

2015 Tax Preference Performance Review – Proposed Final Report

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Joint Legislative Audit & Review Committee

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2006 Legislative Mandate: Conduct Performance Audits of Tax Preferences

Created **Citizen Commission**

Specified **10 year review cycle**

Specific questions for staff to answer

Today's focus: **Commission Comments**

In 2015, staff reviewed **20 preferences**

Recommendation required

Steps in Process Repeated Each Year

In 2014, Commission determined 10-year review schedule – which preferences JLARC staff to review

JLARC staff prepared analysis

July, Aug 2015: Staff presented to JLARC and Citizen Comm

Sept: Citizen Commission took public testimony

Oct: Commission adopted comments

Dec: JLARC hears proposed final report

Jan 2016: Presented to fiscal committees

Commission Endorsed 13 Preference Recommendations Without Comment

Continue

- ✓ Horticultural Services for Farmers (Sales and Use Tax)
- ✓ Family-Owned Business Interests (Estate Tax)

Review and Clarify

- ✓ Livestock Medicine (Sales and Use Tax)
- ✓ Chicken Bedding Materials (Sales and Use Tax)
- ✓ Gas Used to Heat Chicken Houses (Sales and Use Tax)
- ✓ Grain and Unprocessed Milk Wholesaling (B&O Tax)
- ✓ Commercially Grown Fish or Shellfish (Food Fish Tax)
- ✓ Family Farm Property (Estate Tax)
- ✓ Aluminum Smelter Energy Purchases (B&O Tax)
- ✓ Aluminum Smelter Purchases (Public Utility Tax)
- ✓ Warehouse Expansion (Sales and Use Tax)
- ✓ Public Facilities Districts (Leasehold Excise Tax)
- ✓ Motion Picture Program Contributions (B&O Tax)

Citizen Commission Commented on Seven Preference Recommendations

Review and Clarify

- ✓ **Farm Machinery Replacement Parts** (Sales and Use Tax)
- ✓ **Fuel Used on Farms** (Sales and Use Tax)
- ✓ **Aluminum Manufacturing** (B&O Tax)
- ✓ **Aluminum Smelter Purchases** (Sales and Use Tax)
- ✓ **Aluminum Smelter Property Taxes** (B&O Tax)
- ✓ **Aluminum Smelter Use of Natural Gas** (Use Tax)
- ✗ **Interest on Real Estate Loans** (B&O Tax)

Farm Machinery Replacement Parts and Labor

Sales and Use Tax



Legislature Did Not State Public Policy Objectives

Inferred Objectives

2006 Parts only - Help farmers at time of stagnant crop prices and increasing farm input prices

2007 Expanded to labor - Expand because preference use and resulting cost to the state were lower than expected

2014 Eliminate application - Simplify farmers' reporting



Legislative Auditor Recommends Review and Clarify

Clarify

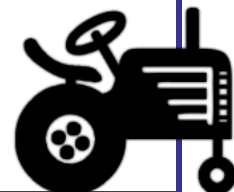
What changes in **prices and costs relative to farm profits** are needed to continue the preference

What **participation level** of eligible farmers

The **total fiscal impact** intended by Legislature

Inform

Add **reporting** or other **accountability requirements** to provide better information on use



Citizen Commission Endorsed Legislative Auditor Recommendation

Encourages

The Legislature to **clearly state** the public policy objective and ensure it is designed to **effectively achieve** that purpose

Rationale

Competitive equity with farmers operating in other states under different tax regimes



Fuel Used on Farms



Sales and Use Tax



Public Policy Objective Not Stated

Inferred Objectives

2006 Provide a **price break to farmers** during a time when fuel costs had sharply increased

Make Washington **consistent with other states** in taxing farm fuel



Legislative Auditor Recommends Review and Clarify

Clarify

Provide a performance statement to **specify the public policy objective**

Provide a **metric to determine when the preference is necessary** (e.g., one based on the price of diesel)



Citizen Commission Endorsed Legislative Auditor Recommendation

Encourages

The Legislature to **clearly state** the public policy objective and ensure it is designed to **effectively achieve** that purpose

Rationale

Competitive equity with farmers operating in other states

For preferences dealing with possibly transitory market shocks, **consider triggers for review** if market changes



Aluminum Smelters

Multiple Taxes



Public Policy Objectives

Objective Stated for Preferences Directly Available to Smelters

2015 Preserve employment in the Washington aluminum industry

Inferred Objectives for Preferences Available to Energy Sellers

2004 Retain family wage jobs in rural areas

Sustain the industry through a period of high energy prices



Legislative Auditor Recommends Review and Clarify

Clarify

By specifying **jobs** and **commodity pricing metrics** to be used in determining whether objective has been achieved



Inform

With requirement for beneficiaries to **disclose their savings** to facilitate **estimation of fiscal impacts**

Citizen Commission Endorses Legislative Auditor Recommendation

Encourages

The Legislature to consider recent economic conditions such as **weak global demand** and **over production**

Rationale

Testimony indicated that the **industry** and **economic conditions have changed** significantly over the life of these preferences



Interest on Real Estate Loans



B&O Tax



Public Policy Objectives Not Stated

Inferred Objectives

1970 Stimulate WA's residential housing market by reducing the cost of home loans

2012 Legislature sought to **limit the preference to "community banks"**



Legislative Auditor Recommends Review and Clarify

Clarify

Determine whether the inferred objective of stimulating the residential housing market applies given **changes in the lending industry**

Review the information on lenders and **compare to other community bank definitions** and **determine whether the preference is focused on the pool of lenders** the Legislature intended



Citizen Commission Does Not Endorse Legislative Auditor Recommendation

Encourages

The Legislature to **maintain the 2012 legislation** defining which lenders qualify for the preference

Rationale

Helps smaller banks **mitigate costs** associated with recent federal regulatory changes

Small banks headquartered in WA **declined** 45% between 2008 and 2014



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