

20-07 FINAL REPORT:
2020 TAX PREFERENCE PERFORMANCE
REVIEWS

Customized Training

LEGISLATIVE AUDITOR'S CONCLUSION:

The Customized Training tax 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.

December 2020

B&O tax credit for 50% of employee training costs

Businesses can receive a B&O tax credit for 50% of their employee training costs when they contract for training through the state's Customized Training Program. The State Board for Community and Technical Colleges (SBCTC) administers the program.

After the contracted training is complete, businesses pay the SBCTC back for the full cost of the training over an 18-month period. Businesses then take a B&O tax credit equal to 50% of the repayments to the SBCTC.

The preference originally took effect June 7, 2006, and is scheduled to expire July 1, 2021. The Customized Training Program itself does not have an expiration date.

<p>Estimated Biennial Beneficiary Savings \$125,500</p>
<p>Tax Type Business and Occupation (B&O) Tax RCWs 82.04.449 Applicable Statutes</p>

Preference not achieving stated public policy objective

When this preference was enacted, the Legislature stated that it intended to attract and retain new and expanding businesses in Washington by providing a B&O tax credit to reduce their up-front costs for training employees.

Objective (stated)	Results
Attract and retain new and expanding businesses in Washington.	Not met. The preference has not attracted new businesses and it is unlikely to influence business decisions on where to locate.

Recommendation

Legislative Auditor's Recommendation: Allow to expire

The Legislature should allow the B&O tax credit for customized training to expire as scheduled on July 1, 2021. The credit is not meeting the stated objective of attracting and retaining new businesses in Washington.

The Legislature may also want to consider repealing the associated Customized Training Program under Title 28B.67 RCW. If the Legislature wants to maintain funding for customized training for other policy purposes, it could redirect funds from the Customized Training revolving loan account to existing training programs, such as the Job Skills Program.

You can find additional information in Recommendations.

Commissioners' Recommendation

The Commission does not endorse the Legislative Auditor's recommendation with comment. Testimony suggests that the CTP has several important advantages over existing grant programs. The CTP is most likely to be used by existing small businesses that would like to expand, but (1) cannot easily send workers offsite for training; (2) cannot afford the employer costs of grant funded programs; and (3) cannot afford complicated reporting requirements. Agencies involved in managing the CTP also reported that their administrative burden under the CTP is considerably smaller than other grant funded programs. Agency testimony also suggested the CTP program has been impacted by sharp changes in funding since the CTP was introduced. The CTP preference should be continued but with a stated objective more focused on recruiting, retaining, and expanding existing small businesses. This would be consistent with the business size accessing the CTP. In addition, the impacts of COVID-19 suggest that employer-affordable programs supporting worker training will have new urgency going forward.

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. B&O tax credit for 50% of employee training costs

Participating businesses can claim a tax credit when they contract for employee training through the Customized Training Program

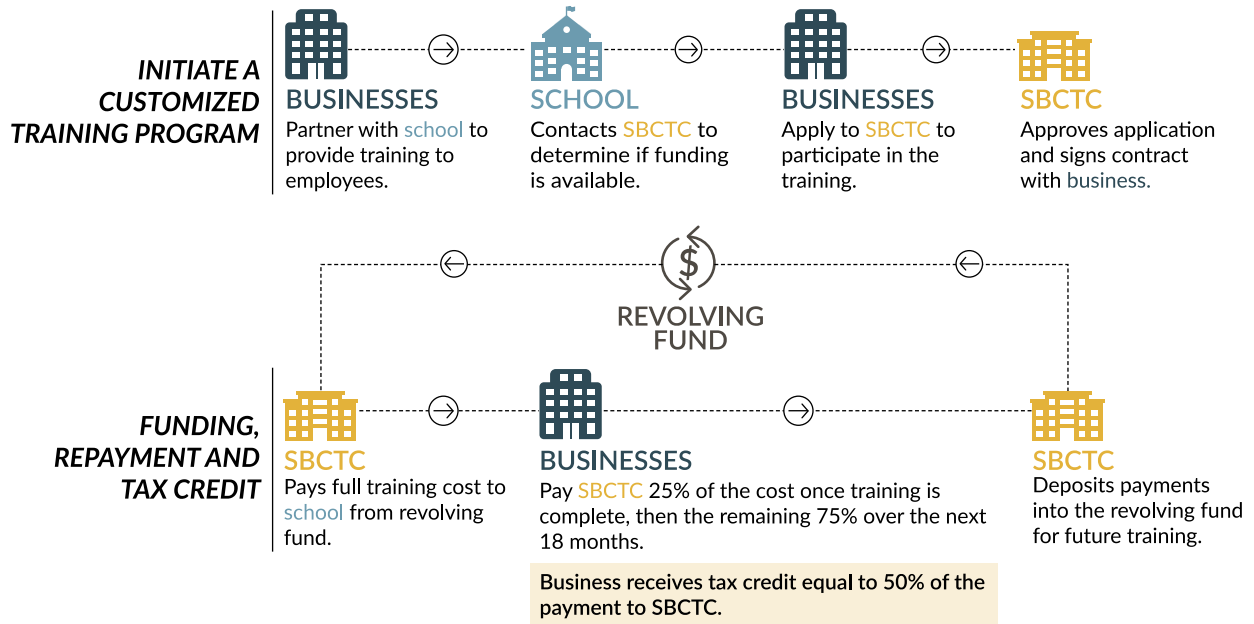
This preference provides businesses with a B&O tax credit equal to 50% of their employee training costs when the training is contracted through the Customized Training Program (CTP). The CTP is administered by the State Board for Community and Technical Colleges (SBCTC). The program is paid for through a revolving loan fund, explained below.

Legislature established the Customized Training Program to work in combination with the B&O tax credit

The Customized Training Program and the associated tax credit were intended to work together to ensure that new and expanding businesses in Washington could find qualified employees. Legislators noted the program would help community and technical colleges meet the educational needs of their communities. The State Board for Community and Technical Colleges

indicated the program would address a critical link between education and economic development.

Businesses partner with schools and contract with SBCTC for training. They must reimburse the state for training costs to be eligible for the tax credit.



Source: JLARC staff analysis of Customized Training program process, as detailed by the State Board for Community and Technical Colleges.

Small businesses to be given priority; training costs are capped

The Legislature established priorities and rules for businesses using the Customized Training Program and associated tax credit:

- Small businesses with fewer than 50 employees are given priority.
- The training allowance per business cannot exceed \$500,000 in a calendar year.
- Businesses using the B&O tax credit must file an Annual Tax Performance Report with the Department of Revenue. The business name and amount of credit claimed is disclosable.

Preference scheduled to expire July 1, 2021

The B&O tax credit was initially enacted on June 7, 2006. Currently, the law prohibits employers from using the credit on or after July 1, 2021.

The Legislature made the Customized Training Program that is associated with the tax credit permanent in 2017 by removing the July 1, 2017 expiration date.

2. Preference not achieving stated intent

Customized Training tax credit is not attracting new businesses and it is unlikely to contribute to business location decisions

JLARC staff evaluated whether the preference achieved the Legislature's stated intent to attract and retain new and expanding businesses. The Customized Training B&O tax credit is not achieving these legislative objectives. JLARC staff did not evaluate the educational or workforce development outcomes of the associated program, which could provide other benefits to the businesses and employees.

81% of businesses using the credit have been in Washington for 11 or more years

Between June 2006 and November 2019, 61 businesses have used the Customized Training Program (CTP) and associated tax credit. Based on the applications they submitted to the State Board for Community and Technical Colleges (SBCTC), 81% of these businesses have been operating for 11 or more years in Washington. One business reported that it had been in business for less than one year.

This data indicates that the CTP and tax credit are primarily supporting well-established businesses rather than attracting new businesses to the state.

69% of businesses using the credit have more than 50 employees

The law states that businesses with less than 50 employees should receive preference for customized training programs. As of November 2019, 69% of businesses using the program and tax credit reported having more than 50 employees. SBCTC indicates that due to a limited number of applicants, it has not had to prioritize small businesses when approving training contracts.

Preference unlikely to influence business decisions on where to locate

JLARC staff compared the amount of B&O tax credits claimed by businesses using the Customized Training Program with their total gross income. For the four most recent fiscal years (FYs 2016 through 2019), the value of the preference is equal to eight one-thousandths of one percent (0.008%) of the businesses' gross income. Given this comparison, it is unlikely the B&O tax credit is influencing business decisions on where to locate or relocate.

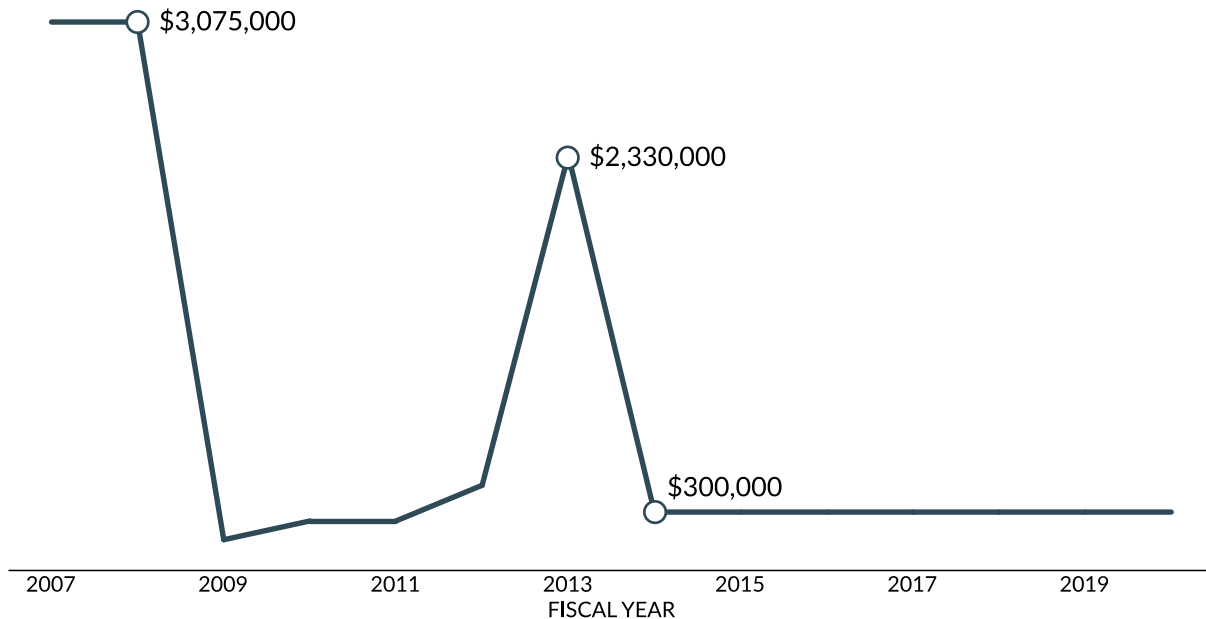
Funding for the program has dropped to 11% of its original appropriation

When the Legislature created the CTP and tax credit, it established the Employment Training Finance Account to serve as the basis for the revolving loan fund.

The Legislature originally appropriated \$3.075 million to the account at the start of FY 2007, but the fund has since operated on a reduced amount. The revolving loan balance has been \$300,000 since 2015.

The State Board for Community and Technical Colleges reports that it has not had to reject any applications for training, but sometimes businesses are placed in a queue until funding from business repayments is available in the account.

Exhibit 2.1: Funding for the Customized Training Program has remained at \$300,000 since fiscal year 2015



Source: JLARC staff analysis of historical funding provided by the State Board for Community and Technical Colleges.

Research in other states identified similar challenges with training credit programs

A 2018 audit by Virginia's Joint Legislative Audit and Review Commission of a Virginia retraining tax credit program determined that its program was similarly ineffective, yielding a return of 12 cents for every dollar invested. The audit identified 15 other states with similar job retraining tax credits and each one reported low participation rates.

Research cited in the audit indicates that small business incentives often need to incorporate complementary services, such as counseling and other advisory assistance, to help small businesses assess their training needs and create training plans. JLARC staff interviewed two nationally recognized economic development incentive experts who both reported that additional services are needed to support incentive programs.

3. Beneficiary savings: \$138,210 in 2019

Businesses will save an estimated \$125,500 in 2019-21 biennium

Department of Revenue tax return data reveals that beneficiaries saved \$138,210 in fiscal year 2019 using the B&O tax credit. JLARC staff estimate the direct beneficiary savings for the 2019-

21 biennium is \$125,500. This estimate assumes the credit will expire as scheduled on July 1, 2021.

Exhibit 3.1: Estimated beneficiary savings through 2021

Biennium	Fiscal Year	Estimated Beneficiary Savings
2015-17 7/1/15-6/30/17	2016	\$26,081
	2017	\$114,242
2017-19 7/1/17-6/30/19	2018	\$141,130
	2019	\$138,210
2019-21 7/1/19-6/30/21	2020	\$49,800
	2021	\$75,700
	2019-21 Biennium	\$125,500
Preference scheduled to expire July 1, 2021.		

Source: JLARC staff analysis of Department of Revenue tax credit data, fiscal years 2017-2019 and first half of 2020. Estimate for 2021 based on average credit use for fiscal years 2008 through first half of 2020. Estimate assumes credit expires June 30, 2021, per current law.

Preference has directly benefited 61 businesses since 2006

From June 2006 through June 2019, between four to 16 businesses have used the credit each calendar year. There have been a total of 61 businesses that have used the credit since its inception. These businesses have contracted for 84 employee training projects. Some of the businesses have contracted for more than one training.

Seven additional businesses that completed training through the Customized Training Program (CTP) did not take a B&O tax credit to reduce their training costs.

Manufacturers accounted for 73% of the businesses using the credit. The types of training varied, but common themes included:

- Process improvement or Lean management.
- Team-building and management.
- Certifications or accreditations required under industry standards.
- Specific skills, such as computer training, welding, or machine repair.

Businesses are required to file annual report

Businesses that use the preference are required to report the value of their B&O tax credit on a calendar year basis. This information is publicly available. At the time this review was finalized,

detail was available through 2018. The number of businesses that filed a report is less than the total number of businesses that have claimed the credit due to the difference in time between calendar years and fiscal years.

Exhibit 3.2: Four to 16 businesses per year have filed a report indicating the amount of their B&O tax credits

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year													
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
AGC Biologics, Inc.	Manufacturing														\$19,800
Anderson Dairy, Inc.	Manufacturing							\$5,525				\$2,275			
Astareal, Inc.	Manufacturing														\$1,069
Atlas Bimetal Labs, Inc.	Manufacturing					ND	\$1,870	\$2,648	ND						
Bradken Atlas LP of Delaware	Manufacturing	ND	ND	\$6,962											
C & R Services, Inc.	Administrative Support			ND	ND										

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year											
Carlisle Interconnect Technologies	Manufacturing			ND									
Cascade Coffee, Inc.	Wholesaling												\$3,765
Christensen Shipyards Receivership Entity, LTD	Wholesaling							\$18,277	\$15,480				
Chemi-Con Materials Corporation	Manufacturing											\$2,400	
Cosmo Specialty Fibers, Inc.	Manufacturing			ND									
Darigold, Inc.	Wholesaling							\$10,500					
Data I/O Corp.	Manufacturing					\$3,000	\$3,918	\$1,000					
Devlin Designing Boatbuilders, Inc.	Manufacturing								\$216	\$157		\$79	

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year												
Elkhart Plastics	Manufacturing											ND		\$3,000
Evolucion Innovations, Inc.	Retailing						\$12,815							
Financial Pacific Leasing, Inc.	Real Estate, Rental and Leasing										ND	ND	DN	\$2,730
General Plastics Manufacturing Co.	Manufacturing					\$11,248	\$11,248	\$18,747						
Gift Services, Inc	Retailing									\$17,861	\$11,479	\$1,271		
GM Nameplate, Inc.	Manufacturing										\$3,895	\$11,685		
Helac Corp.	Manufacturing					\$2,875								
Hill Aerosystems, Inc.	Manufacturing									\$16,350		\$5,337	\$8,492	

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year											
IDD Aerospace Corp.	Manufacturing												66,477
IDL Precision Machining, LLC	Manufacturing										7,683		
Jamco America, Inc.	Manufacturing										8,930	88,788	4,884
Kaiser Foundation Health Plan	Health Care and Social Assistance						8,400	4,200					
Korry Electronics Co.	Manufacturing												50,255
Marktech International, Inc.	Wholesaling							3,225					
Mid-Mountain Materials, Inc.	Manufacturing								10,000	8,500			
Moses Lake Industries, Inc.	Manufacturing										7,250		

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year													
National Industrial Concepts, Inc.	Manufacturing									\$6,630	ND				
NLight, Inc.	Manufacturing							\$15,536		\$17,216					
Ocean Spray Cranberries, Inc.	Manufacturing		ND	\$18,836											
Pacific Crest Industries, Inc.	Manufacturing												668,915		\$12,615
Pentad Systems, LLC	Not available						ND								
Platypus Marine, Inc.	Manufacturing	ND	\$1,167	\$833											
Port Townsend Paper Corporation	Manufacturing									\$3,000					
Precision Machine Works, Inc.	Manufacturing						\$4,500	\$6,000		\$1,500					

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year											
Quality Stamping and Machining, Inc.	Manufacturing		ND	\$14,326									
Ram Construction General Contractor, Inc.	Construction						\$1,500						
Raymond W. Jewell Living Trust	Not Available	ND											
Reichardt & Ebe Engineering, Inc.	Professional, Scientific, and Technical Services						\$2,400						
Reischling Press, Inc.	Administrative Support											886,788	\$3,716
SBP Yakima Holdings, Inc.	Manufacturing					\$22,482	\$19,024	\$17,818	\$19,437	\$1,620			
Schoeben & Schoeben, Inc.	Manufacturing		ND	\$3,310	\$4,267								
Seacast, Inc.	Manufacturing				\$25,945	\$3,706							

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year											
Sealy Mattress Manufacturing Company, Inc.	Manufacturing											\$25,159	
SGL Composites LLC	Manufacturing												\$2,500
Sports Art America, Inc.	Wholesaling											ND	\$1,949
Superlon Plastics Co., Inc.	Manufacturing								ND			\$262	
Technical Cable Applications, Inc.	Manufacturing											\$2,539	\$6,551
The Appliance Repairman	Other Services	\$343	\$1,007	\$450									
Toray Materials America, Inc.	Manufacturing			\$6,102									
Upriver Greenhouse Florist & Nursery LLC	Not Available				ND	\$100							

Business Name	Industry	Total B&O Tax Credits Taken Per Calendar Year											
White Boots, Inc.	Manufacturing					\$1,123							
Vigor Shipyards, Inc.	Manufacturing											ND	\$8,750

Note: "ND" means that a business filed a "0" credit amount or that it selected to not disclose the amount of the credit taken (this option was available from 2006 - 2017 when the credit taken was less than \$10,000).

Source: JLARC staff analysis of Department of Revenue's public disclosure annual report historical detail, 2006 through 2018. JLARC staff analysis of NAICS code listed for each business on the Department of Revenue web site, collapsed to the two-digit level.

4. Other options exist to invest in training

Washington's Job Skills Program provides alternatives for investing in customized workforce training

The State Board for Community and Technical Colleges (SBCTC) also administers another state-supported customized training program called the Job Skills Program (JSP).

Job Skills Program provides state-supported training with little to no additional cost to businesses

Established in 1983, the Job Skills Program (JSP) is a state grant program designed to help businesses provide customized training through community or technical colleges. Training is generally provided at no additional cost to the business. Training topics have addressed new employees, retraining to prevent employee dislocation, and helping employees achieve promotions or pay increases.

Like the Customized Training Program (CTP), businesses must apply to the State Board for Community and Technical Colleges (SBCTC) in order to participate in the program. An advisory committee determines which applicants receive Job Skills grants.

For grant recipients, SBCTC pays the full training costs to the educational institution from an account established to fund the JSP. In some cases, businesses choose to pay a portion of the training cost to prioritize their application.

SBCTC staff report that they receive more applications for the JSP than they are able to fund.

Job Skills Program has received more funding and provided more trainings than Customized Training Program

Data provided by the State Board for Community and Technical Colleges indicates that the JSP exceeds the CTP in funding levels and the number of participating businesses and employees trained.

Exhibit 4.1: The state funds two similar programs offering customized workforce training for businesses

Criteria	Job Skills	Customized Training
Established	1983	2006
Biennial expenditures	FY 2015-17: \$5,174,274 FY 2017-19: \$5,176,681	FY 2015-17: \$303,549 FY 2017-19: \$602,528
Beneficiaries	533 businesses (FY 2006-2019)	68* businesses (FY 2006- 2019)
Employees trained	32,738 employees (FY 2006-2019)	2,861 employees (FY 2006-2019)
How is training paid?	SBCTC awards grants through a competitive application process. Grants cover full cost of the training. In some cases, businesses choose to pay a portion of the training cost to prioritize their application.	SBCTC pays for training as it occurs with funds from revolving loan account. Businesses repay SBCTC after training over 18 months. Businesses can take B&O tax credit for 50% of repayments made to SBCTC.
Timing of awards	SBCTC announces grants on a quarterly basis.	SBCTC authorizes and pays for training once training request is approved and funds become available.
Funding source	Education Legacy Trust Account (appropriation)	Employment Training Finance Account (revolving fund)

Source: JLARC staff analysis of Job Skills and Customized Training Programs.

*Note: 68 businesses used the Customized Training Program. Of those, 61 used the associated B&O tax credit.

5. Applicable statutes

RCW 82.04.449 and Chapter 28B.67 RCW

Credit—Washington customized employment training program.

RCW 82.04.449

(1) In computing the tax imposed under this chapter, a credit is allowed for participants in the Washington customized employment training program created in RCW 28B.67.020. The credit allowed under this section is equal to fifty percent of the value of a participant's payments to the

employment training finance account created in RCW 28B.67.030. If a participant in the program does not meet the requirements of RCW 28B.67.020(2)(b)(ii), the participant must remit to the department the value of any credits taken plus interest. The credit earned by a participant in one calendar year may be carried over to be credited against taxes incurred in a subsequent calendar year. No credit may be allowed for repayment of training allowances received from the Washington customized employment training program on or after July 1, 2021.

(2) A person claiming the credit provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

[2017 c 135 § 20; 2012 c 46 § 3; 2010 c 114 § 121; 2009 c 296 § 3; 2006 c 112 § 5.]

Chapter 28B.67 RCW Customized Employment Training

RCW 28B.67.005

Findings—Intent.

The legislature finds that the provision of customized training is critical to attracting and retaining businesses, and that the growth of many businesses is limited by an unmet need for customized training. The legislature also finds that workforce training not only helps business, it also improves the quality of life for workers and communities. Because of the statewide public benefit to be gained from instituting a customized training program, the legislature intends to create a new program to fund workforce training in a manner that reduces the up-front costs of training to new and expanding firms.

[2006 c 112 § 1.]

RCW 28B.67.010

Definitions.

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Board" means the state board for community and technical colleges.

(2) "Costs of training" and "training costs" means the direct costs experienced under a contract with a qualified training institution for formal technical or skill training, including basic skills. "Costs of training" includes amounts in the contract for costs of instruction, materials, equipment, rental of class space, marketing, and overhead. "Costs of training" does not include employee tuition reimbursements unless the tuition reimbursement is specifically included in a contract.

(3) "Participant" means a private employer that, under this chapter, undertakes a training program with a qualified training institution.

(4) "Qualified training institution" means a public community or technical college or a private vocational school licensed by either the workforce training and education coordinating board or the *higher education coordinating board.

(5) "Training allowance" and "allowance" means a voucher, credit, or payment from the board to a participant to cover training costs.

(6) "Training program" means a program funded under this chapter at a qualified training institution.

[2006 c 112 § 2.]

NOTES:

*Reviser's note: The higher education coordinating board was abolished by 2011 1st sp.s. c 11 § 301, effective July 1, 2012.

Customized employment training program created—Applications—Criteria—Rules.

RCW 28B.67.020

(1) The Washington customized employment training program is hereby created to provide training assistance to employers locating or expanding in the state.

(2)(a) Application to receive funding under this program must be made to the board in a form and manner as specified by the board. Successful applicants must receive a training allowance from the board to cover the costs of training at a qualified training institution. Employers may not receive an allowance for training costs which exceed the maximum annual training cost per employee, as established by the board, and are not eligible to receive an allowance or allowances of over five hundred thousand dollars per calendar year.

(b) Allowances must be granted for applicants who meet the following criteria:

(i) The employer must have entered into an agreement with a qualified training institution to engage in customized training and the employer must agree to: (A) Upon completion of the training, make a payment to the employment training finance account created in RCW 28B.67.030 in an amount equal to one-quarter of the amount of the training allowance; and (B) over the subsequent eighteen months, make monthly or quarterly payments, as specified in the agreement, to the employment training finance account created in RCW 28B.67.030 in an amount equal to three-quarters of the amount of the training allowance. During calendar years 2009 and 2010, participants may delay payments due under this section for up to eighteen months. The payments into the employment training finance account provided for in this section do not constitute payment to the institution.

(ii) When hiring, the employer must make good faith efforts, as determined by the board, to hire from trainees in the participant's training program. The agreement with the qualified training institution provided for in (b)(i) of this subsection must specify terms for reimbursement or additional payment to the employment training finance account by the employer if the participant does not, when hiring, make good faith efforts to hire from trainees in the participant's training program.

(iii) The training allowance may not be used to train workers who have been hired as a result of a strike or lockout.

- (c) Preference is given to employers with fewer than fifty employees.
- (d) Preference is given to training that leads to transferable skills that are interchangeable among different jobs, employers, or workplaces.
- (3) Qualified training institutions may enter into agreements with four-year institutions of higher education, as defined in RCW 28B.10.016, in accordance with the interlocal cooperation act, chapter 39.34 RCW.
- (4) The board and qualified training institutions may solicit and receive gifts, grants, funds, fees, and endowments, in trust or otherwise, from tribal, local, federal, or other governmental entities, as well as private sources, for the purpose of providing training allowances under chapter 112, Laws of 2006. All revenue thus solicited and received must be deposited into the employment training finance account created in RCW 28B.67.030.
- (5) Qualified training institutions must make good faith efforts to develop training programs using trainers preferred by participants.
- (6) For employers who (a) have requested training under the job skills program created under chapter 28C.04 RCW but are not able to participate in the job skills program because the funds have all been committed, and (b) desire to become participants in the Washington customized employment training program, the board shall ensure a seamless process toward participation.
- (7) The board may adopt rules to implement this section.

[2017 c 21 § 1; 2012 c 46 § 1; 2011 c 151 § 4. Prior: 2009 c 296 § 1; 2006 c 112 § 3.]

Employment training finance account.

RCW 28B.67.030

- (1) All payments received from a participant in the Washington customized employment training program created in RCW 28B.67.020 must be deposited into the employment training finance account, which is hereby created in the custody of the state treasurer. Only the state board for community and technical colleges may authorize expenditures from the account and no appropriation is required for expenditures. The money in the account must be used solely for training allowances under the Washington customized employment training program created in RCW 28B.67.020 and for providing up to seventy-five thousand dollars per year for training, marketing, and facilitation services to increase the use of the program. The deposit of payments under this section from a participant ceases when the board specifies that the participant has met the monetary obligations of the program. During the 2013-2015 fiscal biennium, the legislature may transfer from the employment training finance account to the state general fund such amounts as reflect the excess fund balance in the account.
- (2) All revenue solicited and received under the provisions of RCW 28B.67.020(4) must be deposited into the employment training finance account to provide training allowances.
- (3) The definitions in RCW 28B.67.010 apply to this section.

[2017 c 21 § 2; 2013 2nd sp.s. c 4 § 961; 2012 c 46 § 2; 2010 1st sp.s. c 26 § 4. Prior: 2009 c 564 § 1804; 2009 c 296 § 2; 2006 c 112 § 8.]

- **NOTES:**

Effective dates—2013 2nd sp.s. c 4: See note following RCW 2.68.020.

Effective date—2009 c 564: See note following RCW 2.68.020.

Construction.

RCW 28B.67.900

This chapter, being necessary for the welfare of the state and its inhabitants, shall be liberally construed to effect its purposes. Insofar as the provisions of this chapter are inconsistent with the provisions of any general or special law, or parts thereof, the provisions of this chapter shall be controlling.

[2006 c 112 § 4.]

RCW 28B.67.903

Effective date—2017 c 21.

This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect June 30, 2017.

[2017 c 21 § 4.]

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

The Legislative Auditor recommends allowing the preference to expire

The Legislature should allow the B&O tax credit for customized workforce training to expire as scheduled on July 1, 2021.

The Customized Training B&O tax credit is not achieving the stated objective of attracting and retaining new businesses in the state.

The Legislature may also want to consider repealing the associated Customized Training Program under Title 28B.67 RCW. If the Legislature wants to maintain funding for customized training for other policy purposes, it could redirect funds from the Customized Training revolving loan account to existing training programs, such as the Job Skills Program.

Legislation Required: No

Fiscal Impact: Yes

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 Ed Orcutt
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The Honorable Representative Drew Hansen The Honorable Senator Jeff Holy
The Honorable Representative Luanne Van Werven The Honorable Senator Christine Rolfes
The Honorable Representative Gael Tarleton 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 does not endorse the Legislative Auditor's recommendation with comment. Testimony suggests that the CTP has several important advantages over existing grant programs. The CTP is most likely to be used by existing small businesses that would like to expand, but (1) cannot easily send workers offsite for training; (2) cannot afford the employer costs of grant funded programs; and (3) cannot afford complicated reporting requirements. Agencies involved in managing the CTP also reported that their administrative burden under the CTP is considerably smaller than other grant funded programs. Agency testimony also suggested the CTP program has been impacted by sharp changes in funding since the CTP was introduced. The CTP preference should be continued but with a stated objective more focused on recruiting, retaining, and expanding existing small businesses. This would be consistent with the business size accessing the CTP. In addition, the impacts of COVID-19 suggest that employer-affordable programs supporting worker training will have new urgency going forward.

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

Handwritten signature of David Schumacher in black ink.

Vikki Smith, Director
Department of Revenue

Handwritten signature of Vikki Smith in black ink.

**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.

SBCTC Response

We provided an invitation to the State Board for Community and Technical Colleges (SBCTC) to comment on this report. We did not receive a formal response from the agency.

MORE ABOUT THIS REVIEW

Study Questions



PROPOSED STUDY QUESTIONS Customized Workforce Training

State of Washington Joint Legislative Audit and Review Committee

December 2019



JLARC to review a B&O tax credit for certain businesses that provide customized workforce training

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.

Businesses that partner with the Washington State Board for Community and Technical Colleges to provide employee training may take a B&O tax credit valued at one-half of the cost of the training. Individual businesses are limited to \$500,000 in B&O tax credit per calendar year, but there is no statewide cap. Credits cannot be used after June 30, 2021.

Credits are intended to reduce up-front costs for new or expanding businesses

The Legislature created the B&O tax credit in 2006 when it established a new Customized Workforce Training program. The program was intended to help attract and retain businesses in Washington by helping them with employee training costs.

This study will answer the following questions in July 2020:

1. To what extent have Washington businesses used the Customized Workforce Training Credit?
2. How many and what types of businesses have used the credit?
3. How many employees have been trained, and what types of training has been provided under the program?
4. How many of the beneficiaries were new to the state compared to existing businesses?
5. How many businesses that used the preference have remained in the state?

Study Timeframe

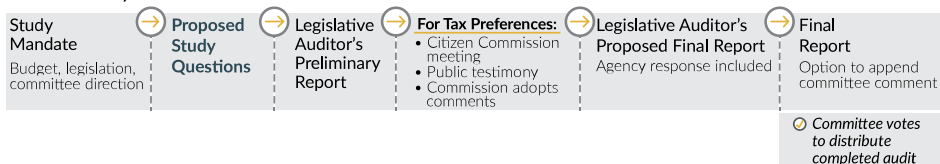
Preliminary Report: July 2020

Proposed Final Report: December 2020

Study Team

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JLARC Study Process



JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE

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