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

<table>
<thead>
<tr>
<th>Tax Source</th>
<th>Number of Exemptions</th>
<th>Savings ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales &amp; Use</td>
<td>158</td>
<td>$ 39.1</td>
</tr>
<tr>
<td>Bus. &amp; Occupation</td>
<td>161</td>
<td>$ 8.6</td>
</tr>
<tr>
<td>Property</td>
<td>103</td>
<td>$ 44.7</td>
</tr>
<tr>
<td>All Other</td>
<td>145</td>
<td>$ 6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>567</strong></td>
<td><strong>$ 98.4</strong></td>
</tr>
</tbody>
</table>

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)

Overview of Tax Preference Performance Reviews
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

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