



2007 Tax Preference Performance Review

Proposed Final Reports

Joint Legislative Audit & Review Committee

November 28, 2007

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Presentation Overview



- Introduction to Tax Preferences
- 2007 Recommendations and Comments

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)

The Types of Reviews are:



Full reviews

- Fiscal impact > \$10 million/biennium
- 10 questions

Expedited reviews

- Fiscal impact < \$10 million/biennium
- 7 questions

2007 Reports Consisted of 22 Reviews



Tax Type	Full Reviews	Expedited Reviews	Total
Property Tax	5	9	14
B&O Tax		4	4
Fuel Tax	1	2	3
Sales Tax		1	1

JLARC and the Tax Preference Commission have Reviewed the Reports



- July 31 – Preliminary reports presented to JLARC
- August 3 – Preliminary reports presented to the Tax Preference Commission
- September 7 – Tax Preference Commission conducted public hearing
- October 29 – Tax Preference Commission adopted comments
- November 28 – Proposed final reports to JLARC
- Next – Joint meeting of Senate Ways & Means and House Finance committees

JLARC Staff is Recommending Continuation for 15 of the Tax Preferences



- Churches
- Cemeteries
- Household goods

- Nonprofit libraries
- Growing crops
- Humane societies
- Collections and museums
- Veterans organizations
- Nonprofit youth organizations
- Fire companies

Property Tax

JLARC Staff is Recommending Continuation for 15 of the Tax Preferences



- Contributions and donations
- Boxing and wrestling matches

B&O Tax

- Refund of fuel tax for exported fuel
- Refund of fuel tax for lost/destroyed fuel

Fuel Tax

- Historic auto museums

Sales Tax Deferral

Tax Preference Commission



- Endorses all 15 JLARC staff recommendations to continue the tax preferences
- No additional comments were adopted

JLARC Staff is Recommending Clarification, Modification, or Termination



- Nonprofit nonsectarian organizations
 - Nonprofit hospitals
 - Nonprofit nursing homes
 - Orphanages
- } Property Tax
- Membership dues and fees
 - Horse racing
- } B&O Tax
- Refunded fuel tax for nonhighway use
- } Fuel Tax

Nonprofit Nonsectarian Organizations Property Tax Exemption



YWCA, Seattle, ca. 1911

Nonprofit Nonsectarian Organizations JLARC Staff Recommendation



Continue with Modification

If the Legislature intended all nonprofit nonsectarian organizations to meet a **gift giving test** to qualify for the property tax exemption, then the Legislature should enact a **gift giving criterion** into law.

Nonprofit Nonsectarian Organizations

Tax Preference Commission



Nonprofit Nonsectarian Organizations

- Recommendation

Endorses with the following additional comments:

- The Legislature should **determine** whether it intends nonprofit nonsectarian organizations to meet a **gift giving test** to qualify for the property tax exemption, and if so, it should enact a **gift giving criterion** into law.

Nonprofit Hospitals Property Tax Exemption



Aberdeen General Hospital, 1903

Nonprofit Hospitals JLARC Staff Recommendations



Nonprofit Hospitals

Continue with Modifications

If the Legislature intended to provide a nonprofit hospital property tax exemption under the assumption that these organizations were providing more **charity or low-income care** than other hospitals, then the Legislature should **modify** the property tax exemption to be dependent on meeting a threshold of **charity or low-income care**.

If the Legislature wants additional information on **community service activities** performed by hospitals, then it should require hospitals to report an annual community services inventory.

The Legislature should **clarify** which specific services provided by nonprofit hospitals qualify for a property tax exemption.

Tax Preference Commission



Nonprofit Hospitals

• Recommendation #1

Endorses with the following additional comments:

- The legislature should **determine** whether the nonprofit hospital property tax exemption is intended to be available to hospitals that provide more **charity or low-income care** than other hospitals, and if necessary, amend the exemption to **ensure** that it carries out its **intended purpose**.

Tax Preference Commission



Nonprofit Hospitals

- Recommendation #2

Endorses with the additional comments:

- The Legislature should **determine** whether it should require information on **community service activities** performed by nonprofit hospitals, and if so, it should amend the exemption to require nonprofit hospitals to report an annual community service inventory.

- Recommendation #3

Endorses without additional comments

Nonprofit Nursing Homes Property Tax Exemption



Kenny Home for the Aged, Seattle, ca. 1908

Nonprofit Nursing Homes JLARC Staff Recommendations



Nonprofit Nursing Homes

Continue with Modifications

If the Legislature intended to provide the nonprofit nursing home property tax exemption under the assumption that these organizations were providing more **charity** or **low-income care** than other nursing homes, then the Legislature should **modify** the property tax exemption to be dependent on meeting a threshold of **charity** or **low-income care**.

If the Legislature wants information on **community service activities** performed by nursing homes, then it should require nursing homes to report an annual community service inventory.

Tax Preference Commission



Nonprofit Nursing Homes

• Recommendation #1

Endorses with the following additional comments:

- The Legislature should **determine** whether the nonprofit nursing home property tax exemption is intended to be available to nursing homes that provide more **charity** or **low-income care** than other nursing homes, and if necessary, amend the exemption to **ensure** that it carries out its **intended purpose**.

Tax Preference Commission



Nonprofit Nursing Homes

- Recommendation #2

Endorses with the following additional comments:

- The Legislature should **determine** whether it should require information on **community service activities** performed by nursing homes, and if so, it should amend the exemption to require nursing homes to report an annual community service inventory.

Nonprofit Orphanages Property Tax Exemption



Original Orphan's Home, erected 1885



Seattle Children's Home, 1937



Seattle Children's Home, erected 1905

Nonprofit Orphanages JLARC Staff Recommendations



Terminate and Allow to Qualify for Another Tax Preference

Nonprofit Orphanages

If the Legislature is concerned with providing **uniform** and **equitable** tax treatment to all nonprofit organizations providing similar housing and care for children, the Legislature should **terminate** the orphanage property tax exemption and allow the orphanages to **qualify** for the **nonsectarian** property tax exemption like other similar nonprofit organizations.

Tax Preference Commission



• Recommendation

Nonprofit Orphanages

Endorses with the following additional comments:

- The Commission recommends that nonprofit orphanages **continue to qualify for tax exempt status.**

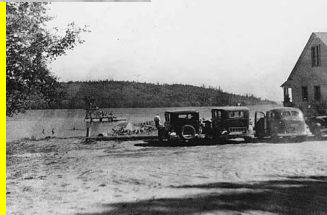
Membership Dues and Fees B&O Tax Deduction



Chinese Businessmen's
Club, Seattle, 1938



Alpine Club, 1921



Beach and Civic Club, 1935

Membership Dues and Fees JLARC Staff Recommendation



Continue with Modifications

In order to **ease the administration** and **compliance** of the membership dues and fees tax preference, the Legislature should **clarify** which clubs should qualify and a simple method to value this deduction.

Tax Preference Commission:

- Recommendation

Endorses without additional comments

Membership Dues and Fees

Horse Racing B&O Tax Exemption



Longacres Park, Renton, 1935

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Horse Racing JLARC Staff Recommendation



Continue with Clarification

Horse Racing

If the Legislature had a public policy objective to **avoid double taxation** for all horse racing, then this business and occupation tax exemption should be **adjusted to tie qualifying** for this exemption to actually **paying** the pari-mutuel tax.

If the Legislature had a public policy objective to **avoid double taxation** only for businesses operating **class 1 horse racing meets**, then the Legislature should **continue** the business and occupation tax exemption.

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Tax Preference Commission



- Recommendation

Endorses without additional comments

Horse Racing

Nonhighway Use of Fuel Tax Refund



Model T Ford adapted to be a tractor, ca. 1919

Nonhighway Use of Fuel JLARC Staff Recommendation



Nonhighway Use of Fuel

Continue with Modification

The Legislature should review its policy of restricting the amount of fuel taxes that may be refunded to programs for off-road recreational users of motor vehicle fuel.

Tax Preference Commission:

- Recommendation

Endorses without additional comments

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