



Proposed Final Report

2020 Tax Preference Performance Reviews

The Legislative Auditor identified four preferences for further legislative review, including two not achieving stated objectives, and two for industries that have changed since preferences' inception.

Eric Thomas | Scott Hancock | Dana Lynn | Rachel Murata

December 2020



Today's focus:

Citizen Commission Comments

Legislature created Citizen Commission for Performance Measurement of Tax Preferences.

- Five-member body
- Determines 10-year review schedule
- Takes public testimony and adopts comments on staff work

Commission endorsed seven of the eight Legislative Auditor recommendations

Preference	Citizen Commission endorsed
Customized Training	Did not endorse
Unemployed Veterans	✓
Farmworker Housing	✓
Microbrewers	✓
Tribal Lands	✓
Shipping Farm Products	✓
Livestock Nutrient Management	✓
Anaerobic Digesters	✓



B&O tax

Customized Training

Enacted 2006 | Expires July 1, 2021

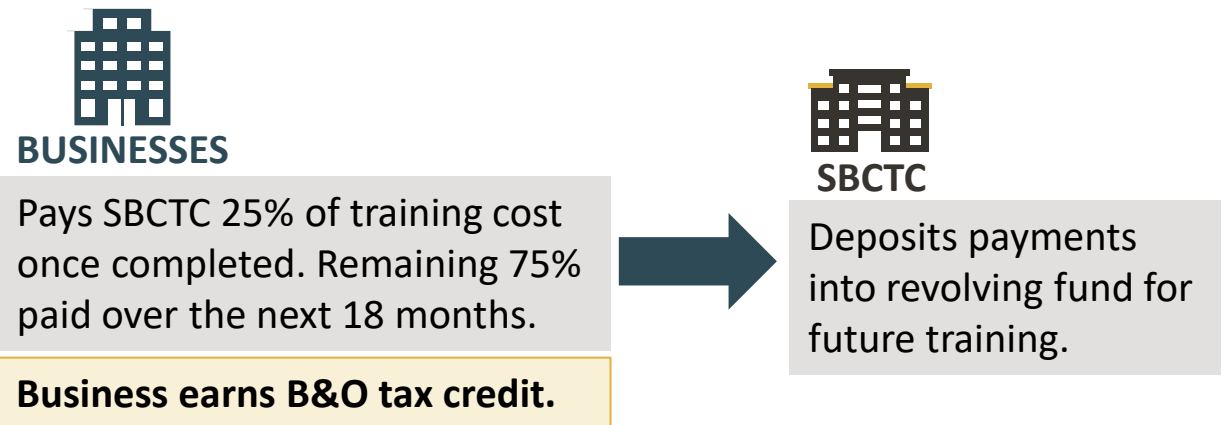
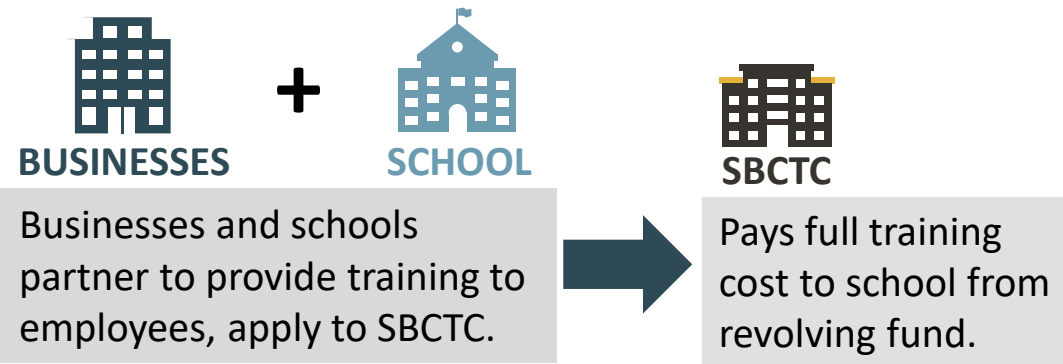
2019-21 Estimated Beneficiary Savings: \$125,500

Legislative Auditor's conclusion: The Customized Training Credit is not attracting new businesses and unlikely to contribute to business retention. The Legislature should allow the credit to expire. Funding could be redirected to other programs if there is interest in maintaining support for customized training.

Dana Lynn | Scott Hancock

December 2020

Businesses earn 50% B&O tax credit for each repayment made to SBCTC for contracted Customized Training Programs



Credit not achieving stated objective: attract and retain new and expanding businesses

Credit used by 61 businesses (June 2006 - November 2019).

81% of users had been in business in WA for 11+ years.

69% of users had 50+ employees. Law states preference should be given to businesses with < 50 employees.

Preference valued at 0.008% of all business's gross income. Unlikely to factor into business location decisions.



Legislative Auditor's Recommendation

The Legislature should allow the credit to expire as scheduled, July 1, 2021.

B&O credit not achieving stated objective to attract, retain businesses to WA.

- Consider repealing the associated Customized Training Program. JLARC staff did not evaluate the educational or workforce development outcomes of the associated program, which could provide other benefits to businesses and employees.
- If Legislature wants to retain funding for customized training for policy purposes, it could redirect money from revolving fund to existing training programs.



Citizen Commission did not endorse Legislative Auditor's recommendation

Testimony suggested the CTP has several advantages over existing grant programs:

- More likely to be used by existing small businesses but who cannot easily send workers offsite for training or handle complex grant program reporting.
- CTP program should be continued but with stated objective focused on recruiting, retaining, and expanding **existing** small businesses.



B&O tax and public utility tax

Hiring Unemployed Veterans

Enacted 2015 | Expires July 1, 2023

2021-23 Estimated beneficiary savings: \$152,800

Legislative Auditor's conclusion: The preferences have had limited use, and the Legislature's goal of reducing the number of unemployed veterans has not been met. The Legislature should modify the preferences to better serve unemployed veterans.

Dana Lynn | Scott Hancock

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Up to \$1,500 B&O or public utility tax credit for hiring unemployed veterans

Stated objective:

Encourage businesses to hire and create jobs for unemployed vets.

Legislature set goal:

Reduce number of unemployed veterans by 30%.

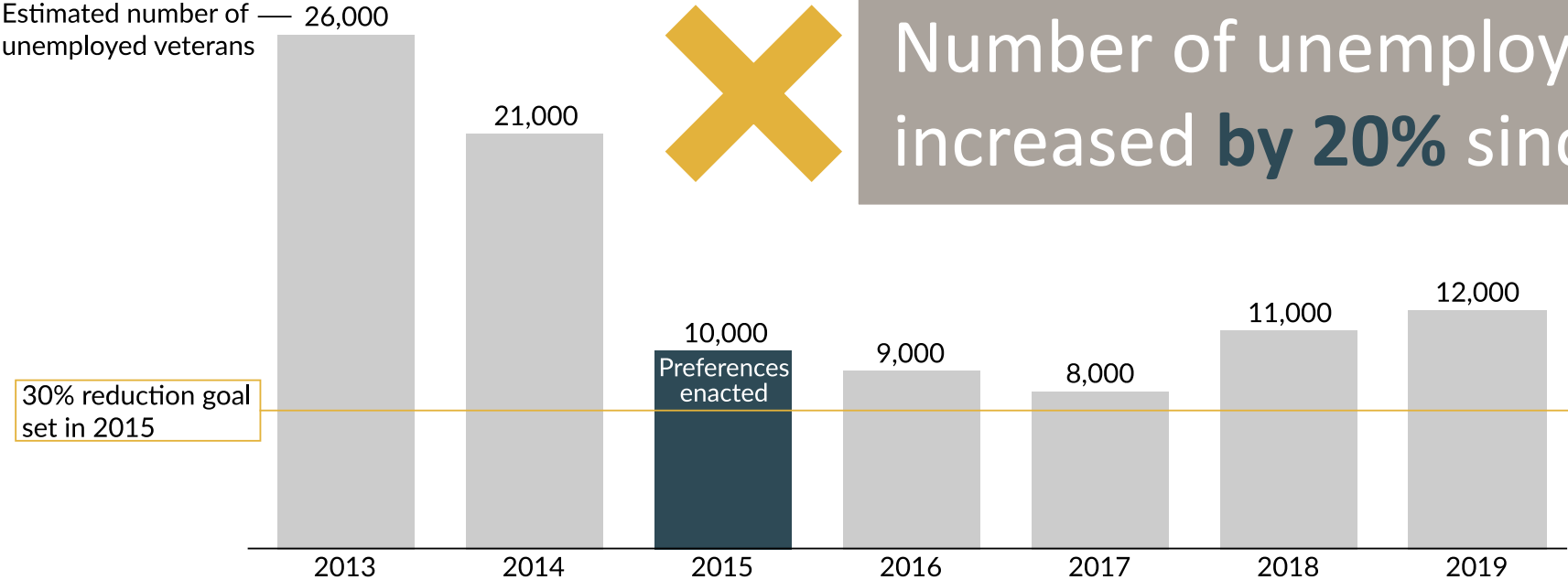
Legislature did not designate any agency, such as Employment Security Department or Department of Veterans Affairs, to actively promote the preferences.

Neither objective nor 30% reduction goal met. As of December 2019:



132 vets hired by 45 businesses. If all hired because of credits, preferences reduced total number of unemployed veterans **by 1%**.

Estimated number of unemployed veterans



Number of unemployed veterans increased **by 20%** since 2015.

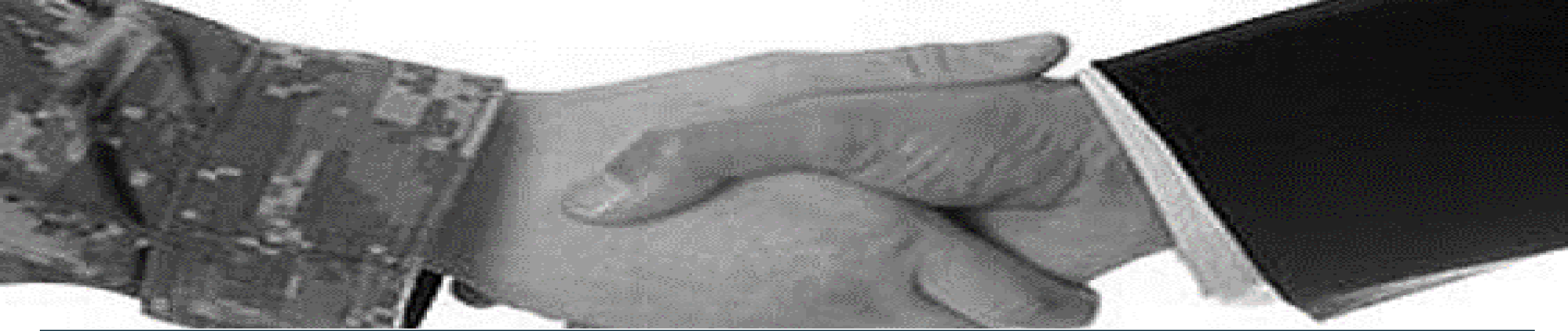


Legislative Auditor's Recommendation

The Legislature should modify the preferences to better serve vets seeking jobs.

Options could include:

- Designating a state agency to actively promote the credits.
- Focusing on a subset of veterans or businesses.
- Redirecting resources to other state-funded veteran employment programs.



Citizen Commission endorsed recommendation with comment

The Legislature should re-examine and modify the preferences.

It should consult with the Departments of Employment Security and Veterans Affairs, as they regularly assist veterans seeking employment.



Beer tax

Microbrewers

Enacted 1993 | No expiration date

2021-23 Estimated Beneficiary Savings: \$7.2 million

Legislative Auditor's conclusion: \$7.2 million biennial preference created an estimated 2 to 6 jobs in beverage manufacturing industry. Distributors receive 84% of direct preference savings, which is 0.17% of their gross income.

Dana Lynn | Scott Hancock

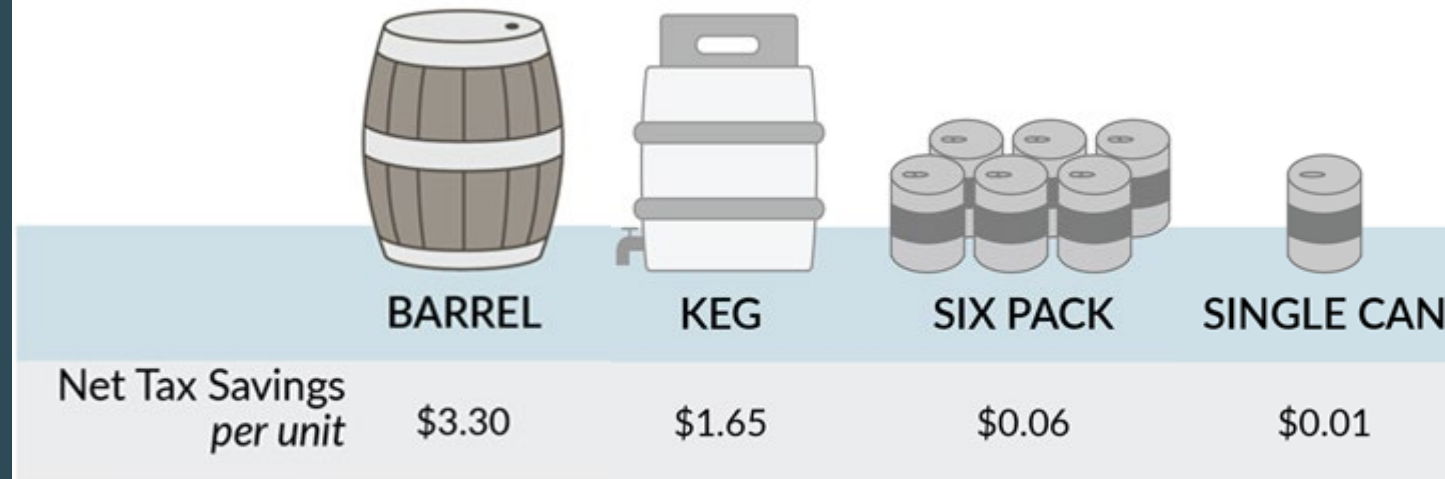
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Preference provides
**net \$3.30 beer tax
exemption** for first
60,000 barrels sold by
breweries that
produce under 2
million barrels

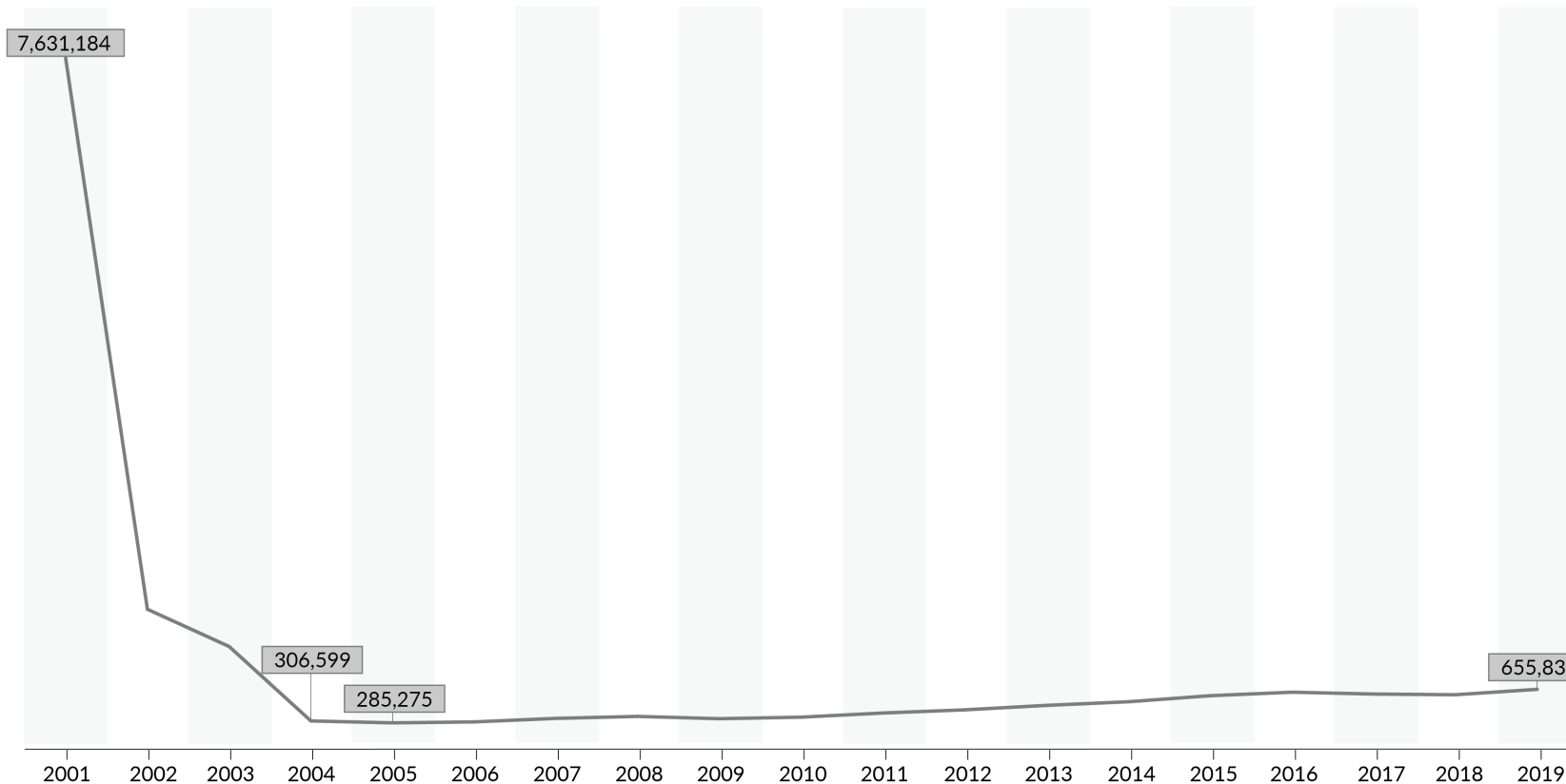
breweries & distributors

Inferred Objective

Provide tax relief to WA
microbreweries as the
industry developed.



Washington's beer industry has changed

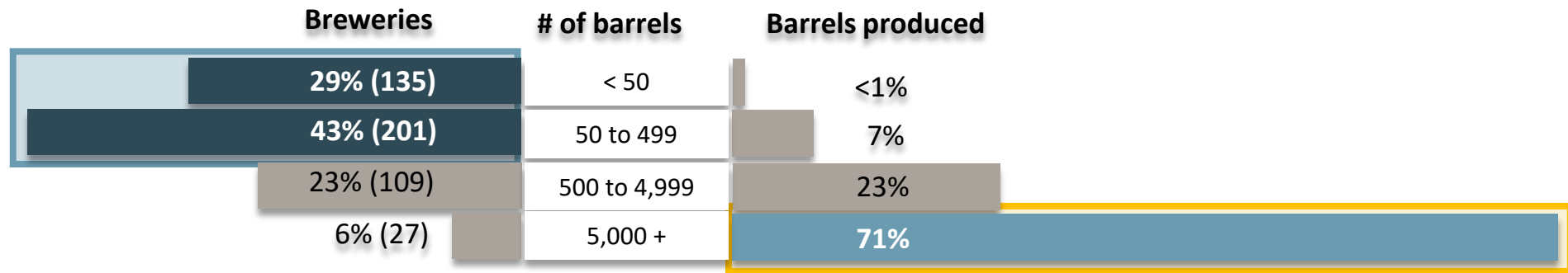


Large breweries left the state by 2003.

Production dropped from **7.6M barrels** (2001) to **under 300K** (2005).

Washington's brewers are relatively small

Most breweries (72%) in Washington produce fewer than 500 barrels per year.



Most production (71%) occurs at the 6% of breweries that produce over 5,000 barrels per year.

In FY19, distributors realized 84% of preference savings - 0.17% of their gross business income

16%

WA breweries self-distributing or directly selling to customers.

30%

Distributors purchasing from WA breweries.

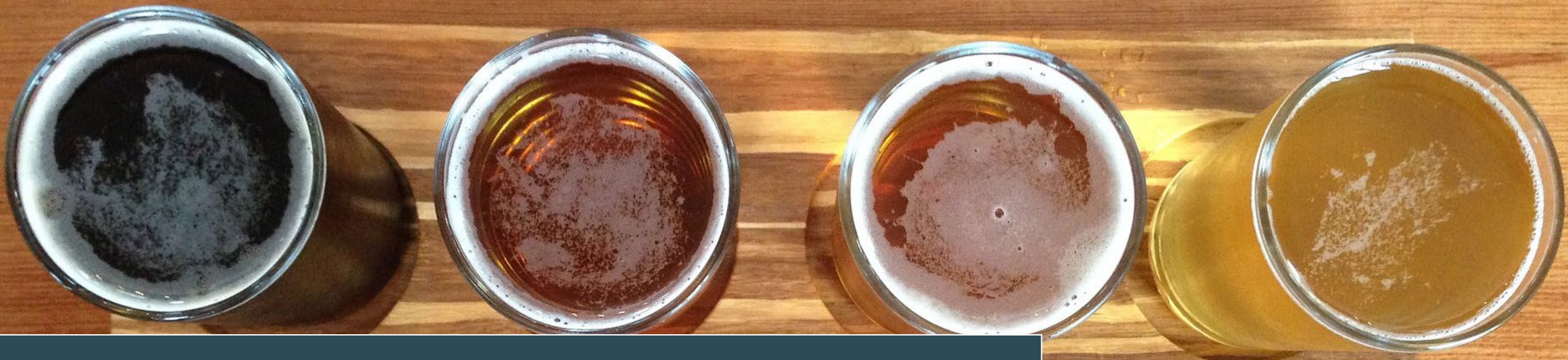
54%

Distributors purchasing from out-of-state breweries.

Economic modeling tool suggests preference:

Directly supported
between **2 to 6 jobs**
in **beverage**
manufacturing
industry.

Reduced state and
local government
spending, resulting
in **loss of 25 to 27**
public sector jobs.



Legislative Auditor's Recommendation

The Legislature should review and clarify the beer tax preference.

Clarify to include a performance statement stating policy objectives and providing metrics to measure if objectives are met, state the preference's intended beneficiaries, and ensure the preference directly targets those businesses.



Citizen Commission endorsed recommendation with comment

The Legislature should speak with both distributors and brewers to better understand their business relationship and how the tax differential between Washington and Oregon impacts beer distribution and sales in Washington.

This would clarify potential changes to the preference that keep it within certain federal constitutional tax requirements.



Sales and use tax

Farmworker Housing

No expiration date

2021-23 Biennial estimated beneficiary savings: \$3.4 million

Legislative Auditor's conclusion: The exemption may have incentivized construction of some types of farmworker housing. Exemption requirements may not align with other current housing practices.

Rachel Murata | Dana Lynn

December 2020



**Exemption applies to both
permanent and seasonal housing**

| New housing is unlikely to eliminate shortage

Created in
1996: estimated
shortage for
57,000 workers

Housing has
been built,
agricultural
employment
has increased

New report this
month: shortage
for 102,000
workers

84% of seasonal housing was required by a federal visa program – not likely caused by the exemption.

Other seasonal and permanent housing may have been incentivized.



Exemption requirements may not align with current housing practices and funding sources

This exemption requires housing to be exclusively (100%) for farmworkers.

- Exception for housing authorities, at least 80% must be for farmworkers.

Housing often built combining farmworkers with other populations.

- Stakeholders say this can increase financial stability and local support.
- Other funding sources often fund projects with 75% farmworkers.





Definition of farmworker differs from other funding sources

This exemption defines farmworker differently from sources like the Washington State Housing Finance Commission and the Housing Trust Fund.

The Department of Revenue's position is that it excludes aquaculture, which is included by other funding sources.



Legislative Auditor's Recommendation

Clarify the preference by:

- Adding a performance statement.
- Determining if it should align with other funding sources or be maintained in its current form.

Estimated biennial beneficiary savings: \$3.4 million



Citizen Commission Endorsed

And further commented:

- Testimony suggested the preference improves the financial viability of housing developments, helping increase the supply of housing
- Can be improved by aligning with other funding source requirements
- Received written testimony from housing providers that offers specific changes to the preference

Four additional reviews not covered today

Tax Preference	Legislative Auditor Rec.	Citizen Commission
Tribally Owned Lands for Economic Development (property tax)	Continue	Endorse
Shipping Farm Products to Interim Storage Facilities (public utility tax)	Continue	Endorse
Livestock Nutrient Management Equipment (sales and use tax)	Continue	Endorse
Anaerobic Digesters (sales and use tax)	Continue, monitor future use	Endorse



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