



# **2017 Tax Preference Reviews**

## **Proposed Final Report**

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December 2017

# 2006 Legislative mandate: conduct performance audits of tax preferences

## Legislature (Chapter 43.136 RCW):

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- **Created** the Citizen Commission for Performance Measurement of Tax Preferences
- **Specified** JLARC to review preferences over 10-year cycle
- **Outlined** specific questions for JLARC staff to answer
- **Required** audit recommendation
- **Key questions:** public policy objective stated? Achieved?

# Steps in process repeated each year

In 2016, Citizen Commission determined 10-year review schedule and preferences for JLARC staff review

- July 2017 ○ Staff presented to JLARC Committee
- August ○ Staff presented to Citizen Commission
- September ○ Commission took public testimony
- October ○ Commission adopted comments
- December ○ JLARC hears final report
- January 2018 ○ Staff present to House & Senate fiscal committees

# Citizen Commission endorsed 5 reviews without comment

Preferences Reviewed	Recommendation
Coal-Fired Power Plant Preferences (Multiple Taxes)	Continue
Cogeneration Facilities/Renewable Resources (Public Utility Tax)	Terminate
International Banking Facilities (B&O Tax)	Review and clarify
Sales of Manufactured and Mobile Home Communities (REET)	Continue
Wood Biomass Fuel Manufacturing (B&O Tax)	Terminate

# Citizen Commission also

**5** Endorsed Legislative Auditor recommendations and added a comment

**3** Did not endorse Legislative Auditor recommendations and added a comment

Look Inside an AFV



## Clean Alternative Fuel Vehicles

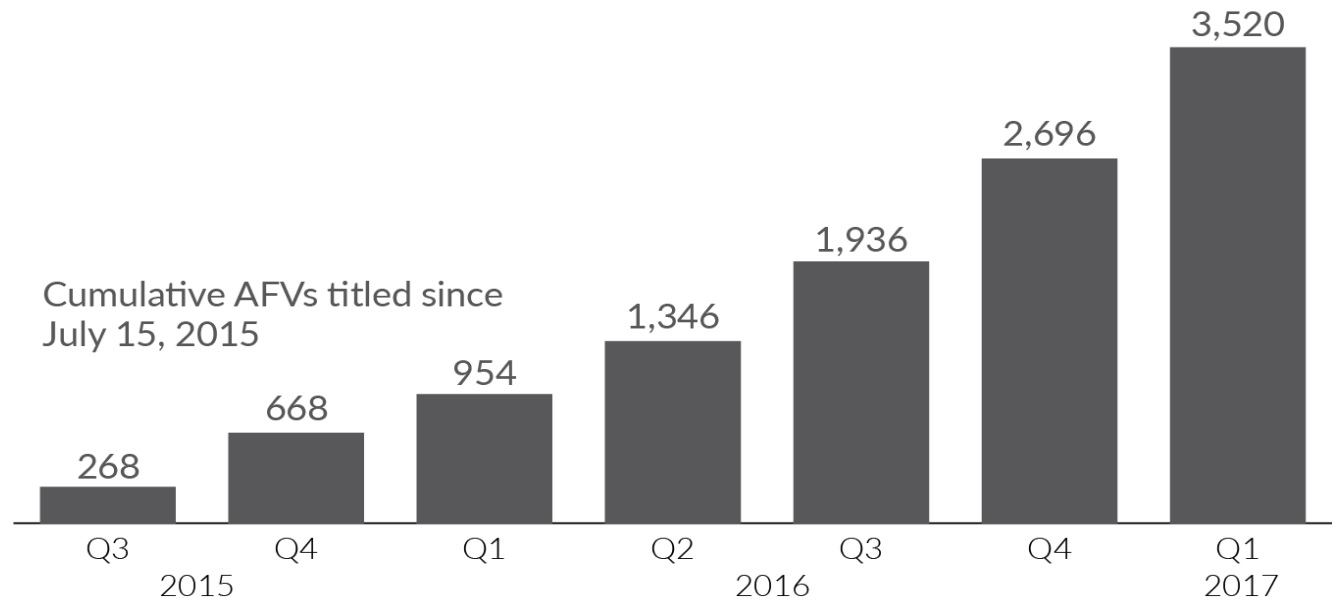
Sales and Use Tax Exemption on first \$32,000 of sale price for qualifying vehicles

Expires July 1, 2019, at the latest

# Preference achieving stated objective; closing in on 7,500 titled AFV target

Increase clean vehicle use	Preference achieving objective
Increase use of qualifying clean AFVs by <b>reducing</b> their <b>price</b>	Preference <b>reduces price</b> for qualifying new AFVs on first \$32,000 of sale or lease price

**5,929 vehicles** titled through October 31st, 2017



Alternative Fuel Vehicles

# Legislative Auditor recommends

## Review in 2019

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Review the sales and use tax exemption for clean alternative fuel vehicles during the 2019 legislative session if the number of qualifying vehicles titled in WA has not yet reached the 7,500 vehicle target.



# Citizen Commission endorsed with comment

## Review and revisit

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The Legislature should **review** this preference and **revisit its expectations** for the number of qualifying vehicles.



## Electric Vehicle Charging Stations and Batteries (2 preferences)

Sales and Use Tax; Leasehold Excise Tax

Preferences expire January 1, 2020

# Charging stations - stated intent to encourage transition to EVs, develop EV infrastructure

## EV charging stations (sales & use)

Exemption for parts, construction, repair, and improvement services

## Preference being used, unclear if objective being achieved

Since 2009, **1,663 publicly available** EV charging stations added – most are not fast chargers

- **Unclear** if this growth meets legislative goal for expanded EV infrastructure
- Preference also applies to **private** charging stations

JLARC staff estimate a **range** between **4,000 to 13,000** private outlets installed

# Charging station private use of public land – stated intent to encourage/develop EV use and infrastructure

## Leasehold excise tax (LET) exemption

No LET owed by private businesses that lease or use public lands to build or operate EV charging stations

## Preference being used but details are unclear

Extent of use **unknown**

- **No data or records** available to determine extent this is used, the value of preference, or if it is achieving public policy objective

# Batteries - stated intent to encourage transition to EVs, develop EV infrastructure

## EV batteries (sales & use)

Exemption for sales, installation and repair services

## Objective not being met

**Not used as anticipated** when enacted in 2009

- “Lease and swap” scenario did not materialize
- **Unclear** level of activity with less than 3 businesses reporting sales in 2016, none in 2014 or 2015

# Legislative Auditor recommends

Before January 1, 2020, expiration date:

## EV charging stations (sales & use) – Review and clarify

**Set a target** for number of new EV charging stations. **Consider a metric** for number of stations sufficient to achieve public policy objective.

## EV charging stations (LET) – Clarify

**Add a reporting requirement** to identify who is using the preference and the extent to which they benefit.

## EV batteries (sales & use) – Review and clarify

Determine if use matches **legislative expectations** for preference.

# Citizen Commission endorsed with comment

## Clarify

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- The Legislature should **set clearer targets** to measure preferences' impacts.
- Report suggests objectives being achieved, but evidence suggests the preferences' impacts are concentrated in a few areas which is important because the continued EV growth requires more widely dispersed stations.
- Because public and private entities show interest in providing charging stations, **reporting standards** for both are important for future evaluation.



# Standard Financial Information

Sales and Use Tax - up to \$15 M of info

Expires July 1, 2021





# Preference achieving one stated objective; unclear if achieving the other

## Exempt sales of standard financial information

To conform with a previously determined policy objective

## Preference achieving objective

By exempting sales of standard financial information, the preference is meeting this objective

# Unclear if achieving second objective: to provide exemption with minimal fiscal impact

- Fiscal impact depends on **share of SFI that is considered a searchable database**; share is unknown

Percentage of SFI that is Online Searchable Database	Fiscal Note Estimate, State Revenue (FY16)	Estimated Revenue Impact (FY16)	Difference (\$)	Difference (%)
100%	(\$469,000)	(\$1,125,000)	\$656,000	140%
50%	(\$469,000)	(\$563,000)	\$94,000	20%
42%	(\$469,000)	(\$469,000)	\$0	0%

# Legislative Auditor recommends

## Clarify

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The preference is meeting the stated objective of exempting sales of standard financial information.

Because there is no metric, unclear if the actual fiscal impact reasonably conforms to the 2013 fiscal estimate.

# Citizen Commission endorsed with comment

## Clarify

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- Many enterprises use some form of digital products.
- It is unclear why the potential beneficiaries of this preference are so narrowly defined.
- The Legislature should clarify the rationale for so narrowly restricting this preference to IIMCs.



# State-Chartered Credit Unions

Business and Occupation Tax

No expiration date

# Preference achieving one inferred objective; second inferred objective unclear

<b>Keep state C.U.s under state regulation</b>	<b>Inferred objective achieved</b>
Remove potential incentive to switch to federal charter to avoid B&O tax	State-chartered C.U.s exempt from B&O tax in same manner as federally chartered C.U.s
<b>Support serving low-income populations</b>	<b>Unclear if Legislature had specific goal to serve low-income populations</b>
Past statements suggest C.U.s had underlying purpose to serve low-income people	Not explicitly stated in C.U. law or regulations Broad field of membership allows to serve, but doesn't limit to just low-income

# Legislative Auditor recommends

## Clarify

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To **identify the public policy objectives**, as none are stated in statute.

As part of clarification, **provide a performance statement** that provides **targets and metrics** to measure if the public policy objectives have been achieved.

Consider if an objective to serve low-income populations is consistent with other state-chartered credit union policy objectives, such as providing a broad field of membership.

# Citizen Commission endorsed with comment

## Clarify

- C.U. industry testified the preference allows many C.U.s to stay state-chartered, but these goals are from the **industry's interpretation** of their authorizing legislation, not from the legislation creating the preference.
- This ambiguity led staff to infer an objective to serve underserved populations, which industry supports but does not consider a main goal.
- It is in both the **Legislature's and industry's interest to clarify and define** the **public policy objectives** and **performance metrics** for the preference going forward.



Please work with admin to find high quality images.



# Electric Power Sold in Rural Areas

Public Utility Tax

No expiration date

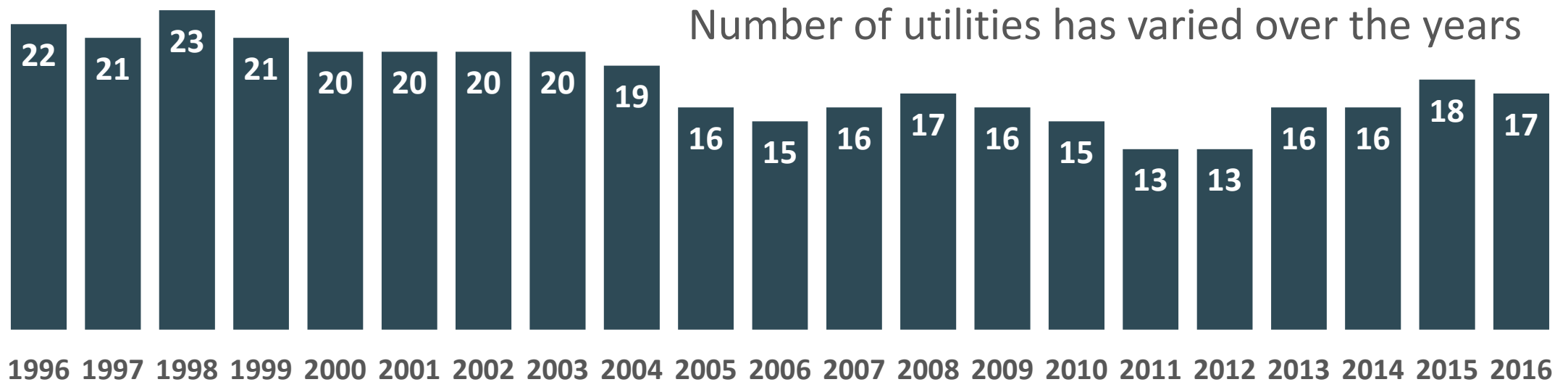
# Preference is meeting inferred objective

## Provide tax relief

To utilities and their customers in rural areas where retail power rates exceed the state average

## Achieving the objective

Structure ensures that only utilities with above average rates and low customer density benefit



Electric Power Sold in Rural Areas

# Legislative Auditor recommends

## Continue

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Meeting inferred objective of providing tax relief to rural utilities with higher electricity costs and their customers

## Consider

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Stating the public policy objective in statute

# Citizen Commission does not endorse

## Review and clarify

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The Legislature should review and clarify the public policy objective of the preference.



# Electricity for Electrolytic Processors



Public Utility Tax

Scheduled to expire June 30, 2019



32,423



# JLARC staff infer two public policy objectives

## Allow processors to continue production

So industry remains competitive and positioned to preserve and create new jobs

## Achieving inferred objective

In 2004, one electrolytic processor operated in Washington. Today, there are two. Total production also increased

## Retain family-wage jobs

At least 75% of the jobs that were on the payroll for electrolytic processors in January 1, 2004

## Achieving inferred objective

In 2004, one beneficiary employed 33 workers, making the target 24.75 jobs  
In 2015, two beneficiaries employed 106 workers

# Legislative Auditor recommends

## Clarify

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The inferred objectives are being met. The Legislature repealed stated objectives in 2010 while reorganizing tax preference reporting requirements.

If the Legislature is interested in family wage jobs, a **jobs target** and **definition of “family wage jobs”** would inform future reviews.

If the Legislature is interested in allowing the industry to continue production, clarifying **criteria to assess competitiveness and production** would help future reviews.

# Citizen Commission does not endorse

## Continue

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- The tax preference is consistent with similar exemptions where electricity is a prime raw material component in the processing.
- Testimony surrounding this preference suggested the metric for jobs does reflect current employment levels and is an adequate indicator of the preference's policy success.





# Vessel Deconstruction Services

Sales and Use Tax

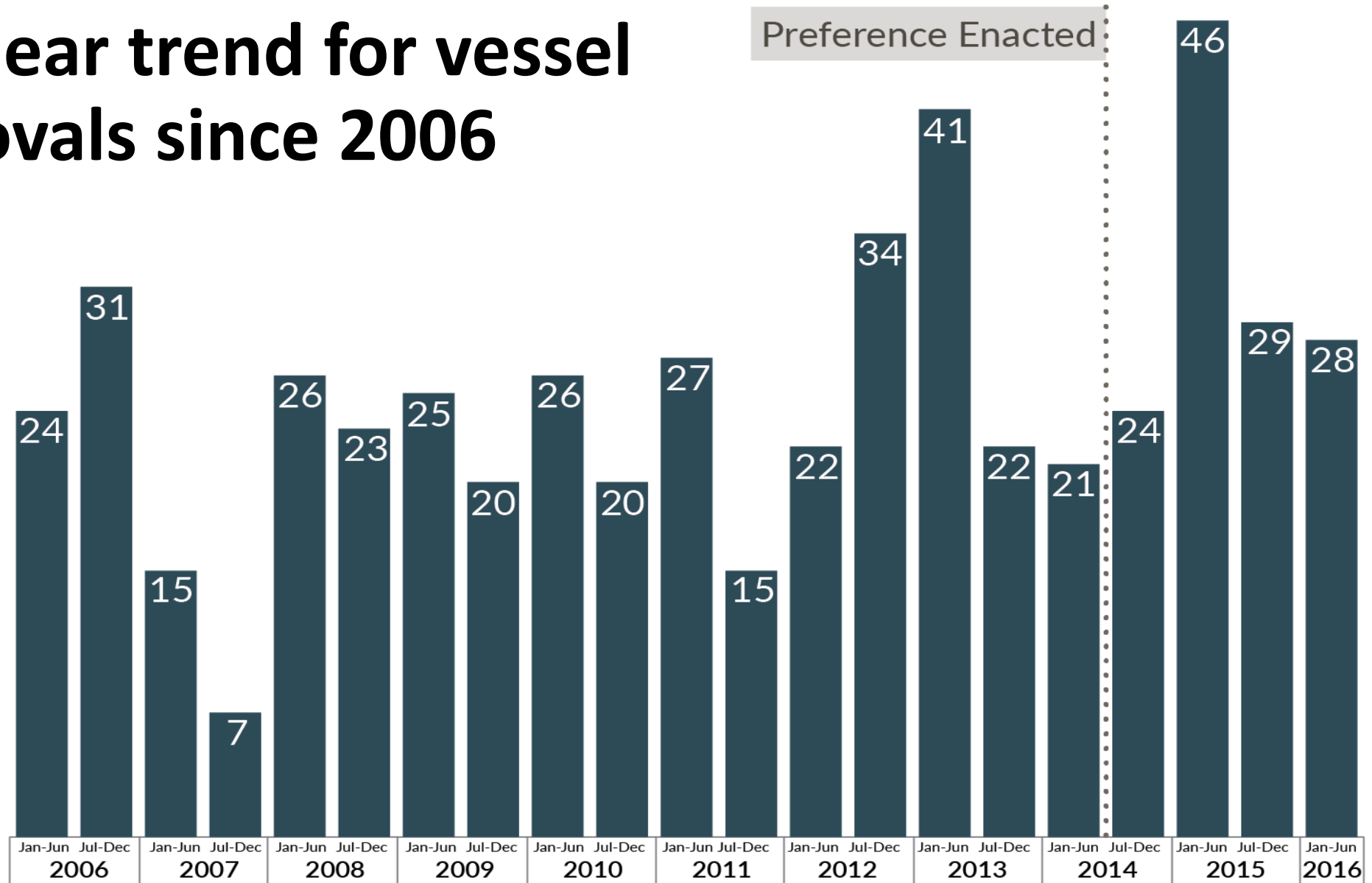
Expires January 1, 2025

# Stated objective - decrease abandoned/derelict vessels by removing them from WA waters

## Metrics provided for JLARC review:

If Either...	Results in...	Then:
An increase in available capacity to deconstruct derelict vessels <b>OR</b> A reduction in the average cost to deconstruct vessels	An increase in the number of derelict vessels removed from Washington waters  <i>(compared to before June 12, 2014)</i>	The Legislative Auditor should recommend extending the January 1, 2025 expiration date

# No clear trend for vessel removals since 2006



Vessel Deconstruction

# Slight increase in removals recently, but unclear if due to preference or other factors

<b>Vessel removals have varied since 2006</b>	<b>Unclear if preference caused the increase</b>
Removals up slightly recently <ul style="list-style-type: none"><li>• Before: <b>29.5</b> every 6 months</li><li>• After: <b>31.8</b> every 6 months</li></ul>	Not all removals require deconstruction <ul style="list-style-type: none"><li>• <b>78 of 205</b> vessels removed between Oct 2014 – Sept 2016 were deconstructed</li></ul>
<b>More capacity</b>	<b>Not being achieved</b>
Encourage increased capacity for vessel deconstruction work in Washington	Since enacted, no additional deconstruction businesses or increased capacity <ul style="list-style-type: none"><li>• Deconstruction <b>minor part</b> of business, too sporadic for successful business model</li></ul>

# Legislative Auditor recommends

## Review and clarify

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While the average cost for deconstruction is lower, it is **unclear** if preference led to changes in vessel removals.

When reviewing, the Legislature might consider:

- 1. Adopting a metric** other than number of vessels removed to measure if public policy objective is achieved.
- 2. Re-categorizing the purpose** of the preference as intended to provide tax relief rather than to induce a certain behavior.

# Citizen Commission does not endorse

## Clarify only

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- The Commission agrees the preference should be **clarified** and also **continued**.
- DNR testified the preference **helps to manage** problem vessels by **increasing DNR's ability to buy more** deconstruction work.
- A clarification should **address the current evaluation metric** – a count of vessels. The objective should **focus on reducing vessel removal costs**, not counting vessels removed.



# Next Step

Present to House and Senate Fiscal Committees

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January 2018

# Full Report

[leg.wa.gov/jlarc/taxReports/2017/defaultPF.htm](http://leg.wa.gov/jlarc/taxReports/2017/defaultPF.htm)

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