Radio and TV Broadcasting
- Tax Rate for Urban Transportation &
- Sales for Resale by Water and Gas
- Public Utility Taxpayers



PULVERS
OFFICIAL
AUTO HIGHWAY MAP
OF
WASHINGTON.
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