



2011 Tax Preference Performance Reviews

Proposed Final Report

Joint Legislative Audit & Review Committee

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2006 Legislature Mandated Reviews



- An “orderly” review of all preferences over a ten-year cycle; this is year five
- Preference: exemption, exclusion, deduction, credit, deferral, preferential rate
- Outlined specific questions to be answered in reviews, including:
 - Public policy objectives
 - Beneficiaries
 - Revenue and economic impacts
- More detail in report

JLARC Staff Work with the Citizen Commission



- Citizen Commission for the Performance Measurement of Tax Preferences:
 - Five voting members: appointed by each of the legislative caucuses and the Governor
 - Two non-voting members: JLARC Chair and State Auditor
- Commission's duties include:
 - Set the 10-year review schedule
 - Take public testimony on the reviews
 - Comment on JLARC staff analyses

JLARC and Commission Review Staff's Work



September of previous year: Commission determines schedule for coming year

JLARC staff prepare analysis

July: Present to JLARC

Aug: Present to Commission

Sept: Commission takes public testimony

Oct: Commission adds any comments

Jan: JLARC hears final report; joint hearing in Legislature

120 Detailed Reviews Conducted by JLARC Since 2007



	Number of Reviews	Beneficiary Savings Est.
Terminate	6	\$ 71 M
Allow to expire	11	\$ 76 M
Legislature review/ clarify intent	29	\$ 1,638 M
Continue	74	\$ 44,406 M
Total	120	\$ 46,190 M

Information on other preferences provided by DOR is also available

25 Detailed Tax Preferences Reviewed in 2011



	Number of Reviews	Beneficiary Savings Est.
Terminate	1	\$ 0 M
Allow to expire	2	\$ 44 M
Legislature review/ clarify intent	8	\$ 616 M
Continue	14	\$ 1,625 M
Total	25	\$ 2,285 M

Information on 43 other preferences provided by DOR is also available

Today's Presentation Focuses on Citizen Commission's 2011 Comments



Terminate	1. Repaired goods delivered out-of-state
Allow to expire	1. Hog fuel to produce energy
	2. Renewable energy machinery
Review and clarify	1. Interest on real estate loans
	2. Meat processors
	3. Shared real estate commissions
	4. Municipal sewer services
	5. Extracted fuel
	6. Aircraft fuel, exports & commercial use
	7. Limited income property tax deferral
	8. Nonprofit sheltered workshops

Today's Presentation Focuses on Citizen Commission's 2011 Comments



Continue	1. Boat sales to nonresidents & foreign residents
	2. Church camps
	3. Display items for trade shows
	4. Interest from state/municipal obligations
	5. Interstate bridges
	6. Investment of businesses in related entities
	7. Laundry for nonprofit health care facilities
	8. Nonprofit blood and tissue banks
	9. Nonprofit day care centers
	10. Open space compensating tax
	11. Real estate excise tax exemptions
	12. Sales to nonresidents for use out-of-state
	13. Sales or use tax paid in another state
	14. State-chartered credit unions

Hog Fuel to Produce Energy Sales & Use Tax Exemption



Public Policy Objective?

Legislature did not state; however, it did provide an expiration date.



Hog Fuel to Produce Energy Sales & Use Tax Exemption



JLARC Staff Recommends

Allow to Expire

Because the Legislature intended the exemptions to be temporary and did not provide performance goals to guide any other assessment of performance.



Citizen Commission

Does Not Endorse

Because it is unclear that the Legislature intended the preference to be temporary. Legislature should review evidence before determining whether to let preference expire.

Interest on Real Estate Loans B&O Tax Deduction



Public Policy Objective?

Legislature did not state. Documents from period of enactment suggest purpose was to encourage Washingtonians to buy homes by making loans more available and less expensive.



Interest on Real Estate Loans B&O Tax Deduction



JLARC Staff Recommends

Review and Clarify

Because it is unclear whether the original public policy objective applies given changes in the lending industry.



Citizen Commission

Endorses and Adds

Legislature should consider whether the preference is essential to maintain competitive residential lending capability for state-domiciled residential real estate lenders.

Meat Processors B&O Tax Preferential Rate



Public Policy Objective?

Legislature did not state.

Historical documents suggest Legislature intended to:

- Improve competition for Washington meat processors
- Treat Washington food processors consistently



Meat Processors B&O Tax Preferential Rate



JLARC Staff Recommends

Review and Clarify

Because the public policy purpose for providing differential tax treatment for meat processors compared to other food processors is unclear.



Citizen Commission

Endorses and Adds

Legislature should determine if preference provides parity with other state tax rates and other geographical differences for meat processors.

Shared Real Estate Commissions B&O Tax Exemption



Public Policy Objective?

Legislature did not state.
Implied intent not to impose “pyramiding”
effect of the B&O tax on the real estate
industry.



Shared Real Estate Commissions B&O Tax Exemption



JLARC Staff Recommends

Review and Clarify

Because it is not clear why the Legislature
granted a tax preference to real estate
agents and brokers and not to other
businesses with similar broker-agent
relationships.



Citizen Commission

Endorses and Adds

Legislature should align B&O tax treatment of real estate
brokers and agents to brokers and agents in other industries
unless there is a compelling reason for differential treatment.

Aircraft Fuel Tax, Export and Commercial Use Exemption



Public Policy Objective?

Legislature did not state. JLARC research found preference likely structured so that:

- 1) Parties paying aircraft fuel tax were the ones that benefited from tax proceeds.
- 2) It will comply with Constitutional prohibitions on taxing interstate/foreign commerce and the federal government.



Aircraft Fuel Tax, Export and Commercial Use Exemption



JLARC Staff Recommends

Review and Clarify

Parties that are exempt from aircraft fuel tax now benefit from tax receipt expenditures.



Citizen Commission

Endorses and Adds

The Legislature should state the preference's public policy objectives and narrow the scope commensurate with the stated public policy objectives.

Limited-Income Property Tax Deferral



Public Policy Objective?

Stated intent is to “(a) provide a property tax safe harbor for families in economic crisis; and (b) prevent existing homeowners from being driven from their homes because of overly burdensome property taxes.”



Limited-Income Property Tax Deferral



JLARC Staff Recommends

Review and Clarify

Because the intended beneficiaries of this preference are not clear in light of the recent economic recession.



Citizen Commission

Endorses and Adds

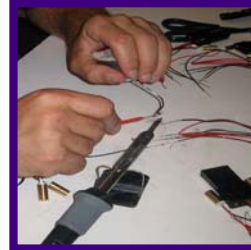
Legislature should identify measurable evaluation criteria. However, administration costs are high relative to the participation; it might be appropriate to terminate the preference unless the preference can be restructured to assure cost effectiveness.

Nonprofit Sheltered Workshops Property Tax Exemption



Public Policy Objective?

Legislature did not state.
JLARC infers objective is to encourage employment of persons with disabilities in sheltered workshop facilities.



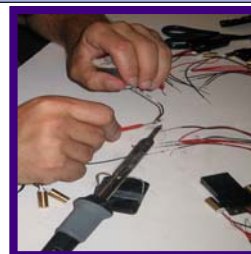
Nonprofit Sheltered Workshops Property Tax Exemption



JLARC Staff Recommends

Review and Clarify

Because public policy on employment of people with disabilities shifted from placement in sheltered workshops to supported work settings along with persons without disabilities.



Citizen Commission

Endorses and Adds

The Legislature should evaluate whether the preference is necessary any longer to encourage employment of persons with disabilities.

Sales of Goods to Certain Nonresidents Sales Tax Exemption



Public Policy Objective?

Legislature did not state.

JLARC infers preference intended to support Washington retailers by removing a disincentive for nonresidents from states with less than a 3 percent sales tax.



Sales of Goods to Certain Nonresidents Sales Tax Exemption



JLARC Staff Recommends

Continue

Because the preference is meeting the implied public policy objective of removing a disincentive for certain nonresidents.



Citizen Commission

Does Not Endorse

Because there is ambiguity regarding Legislature's public policy objective and the economic benefits and costs. Legislature should review and clarify public policy objectives and evaluate the preference's economic impacts.

Agency Comments



Department of Revenue, Department of Licensing, and Office of Financial Management reviewed JLARC's reports and had no comments.

Digest of All 120 Reports Available Online



Summary of Tax Preference Performance Reviews – Review and Clarify

What the Preference Does	Public Policy Objective	Estimated Beneficiary Savings	JLARC Recommendation
Agricultural Products (B&O) / RCW 82.04.330; 82.04.410			
Provides a B&O tax exemption for income earned from wholesale sales of agricultural products by agricultural producers (farmers). The exemption does not apply to retail sales of agricultural products by farmers.	The Legislature did not state a public policy objective for this preference. JLARC infers the public policy objectives may have been to: <ol style="list-style-type: none"> 1. Define the B&O tax base to exclude wholesale agricultural income but include retail sales of agricultural products or processed food, and 2. To support farmers during the financially difficult times of the Great Depression. 	\$65.8 million in 2009-11 Biennium	Review and clarify: Because incomes have increased significantly for some farms since the period of financial hardships when this preference was enacted, the Legislature should consider establishing an income threshold in order to qualify.
Commission Comment: Endorses without comment.			
Legislative Action: Bills introduced in 2009 and 2010 but not enacted.			

www.citizentaxpref.wa.gov/documents/2011Digest.pdf

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