

20-07 FINAL REPORT: 2020 TAX PREFERENCE PERFORMANCE REVIEWS

Hiring Unemployed Veterans

LEGISLATIVE AUDITOR'S CONCLUSION:

The preferences have had limited use, and the Legislature's goal of reducing the number of unemployed veterans by 30% has not been met. The Legislature should modify the preferences to better serve unemployed veterans.

December 2020

Tax credits for hiring unemployed veterans

Businesses that hire unemployed veterans can take a business and occupation (B&O) or public utility tax (PUT) credit for each unemployed veteran they hire. The credit amount is:

- Equal to 20% of the wages and benefits of the hired veteran, up to \$1,500.
- Only available after the veteran has been employed for at least two consecutive full quarters of a calendar year.
- Capped at a combined total of \$500,000 of B&O and PUT credits statewide each fiscal year.

**Estimated Biennial
Beneficiary Savings**
\$152,800

Tax Type
Business and
Occupation Tax, Public
Utility Tax
RCWs 82.04.4498,
82.16.0499
Applicable Statutes

The credits are available to businesses that hired unemployed veterans on or after October 1, 2016. Credits can be earned through June 30, 2022, and must be used by June 30, 2023. The preferences are scheduled to expire July 1, 2023.

Stated public policy objectives not met

When the preferences passed in 2015, the Legislature stated that the credits were intended to encourage businesses to hire and create jobs for unemployed veterans. The Legislature set a goal of reducing the number of unemployed veterans by 30%. If this goal was achieved, the Legislature directed the Legislative Auditor to recommend extending the expiration date of the preferences.

Objectives (stated)	Results
Encourage businesses to hire unemployed veterans.	Not met. The preferences have had a negligible impact on veteran unemployment. Businesses that used the preferences have reported hiring a total of 132 unemployed veterans over three years. This represents 1% of the total number of unemployed veterans when the preference was enacted.

Objectives (stated)	Results
Reduce the number of unemployed veterans by 30%.	Not met. The estimated number of unemployed veterans has increased 20% since the preferences were enacted in 2015.

Recommendations

Legislative Auditor's Recommendation: Modify the preferences

The preferences are not currently working as intended. The Legislature should modify the preferences to more effectively serve veterans who are seeking jobs.

Modifications might include:

- Designating a state agency to be in charge of publicizing and promoting the preferences to businesses and veterans. Currently, there is limited information available on the tax credits for potential employers and veterans.
- Focusing the preferences on a subset of veterans or businesses. For example, the preferences could be focused on specific populations such as disabled veterans or targeting specific businesses.
- Eliminating the preferences and redirecting resources to other state-funded programs that have demonstrated success with encouraging businesses to hire unemployed veterans.

If the Legislature does not take action, the preferences are scheduled to expire on July 1, 2023.

You can find additional information in Recommendations.

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. Although the preference should be modified, there are additional considerations to the Legislative Auditor's modification options. If this broader base for the credit is not working, it does not seem plausible that narrowing the focus on specific veterans or businesses is likely to increase use of the credit to hire veterans. Further, eliminating the preference and redirecting funds would only make sense if there are existing programs that have more success assisting veterans. There may be other problems with the credit as currently structured that could be modified. For example, the rules suspending the credit when a veteran is terminated seem counterproductive to veteran hiring. If there is not a fit between the veteran and the job, the statute forbids use of a new credit for a year, essentially eliminating any incentive to replace the employee with another veteran. Repayment or an offset against any new credits applied for may better support veteran hiring. Another option may be increasing the amount of the credit, given that the full amount of the budgeted amounts are not currently being used. In the process of modifying this preference, the Legislature should consult with the Departments of Veterans Affairs and the Employment Security for their suggestions to improve outcomes, as these Departments have experience assisting veterans seeking employment.

Committee Action to Distribute Report

On December 7, 2020 this report was approved for distribution by the Joint Legislative Audit and Review Committee. Action to distribute this report does not imply the Committee agrees or disagrees with the Legislative Auditor recommendations.

REVIEW DETAILS

1. Tax credits for hiring unemployed veterans

Businesses may take a B&O or public utility tax credit for hiring unemployed veterans

This review covers two tax preferences available to businesses that hire unemployed veterans in Washington: a business and occupation (B&O) tax credit and a public utility tax (PUT) credit.

Businesses must hire unemployed veterans for permanent, full-time positions

Businesses can take a credit against their B&O tax or PUT when they hire unemployed veterans for permanent, full-time positions. Qualifying veterans must be unemployed for at least 30 days immediately before they are hired by the business claiming the tax credit.

Up to \$1,500 credit for each qualifying veteran hired

A business can claim a credit against their B&O tax or PUT equal to 20% of the veteran's wages and benefits, up to a total of \$1,500 per veteran employed. The following conditions apply:

- The veteran must be employed full-time for at least two consecutive full quarters of a calendar year before a business can take a credit.
- A business cannot use both a B&O and a PUT credit for the same employee.

The preferences are available on a first-in-time basis. There is no limit on the number of veterans a business can hire or the total amount of credits any one business can receive. However, the combined total amount of B&O and PUT credits available statewide is capped at \$500,000 per fiscal year.

Businesses must file annual accountability reports

Businesses using the credits must file an Annual Tax Performance Report with the Department of Revenue. The report identifies the employer and the amount of the credit used each calendar year.

Preferences scheduled to expire on July 1, 2023

The B&O and public utility tax credits were passed during the 2015 legislative session and apply to veterans hired on or after October 1, 2016. Credits can be earned by businesses through June 30, 2022, and must be used by June 30, 2023. The preferences are scheduled to expire July 1, 2023.

2. Credits did not meet goal of reducing unemployed veterans by 30%

The estimated number of unemployed veterans has increased since the preferences passed

The Legislature stated the preferences were intended to help employ veterans and reduce the number of unemployed veterans in Washington by 30%. Businesses using the credits hired a total of 132 unemployed veterans. However, the number of unemployed veterans statewide has increased since the preferences passed.

2015 tax credits were intended to encourage businesses to hire veterans and reduce number of unemployed veterans by 30%

When the preferences passed in 2015, the Legislature stated that the B&O and public utility tax credits were intended to encourage businesses to hire and create jobs for unemployed veterans by reducing the business's tax burden.

Information provided to legislators in a 2015 committee hearing noted that a federal tax incentive established in 2007 for businesses hiring veterans had expired in 2013. While the incentive had lapsed, Congress later reauthorized the program retroactively.

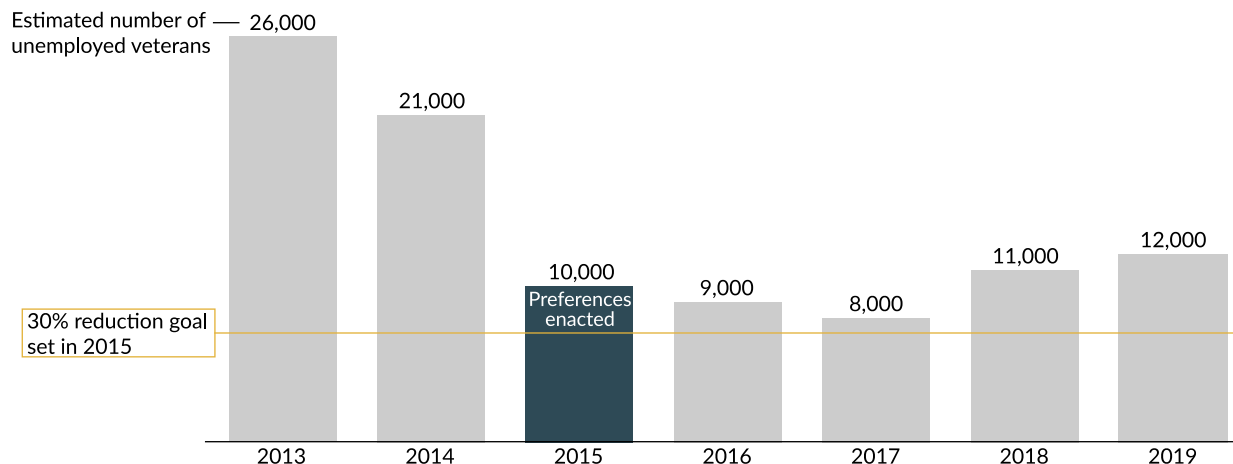
The Legislature directed the Legislative Auditor to recommend continuing the preferences if the number of unemployed veterans in Washington decreased by 30%.

After a 62% decrease in unemployed veterans from 2013-2015, the estimated number of unemployed veterans is now 20% higher than when the credits were enacted

The number of unemployed veterans in Washington decreased 62% in the two years before the preferences passed, but the number has stabilized since then. This decline in veteran unemployment reflects a national trend. JLARC staff found the estimated number of unemployed veterans dropped by a minimum of 30% from 2015 to 2018 in at least 30 states.

The estimated number of unemployed veterans in 2019 has increased by 20% since 2015 (the year the preferences passed). During that time, businesses that used the credits reported hiring a total of 132 veterans. Without the credits, the number of unemployed veterans might have increased by an additional 1%.

Exhibit 2.1: Following a drop in veteran unemployment, there has been a 20% increase since the credits passed

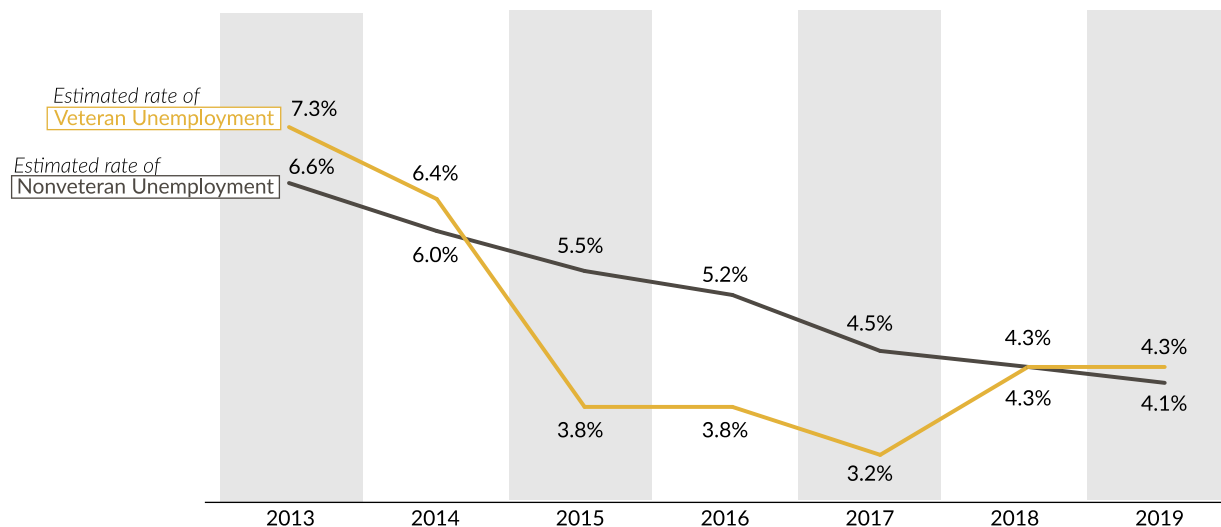


Source: JLARC staff analysis of Bureau of Labor and Statistics data, veteran unemployment, 2013-2019.

Unemployment rates for Washington's veterans and nonveterans are now similar

Data available when the credits passed indicated higher unemployment rates for veterans than for nonveterans. Since then, unemployment rates have declined for both populations. Veteran unemployment rates have dropped to the same or below those for nonveterans.

Exhibit 2.2: Washington's veteran and nonveteran unemployment rates were similar the past two years



Source: JLARC staff analysis of Bureau of Labor and Statistics data, veteran vs. nonveteran unemployment, 2013-2019.

3. Credits have had negligible impact on veteran employment

Best possible impact of B&O and PUT credits: a 1% reduction in unemployed veterans in Washington

The Department of Revenue reports that 132 veterans have been hired by businesses using the credits through the end of 2019.

Exhibit 3.1: 132 veterans hired over three years by businesses using the preferences

Calendar Year	Number of Veterans Hired by Businesses Using Preferences
2017	20
2018	59
2019	53
Total	132

Source: JLARC staff analysis of data provided by Department of Revenue.

The most generous estimate of the preferences' impact is a 1% reduction in the number of unemployed veterans

There were an estimated 12,000 unemployed veterans in Washington in 2019. If all 132 veterans hired by businesses using the tax credits were hired because of the tax credits, the preferences would have resulted in a 1% reduction in the number of unemployed Washington veterans.

Several potential reasons preferences are not more widely used

It is unclear why the B&O and public utility tax (PUT) credits for hiring unemployed veterans are not used by more Washington businesses. One or more of the following issues may have impacted use of the credits:

- **No agency or organization is charged with actively publicizing or promoting the preferences.**

Statute does not charge any state or local agency with actively publicizing or promoting the preferences. JLARC staff spoke with the two agencies most involved with efforts to employ veterans: the Employment Security Department (ESD) and the Department of Veterans Affairs. Both agencies have limited information on their websites about the tax credits. ESD reports that it mentions the credits to businesses and veterans when they receive other services from the agency. Additionally, the Department of Revenue provides information on the credits on its website, similar to any other tax preference.

- **Businesses report mixed views on how much the credits impact their hiring decisions.**

JLARC staff surveyed all businesses that have used the credits between 2016-2019.

When asked how important the credit was to their decision to hire a veteran, the average response was 2.8 out of 5 on a scale ranging from 1 (not important at all) to 5 (the most important factor).

Additionally, 60% of survey responders stated they would use the credits again if they hired another veteran. One-third of those responding noted they hired veterans prior to the credits being enacted.

- **Washington businesses used a federal tax credit to hire 4,632 veterans in 2019.**

A federal income tax credit is also available to employers that hire veterans or other individuals who may have employment challenges.

The Work Opportunity Tax Credit (WOTC) provides a one-time federal income tax credit to businesses that hire veterans. The WOTC amount ranges between \$2,400 - \$9,600, depending on whether the veteran fits within certain classification categories. The Washington Employment Security Department (ESD) receives and processes applications for the credit.

In 2019, ESD certified 4,632 WOTC applications, each representing a veteran hired by a Washington business. The potential federal tax savings for these businesses totaled \$18.9 million. Businesses are permitted to use both the federal WOTC and the state tax credits at the same time.

4. Beneficiary savings

Beneficiaries will save an estimated \$137,600 with the B&O tax credit and \$15,200 with the public utility tax credit in 2021-23 biennium

The direct beneficiary savings for businesses that hired veterans and used the B&O tax credit was \$91,000 in fiscal year 2019. The direct savings for businesses that used the public utility tax credit was \$8,200 for fiscal year 2019.

JLARC staff estimate the beneficiary savings for the 2021-23 biennium is \$137,600 for the B&O tax credit and \$15,200 for the public utility tax credit.

Both preferences are scheduled to expire on July 1, 2023.

Exhibit 4.1: Estimated beneficiary savings for B&O and public utility tax credits

Biennium	Fiscal Year	Estimated Beneficiary Savings (B&O)	Estimated Beneficiary Savings (PUT)	Total Beneficiary Savings
2015-17 7/1/15-6/30/17	2016	Not in effect	Not in effect	Not in effect
	2017	Not disclosable (less than 3 taxpayers)	0	Not disclosable (less than 3 taxpayers)
2017-19 7/1/17-6/30/19	2018	\$68,100	\$2,700	\$70,800
	2019	\$91,000	\$8,200	\$99,200
2019-2021 7/1/19 - 6/30/21	2020	\$47,300	\$11,900	\$59,200
	2021	\$68,800	\$7,600	\$76,400
2021-23 7/1/21-6/30/23	2022	\$68,800	\$7,600	\$76,400
	2023	\$68,800	\$7,600	\$76,400
	2021-23 Biennium	\$137,600	\$15,200	\$152,800

Source: JLARC staff analysis of Department of Revenue tax return credit detail, fiscal years 2017-2019. 2020 value based on ½ fiscal year (July - December 2019) credit detail. FY 2021-2023 estimated based on average use of credit from 2018-2020. Amounts rounded to nearest \$100.

A total of 45 businesses used credits in 2017 and 2018

Based on annual reports filed with the Department of Revenue, 45 businesses that hired unemployed veterans used the B&O or public utility tax credit in 2017 and 2018. Data was not available for calendar year 2019 at the time this report was prepared. The qualifying businesses conduct a variety of activities. Two businesses used both a B&O and public utility tax credit for separate hires.

Exhibit 4.2: 45 businesses used the B&O or public utility tax credit in 2017 and 2018

Beneficiary Business	Business Activity	CY 2017	CY 2018
AAA Septic, LLC	Commercial, Industrial Machinery and Equipment	\$1,500	
ADD Security Incorporated	Investigation and Security Services	\$841	\$3,536
After the Fire, LLC	Construction	\$1,258	\$242
Agency Security Group, LLC	Investigation and Security Services	\$3,750	\$4,500

Agropack, LLC	Chemical Manufacturing	\$398	\$612
AK Financial & Insurance Services, LLC	Insurance Services		\$968
Allstaff Technical Solutions, Inc.	Employment Services	\$1,500	\$2,774
Blacklotus Landscaping, LLC	Services to Buildings		\$1,500
Bleau Appraisals, LLC	Real Estate		\$1,500
Boulevard Homes NW, LLC	Construction		\$1,500
Chae Law Firm, P.S.	Legal Services		\$1,500
Chuckanut Brewery, LLC	Drinking Places	\$500	
DBAZA2, LLC	Auto Repair and Maintenance	ND	
Fairway Independent Mortgage Corporation	Finance and Insurance	\$1,514	\$1,500
Form 100 Consulting, LLC	Professional, Scientific, Technical Services		\$751
Gesang Incorporated	Construction	ND	
Growing Veterans	Food and Beverage Stores	\$71	
Handyworks, Inc.	Construction	ND	
Iembrace, LLC	Social Assistance	ND	\$700
Jensen's Old Fashioned Smokehouse, Inc.	Food and Beverage Stores		\$3,000
Jim and Delphine Enterprises, LLC	Repair and Maintenance Services		\$1,424
Jorge I. Peralta, DDS, PS	Health Care		\$1,500
Kaiser's Garage, Inc.	Auto Repair and Maintenance		\$989
Keep the Peace Security, LLC	Investigation and Security Services		\$3,918
Kittitas Valley Urgent Care, PLLC	Health Care		\$1,500
M & L Machine, Inc.	Transportation Equipment Manufacturing	ND	\$633
Mountain Strong Concrete, Inc.	Building, Gardening Supply Dealer		\$1,500
Navazon, Inc.	Electronic, Appliance Store		\$795

Northwest Caulking, Inc.	Specialty Contractor	\$494	
Ohop Mutual Light Company	Electric Power Utility	\$1,500	
Onpoint Logistics, Inc.	Truck Transportation		\$3,000
Onpoint Logistics - 49N, Inc.	Messengers and Delivery		\$3,914
Patrick Ginn Real Estate, LLC	Real Estate		\$1,500
Patriot Plumbing, Heating, and Cooling, Inc.	Specialty Contractor		\$1,088
Paws, Claws, and Hooves Veterinary Service, PLLC	Professional, Scientific, and Technical Consulting		\$1,500
PYR Preservation Services	Repair and Maintenance Services		\$1,500
Ravenwood Solutions, Inc.	Educational Services		\$11,107
Repaul Textiles, LLC	Industrial Launderer	ND	
Sierra Pacific Industries	Wood Product Manufacturing		\$28,334
Silicon Forest Electronics, Inc.	Computer and Electronic Manufacturing	\$1,500	
Springstar, Inc.	Chemical Manufacturing		\$3,000
Stately, Inc.	Real Estate	ND	
The Consolidated Rehab Group	Social Assistance		\$3,577
The Oxford Partners, LLC	Management, Scientific, and Technical Consulting		\$1,073

Note: "ND" in 2017 indicates the value of the credit was less than \$10,000 and the business elected to not disclose the value. This option was eliminated beginning in 2018.

Source: JLARC staff analysis of Department of Revenue incentive reporting public disclosure detail, calendar years 2017 and 2018.

5. No similar preferences in states with large veteran populations

None of the five states with the largest working-age veteran populations offer incentives for hiring veterans

The top five states with the largest working-age veteran populations do not provide state tax incentives similar to Washington's.

These states are California, Florida, North Carolina, Texas, and Virginia. In addition, neither Oregon nor Idaho, Washington's neighboring states, offer a state tax incentive for businesses that hire veterans.

JLARC staff identified the following states that provide income tax credits to businesses that hire veterans. The state programs vary in eligibility criteria and award amounts.

- Alabama
- Alaska
- Delaware
- Maryland
- Massachusetts
- New York
- Utah
- West Virginia

Also, Mississippi offers a higher reimbursement rate under its motion picture incentive program for businesses that hire veterans.

6. Applicable statutes

RCW 82.04.4498 and RCW 82.16.0499

Credit - Businesses that hire veterans. *(Expires July 1, 2023.)*

RCW 82.04.4498

(1) A person is allowed a credit against the tax due under this chapter as provided in this section. The credit equals twenty percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of one thousand five hundred dollars for each qualified employee hired on or after October 1, 2016.

(2) No credit may be claimed under this section until a qualified employee has been employed for at least two consecutive full calendar quarters.

(3) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and RCW 82.16.0499 during each fiscal year. The department may not allow any credits that would cause the total credits allowed under this section and RCW 82.16.0499 to exceed five hundred thousand dollars in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the cap for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within thirty days from the date of the notice. The

department may not assess penalties and interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(4) The credit may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (9) of this section. No refunds may be granted for credits under this section.

(5) If an employer discharges a qualified employee for whom the employer has claimed a credit under this section, the employer may not claim a new credit under this section for a period of one year from the date the qualified employee was discharged. However, this subsection (5) does not apply if the qualified employee was discharged for misconduct, as defined in RCW 50.04.294, connected with his or her work or discharged due to a felony or gross misdemeanor conviction, and the employer contemporaneously documents the reason for discharge.

(6) Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize. No application is required to claim the credit, but the taxpayer must keep records necessary for the department to determine eligibility under this section including records establishing the person's status as a veteran and status as unemployed when hired by the taxpayer.

(7) No person may claim a credit against taxes due under both this chapter and chapter 82.16 RCW for the same qualified employee.

(8) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a)(i) "Qualified employee" means an unemployed veteran who is employed in a permanent full-time position for at least two consecutive full calendar quarters. For seasonal employers, "qualified employee" also includes the equivalent of a full-time employee in work hours for two consecutive full calendar quarters.

(ii) For purposes of this subsection (8)(a), "full time" means a normal workweek of at least thirty-five hours.

(b) "Unemployed" means that the veteran was unemployed as defined in RCW 50.04.310 for at least thirty days immediately preceding the date that the veteran was hired by the person claiming credit under this section for hiring the veteran.

(c) "Veteran" means every person who has received an honorable discharge or received a general discharge under honorable conditions or is currently serving honorably, and who has served as a member in any branch of the armed forces of the United States, including the national guard and armed forces reserves.

(9) Credits allowed under this section can be earned for tax reporting periods through June 30, 2022. No credits can be claimed after June 30, 2023.

(10) This section expires July 1, 2023.

[2015 3rd sp.s. c 6 § 1002.]

NOTES:

Tax preference performance statement—2015 3rd sp.s. c 6 §§ 1002 and 1003: "This section is the tax preference performance statement for the tax preference contained in RCW 82.04.4498 and 82.16.0499. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The legislature categorizes the tax preferences as those intended to induce certain designated behavior by taxpayers and create or retain jobs, as indicated in RCW 82.32.808(2) (a) and (c).

(2) It is the legislature's specific public policy objective to provide employment for unemployed veterans. It is the legislature's intent to provide employers a credit against the business and occupation tax or public utility tax for hiring unemployed veterans which would reduce an employer's tax burden thereby inducing employers to hire and create jobs for unemployed veterans. Pursuant to chapter 43.136 RCW, the joint legislative audit and review committee must review the business and occupation tax and public utility tax credit established under RCW 82.04.4498 and 82.16.0499 by December 31, 2022.

(3) If a review finds that the number of unemployed veterans decreased by thirty percent, then the legislature intends for the legislative auditor to recommend extending the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3) of this section, the joint legislative audit and review committee should refer to the veteran unemployment rates available from the employment security department and the bureau of labor statistics." [2015 3rd sp.s. c 6 § 1001.]

Effective dates—2015 3rd sp.s. c 6: See note following RCW 82.04.4266.

Credit - Businesses that hire veterans. (*Expires July 1, 2023.*)

RCW 82.16.0499

(1) A person is allowed a credit against the tax due under this chapter as provided in this section. The credit equals twenty percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of one thousand five hundred dollars for each qualified employee hired on or after October 1, 2016.

(2) No credit may be claimed under this section until a qualified employee has been employed for at least two consecutive full calendar quarters.

(3) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and RCW 82.04.4498 during each fiscal year. The department may not allow any credits that would cause the total credits allowed under this section and RCW 82.04.4498 to exceed five hundred thousand dollars in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the cap

for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within thirty days from the date of the notice. The department may not assess penalties and interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(4) The credit may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (9) of this section. No refunds may be granted for credits under this section.

(5) If an employer discharges a qualified employee for whom the employer has claimed a credit under this section, the employer may not claim a new credit under this section for a period of one year from the date the qualified employee was discharged. However, this subsection (5) does not apply if the qualified employee was discharged for misconduct, as defined in RCW 50.04.294, connected with his or her work or discharged due to a felony or gross misdemeanor conviction, and the employer contemporaneously documents the reason for discharge.

(6) Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize. No application is required to claim the credit, but the taxpayer must keep records necessary for the department to determine eligibility under this section including records establishing the person's status as a veteran and status as unemployed when hired by the taxpayer.

(7) No person may claim a credit against taxes due under both chapter 82.04 RCW and this chapter for the same qualified employee.

(8) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a)(i) "Qualified employee" means an unemployed veteran who is employed in a permanent full-time position for at least two consecutive full calendar quarters. For seasonal employers, "qualified employee" also includes the equivalent of a full-time employee in work hours for two consecutive full calendar quarters.

(ii) For purposes of this subsection (8)(a), "full time" means a normal workweek of at least thirty-five hours.

(b) "Unemployed" means that the veteran was unemployed as defined in RCW 50.04.310 for at least thirty days immediately preceding the date that the veteran was hired by the person claiming credit under this section for hiring the veteran.

(c) "Veteran" means every person who has received an honorable discharge or received a general discharge under honorable conditions or is currently serving honorably, and who has served as a member in any branch of the armed forces of the United States, including the national guard and armed forces reserves.

(9) Credits allowed under this section can be earned for tax reporting periods through June 30, 2022. No credits can be claimed after June 30, 2023.

(10) This section expires July 1, 2023.

[2015 3rd sp.s. c 6 § 1003.]

NOTES:

Effective dates—2015 3rd sp.s. c 6: See note following RCW 82.04.4266.

Tax preference performance statement—2015 3rd sp.s. c 6 §§ 1002 and 1003: See note following RCW 82.04.4498.

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

The Legislative Auditor recommends modifying the preferences

The Legislature should modify the preferences because they are not currently working as intended. To more effectively serve veterans who are seeking jobs, modifications might include:

- Designating a state agency to be in charge of publicizing and promoting the preferences to businesses and veterans. Currently, there is limited information available on the tax credits for potential employers and veterans.
- Focusing the preferences on a subset of veterans or businesses. For example, the preferences could be focused on a specific population such as disabled veterans or targeting specific businesses.
- Eliminating the preferences and redirecting resources to other state-funded programs that have demonstrated success with encouraging businesses to hire unemployed veterans.

The Department of Veteran's Affairs and the Employment Security Department may also have proposals for how the approach or resources of the preferences could be modified to more effectively impact veteran employment.

If the Legislature does not take action, the preferences are scheduled to expire on July 1, 2023.

Legislation Required: Yes

Fiscal Impact: None in 2021-23 biennium.

Letter from Commission Chair

State of Washington Citizen Commission for Performance Measurement of Tax Preferences

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November 2, 2020

The Honorable Representative Timm Ormsby
The Honorable Representative Drew Stokesbary
The Honorable Representative Cindy Ryu
The Honorable Representative Bill Jenkin
The Honorable Representative Drew Hansen
The Honorable Representative Luanne Van Werven
The Honorable Representative Gael Tarleton

The Honorable Representative Ed Orcutt
The Honorable Senator Patty Kuderer
The Honorable Senator Hans Zeiger
The Honorable Senator Emily Randall
The Honorable Senator Jeff Holy
The Honorable Senator Christine Rolfes
The Honorable Senator John Braun

Re: 2020 Tax Preference Reviews

Dear Senators and Representatives,

I am pleased to forward to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences unanimously adopted for this year's review of tax preferences. The Citizen Commission consists of five voting members, with a member appointed by each of the four caucuses and the Governor's office. Notably, reviews this year included four preferences that the Legislative Auditor identified for further legislative review:

Two are not meeting their stated objectives:

- The Legislative Auditor found that a tax credit for customized employee training is not attracting new businesses and is unlikely to contribute to business retention. The Commission recommends changing the purpose to focus on assisting small existing businesses.
- The Legislative Auditor found that tax credits for hiring unemployed veterans have not met the Legislature's goal of reducing the number of unemployed veterans by 30%, and recommends modifying them to more effectively serve veterans.

Two are for industries that have changed since the preferences were enacted:

- The Legislative Auditor found that a sales tax exemption for farmworker housing may have incentivized the construction of some types of housing. However, the exemption requirements may not align with other current housing practices. The Legislative Auditor recommends clarifying the preference with a performance statement and determining if the preference should align with other housing practices.
- The Legislative Auditor found that a beer tax exemption for microbreweries has created an estimated 2 to 6 jobs in the beverage manufacturing industry and distributors receive 84% of the direct preference savings. The Washington beer industry has changed, and now has more breweries with smaller production. The Legislative Auditor recommends clarifying the

preference to include a performance statement and ensure the preference supports the intended beneficiaries.


We adopted positions similar to the Legislative Auditor for seven of the eight recommendations issued this year. Based on testimony, we adopted a different recommendation than the Legislative Auditor on the customized employee training preference. Summaries of the JLARC staff's analysis and recommendations and brief video summaries of each preference are available on the 2020 Tax Preference Reviews overview page linked [here](#). The full text of our Commissioner recommendations are included below and will be added to our proposed final report in December.

Tax preference reviews provide valuable information as the Legislature considers whether specific preferences are meeting the Legislature's policy objectives. With this year's report, there are now 14 years of tax preference evaluations available to the Legislature, comprising over 300 individual reviews.

I urge you to consider this year's and previous years' recommendations and comments on tax preference statutes in the upcoming legislative session. An interactive summary of legislative action on prior reviews is available [here](#).

As Chair of the Citizen Commission, I would be pleased to discuss the Commission's position and comments with you and any interested legislators. Please feel free to contact me (grant.forsyth@leg.wa.gov) or the Legislative Auditor, Keenan Konopaski (keenan.konopaski@leg.wa.gov or 360-786-5187).

Sincerely,



Grant D. Forsyth, Chair

Citizen Commission for Performance Measurement of Tax Preferences

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. Although the preference should be modified, there are additional considerations to the Legislative Auditor's modification options. If this broader base for the credit is not working, it does not seem plausible that narrowing the focus on specific veterans or businesses is likely to increase use of the credit to hire veterans. Further, eliminating the preference and redirecting funds would only make sense if there are existing programs that have more success assisting veterans. There may be other problems with the credit as currently structured that could be modified. For example, the rules suspending the credit when a veteran is terminated seem counterproductive to veteran hiring. If there is not a fit between the veteran and the job, the statute forbids use of a new credit for a year, essentially eliminating any incentive to replace the employee with another veteran. Repayment or an offset against any new credits applied for may better support veteran hiring. Another option may be increasing the amount of the credit, given that the full amount of the budgeted amounts are not currently being used. In the process of modifying this preference, the Legislature should consult with the Departments of Veterans Affairs and the Employment Security for their suggestions to improve outcomes, as these Departments have experience assisting veterans seeking employment.

DOR & OFM Response



STATE OF WASHINGTON

September 16, 2020

TO: Keenan Konopaski, Legislative Auditor
Joint Legislative Audit and Review Committee

FROM: David Schumacher, Director
Office of Financial Management

A handwritten signature in black ink, appearing to read "D. Schumacher".

Vikki Smith, Director
Department of Revenue

A handwritten signature in black ink, appearing to read "Vikki Smith".

**SUBJECT: JLARC PRELIMINARY REPORT ON 2020 TAX PREFERENCE
PERFORMANCE REVIEWS**

The Office of Financial Management and Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2020 tax preference performance reviews.

We appreciate the thorough analysis of JLARC and the detailed review provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of the state tax preferences is critical to ensure the state of Washington maintains a fair and equitable tax system.

While we have no specific comments on the 2020 preliminary report, we continue to support the recommendations of JLARC for the inclusion of performance statements and specific public policy objectives for all tax preferences where they don't exist in statute today.

Thank you for the opportunity to review and provide comments on this JLARC report.

ESD Response

We provided an invitation to the Employment Security Department to comment on this report. We did not receive a formal response from the agency.

DVA Response

We provided an invitation to the Washington State Department of Veterans Affairs to comment on this report. We did not receive a formal response from the agency.

MORE ABOUT THIS REVIEW

Study Questions



PROPOSED STUDY QUESTIONS Hiring Unemployed Veterans

State of Washington Joint Legislative Audit and Review Committee

December 2019



JLARC to review B&O and public utility tax credits for businesses that hire unemployed veterans

The 2006 Legislature directed JLARC staff to conduct performance audits of

tax preferences. This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.

The Legislature created these tax credits in 2015. Businesses may take a credit against their B&O or public utility tax for 20% of the wages and benefits earned by the veterans they hire. The credit is capped at \$1,500 per employee per year. The statewide program is capped at \$500,000 per fiscal year. Businesses can earn credits through June 30, 2022, and must use them by June 30, 2023.

Tax credits established to encourage businesses to hire and create jobs for unemployed veterans

The Legislature stated the tax credits are intended to reduce the tax burden on employers when they hire and create full-time, permanent jobs for veterans. Veterans must be unemployed for at least 30 days prior to being hired. To claim the credit, businesses must employ the veteran for at least two consecutive calendar quarters. The Legislature stated that if a review of the program found the number of unemployed veterans decreased by 30% statewide, then the Legislative Auditor should recommend extending the expiration date.

This study will answer the following questions in July 2020:

1. How has the credit been promoted by the state?
2. How many and what types of businesses have used the credit?
3. Have the businesses using the credit hired more veterans since the credit was established?
4. How much has the credit reduced costs for businesses?
5. Is there information to determine if the credit influenced employers to hire veterans?
6. Has the number of unemployed veterans in Washington decreased by 30% since 2015, when the credits were established by the Legislature?

Study Timeframe

Preliminary Report: July 2020

Proposed Final Report: December 2020

Study Team

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Legislative Auditor	Keenan Konopaski	(360) 786-5187	keenan.konopaski@leg.wa.gov

JLARC Study Process



JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE

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