

PRELIMINARY REPORT:  
2021 TAX PREFERENCE PERFORMANCE  
REVIEWS

# Reduced B&O Rate for Printing and Publishing Newspapers

## LEGISLATIVE AUDITOR'S CONCLUSION:

The preference provides tax relief to newspaper printers and publishers and saves these businesses money. However, the newspaper industry continues to lose revenue and jobs as it seeks to stabilize financially.

July 2021

### Executive Summary

#### Preference reduces the B&O tax rate for printing and publishing newspapers

The preference provides a reduced business and occupation (B&O) tax rate to businesses that print or publish newspapers. The reduced rate applies to advertising and subscription revenue generated by print and digital newspapers<sup>1</sup>. The preference is available to any business producing materials that meet the statutory definition of newspaper. It is not available for online newspapers that do not have a print version.

The preference is scheduled to expire on July 1, 2024.

#### Preference provides tax relief and a uniform tax rate, but the newspaper industry continues to struggle

After modifying the statutory definition of newspaper in 2008, the Legislature enacted this preference in 2009 to provide financial relief to the newspaper industry. The industry has lost revenue since the late 2000s due to changes in advertising practices, technology changes, and evolving consumer preferences. The preference was designed to provide temporary assistance while newspapers stabilize financially.

The preference was extended in 2015. At that time, the Legislature added a performance statement and directed JLARC staff to evaluate year-to-year changes in the industry's gross revenue.

<b>Estimated Biennial Beneficiary Savings</b>
\$823,000
<b>Tax Type</b>
Business and Occupation (B&O) Tax
RCW 82.04.260(14)(a)
Applicable Statutes

<sup>1</sup>Digital newspapers are the digital versions of a printed newspaper. Digital newspapers must have the same name and content as their printed version, and can be published online or as a copy on a mobile device, such as a cell phone or e-reader.

Objectives (stated)	Results
To provide temporary tax relief to the newspaper industry as it adjusts to significant revenue and technological changes.	<b>Unclear.</b> While the preference meets the objective of providing tax relief to newspaper printers and publishers, it is unclear how long this relief is desired. The preference has been in place for 12 years and the newspaper industry continues to lose revenue and employment.
To provide a permanent uniform tax rate for the industry.	<b>Met.</b> The preference meets the objective of providing a uniform tax rate for revenue generated by newspaper's qualifying print and digital activities.

## Recommendations

### Legislative Auditor's Recommendation: Review

The Legislature should review this preference to determine if the relief to newspaper printers and publishers is sufficient and if additional assistance is needed to help these businesses stabilize financially. If the Legislature is interested in helping the newspaper industry more broadly, it should consider additional approaches.

You can find more information in Recommendations.

### Commissioners' Recommendation

Available on [Citizen Commission website](#) October 2021.

## REVIEW DETAILS

### 1. Preference provides tax relief to newspapers

#### The preference provides financial relief to the newspaper industry by lowering the B&O tax rate for newspaper printers and publishers

The 2009 Legislature created the preference to reduce the B&O rate for businesses that print or publish newspapers. Revenues generated from [digital newspapers](#)<sup>2</sup> are also taxed at the preferential rate due to a 2008 change in the definition of newspaper (RCW 82.04.214).

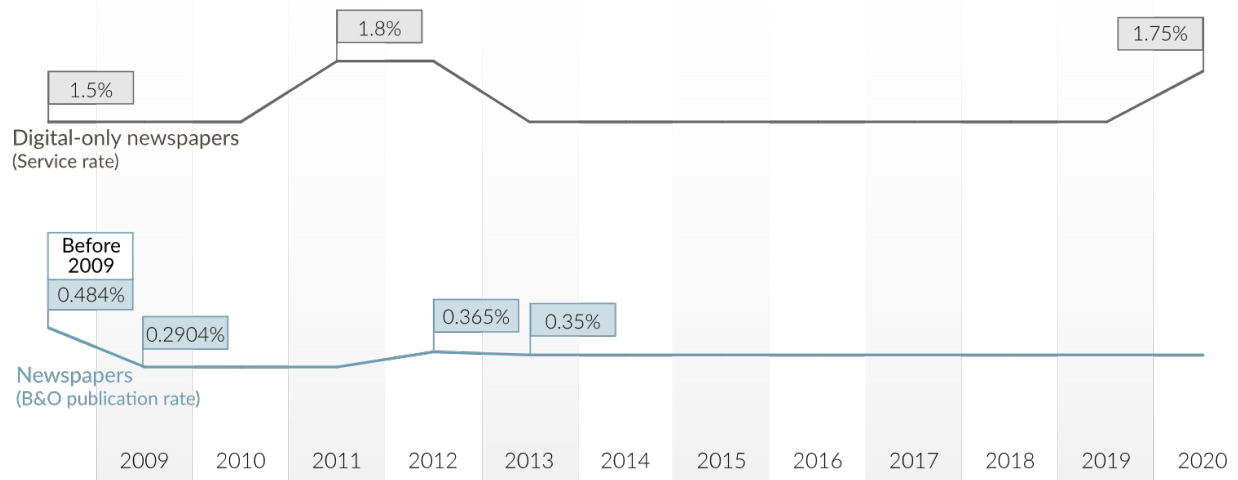
#### Preference intended to provide financial relief to the newspaper industry

The 2009 Legislature enacted the preference to reduce the B&O tax rate from 0.484% to 0.2904% for businesses that print or publish newspapers. The preference was designed to provide temporary financial relief to newspaper businesses in response to significant lost revenue and the loss of some Washington newspapers. Testimony suggested that the newspapers would stabilize financially by 2015.

<sup>2</sup>Digital newspapers are the digital versions of a printed newspapers. Digital newspapers must have the same name and content as their printed versions, and can be published online or as a copy on a mobile device, such as a cell phone or e-reader.

In 2012, the Legislature temporarily increased the preference rate to 0.365% as part of efforts to raise revenue as the state recovered from the Great Recession. When the increase expired, the rate was lowered to 0.35% on July 1, 2013.

**Exhibit 1.1: Legislature has adjusted the preferential B&O tax rate for the newspaper industry multiple times**



Source: JLARC staff analysis of RCW 82.04.260.

The preference was last modified in 2015, when the Legislature extended the expiration date and added a performance statement with two policy objectives:

- To extend tax relief to the newspaper industry as it adjusts to significant revenue shifts and technological changes.
- To provide a permanent uniform tax rate to minimize the burden of reporting B&O taxes for different types of revenue.

The Legislature also directed JLARC staff to evaluate year-to-year changes in gross revenue for newspaper businesses claiming the preference. If the change is positive during the three most recent years, the Legislature intends for the preference to expire, reinstating the 0.484% rate. This situation has not occurred and the preference has been in place for 12 years.

Beneficiaries currently pay a reduced B&O rate of 0.35% and the preference is scheduled to expire July 1, 2024.

**The 2008 Legislature changed the statutory definition of newspaper**

Prior to the preference's creation, the 2008 Legislature modified the statutory definition of newspaper to include supplements and digital versions of print newspapers. According to [statute](#)<sup>3</sup>:

<sup>3</sup>82.04.214 RCW

- **Newspapers** are publications issued at least twice per month and printed on newsprint and folded without binding. This includes supplements and digital versions of a printed newspaper with the same name and content.
- **Supplements** are publications that are part of a printed newspaper and distributed as an insert or attachment to the newspaper. A supplement may be distributed separately if the distribution is within the newspaper's circulation area.

Before the change in definition, digital advertising revenue was taxed at a 1.5% rate. Industry representatives testified in 2009 that newspapers often combine print and digital advertising sales. This complicated tax reporting because it was difficult to differentiate revenue from print and digital ads and apply different tax rates. Under the current definition of newspapers, digital and print advertising revenue for newspaper printers and publishers is taxed at the same rate.

### Statutory definition makes preference available to some non-newspaper activities

Statute defines a newspaper by its physical form and how often it is published rather than its content, consistent with a 1989 U.S. Supreme Court decision (*Texas Monthly v. Bullock*). This may result in some unintended beneficiaries. For example, book and periodical publishers, some supermarkets, advertising agencies, and commercial printers may qualify for the preference if their printed materials meet the statutory definition of newspaper.

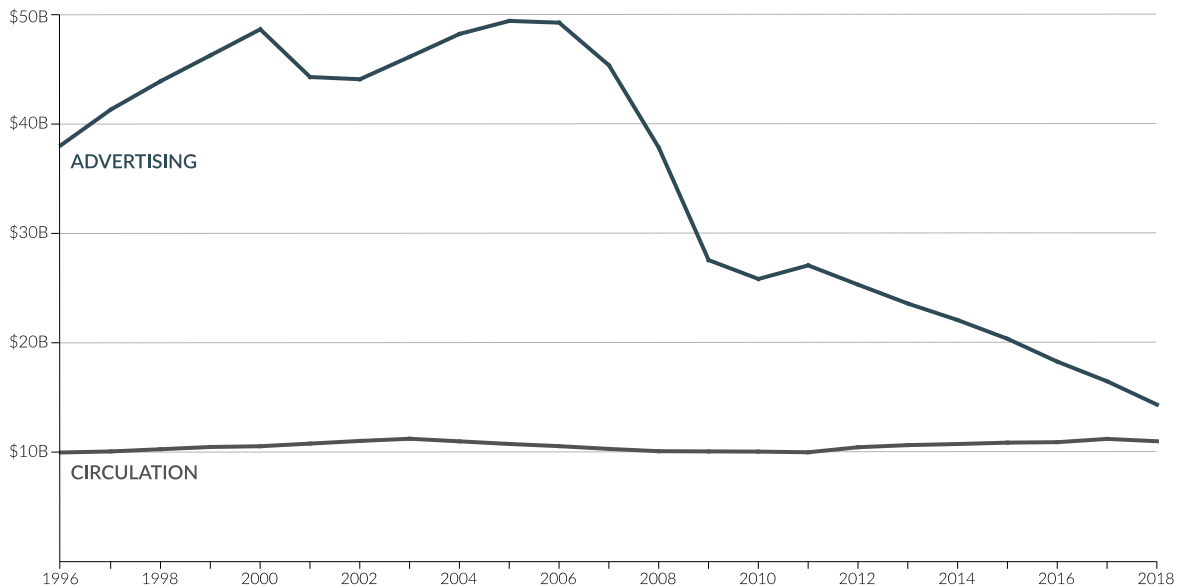
### Newspaper industry in financial decline since the late 2000s

Newspapers rely on advertising and subscription revenue. However, the industry has lost revenue since the late 2000s. According to Pew Research Center data, advertising revenue peaked at \$49.4 billion in 2005 and declined by an average of \$2.7 billion annually through 2018. Circulation revenue<sup>4</sup> has been more consistent, increasing by about \$144 million annually since 2011. This growth is consistent with subscription price increases in the years after advertising revenue fell. Price increases may have led some news consumers to cancel or change their subscription type, but the ratio of print and digital subscription revenue is unknown.

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<sup>4</sup>Circulation revenue is money paid by newspaper readers, either through subscriptions or newsstand purchases.

## Exhibit 1.2: Advertising and circulation revenue for the newspaper industry, 1996-2018



Source: JLARC staff analysis of advertising revenue and circulation revenue from the Pew Research Center's "Newspapers Fact Sheet." Published July 2019.

According to industry sources and media observers, the newspaper industry's financial decline is due to many factors, including changes in advertising practices, technology changes, and evolving consumer preferences.

- **Advertising practices:** The expansion of digital news content contributed to a greater supply of ad inventory and declining prices. Many advertisers use targeted ads, a practice that gives advantage to companies with access to data about individual web browsing habits.
- **Technology:** Digital media such as online news websites and free news sources compete with print newspapers.
- **Consumer preferences:** Readers increasingly prefer digital newspapers over print. Digital subscriptions generally bring in less revenue than print subscriptions.

Washington's newspaper industry reflects these national trends.

## 2. Preference's value is decreasing

### The preference's value is decreasing as newspaper printers and publishers lose revenue and employment

Between fiscal year 2016 and fiscal year 2020, 164 beneficiaries claimed the preferential B&O rate for printing or publishing newspapers. The number of businesses claiming the preference each year decreased during this period. JLARC staff used the primary [NAICS code](#)<sup>5</sup> to identify

<sup>5</sup>North American Industry Classification System uses a six digit numerical system to classify businesses by type of primary economic activity.

which beneficiaries are newspaper printers and publishers. Of the 164 beneficiaries, 109 (66%) are newspapers. Other beneficiaries include book and periodical publishers, some chain supermarkets, advertising agencies, and commercial printers, which qualify under the law.

### Beneficiary savings declining by an average of 6% per year

Department of Revenue tax return detail indicates that beneficiaries saved \$481,000 in fiscal year 2020. JLARC staff estimate beneficiaries will save \$823,000 in the 2021-23 biennium.

#### Exhibit 2.1: Beneficiary revenue and estimated savings are declining

Biennium	Fiscal Year	Taxable Revenue	Estimated Beneficiary Savings	% Change from Previous Year
2015-17 7/1/15- 6/30/17	2016	\$462,851,000	\$620,000	-6.5%
	2017	\$456,589,000	\$612,000	-1.4%
2017-19 7/1/17 - 6/30/19	2018	\$444,448,000	\$596,000	-2.7%
	2019	\$427,605,000	\$573,000	-3.8%
2019-21 7/1/19- 6/30/21	2020	\$358,924,000	\$481,000	-16.1%
	2021	\$337,127,000	\$452,000	-6.1%
2021-23 7/1/21- 6/30/23	2022	\$316,654,000	\$424,000	-6.1%
	2023	\$297,424,000	\$399,000	-6.1%
	2021-23 Biennium	\$614,077,000	\$823,000	

Source: JLARC staff analysis of Department of Revenue tax return detail, fiscal years 2016-2020. FY 2021-2023 estimated based on the average annual percentage change in beneficiary savings from 2015-2020. Amounts rounded to nearest \$1,000.

Beneficiaries saved a total of \$2.9 million between fiscal year 2016 through fiscal year 2020. Newspaper printers and publishers account for approximately \$2.4 million (84%) of all savings. The annual savings for newspaper beneficiaries decreased by 6.1% per year, on average.

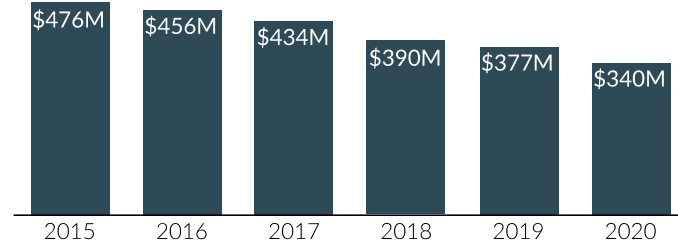
## Revenues and employment in Washington's newspaper industry declined since 2015

When the 2015 Legislature amended the preference, it stated its intent to provide tax relief until the industry stabilizes financially. The Legislature included year-to-year change in newspaper revenue as a performance metric. If revenue growth is positive for the three most recent years, the preference will expire.

Tax return data indicates that gross revenues reported for newspaper printers and publishers (66% of the beneficiaries) fell from \$476 million in fiscal 2015 to \$340 million in fiscal 2020 (29% decrease). On average, total revenue decreased by approximately \$27 million every year. This decline in gross revenues for Washington newspapers is consistent with the national drop in newspaper advertising revenue (see Exhibit 1.1). While most newspaper revenue comes from advertising and subscriptions, revenue also comes from other printing and distribution services. Because revenue breakdown by source is unavailable, it is unknown how specific revenue streams changed over time.

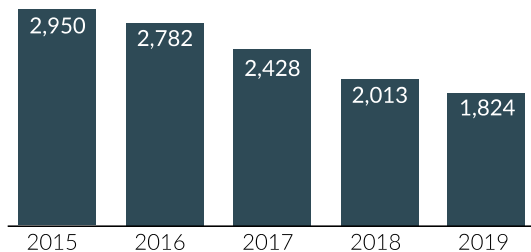
Employment at Washington newspapers claiming the preference also declined between calendar years 2015 and 2019, the most recent year available. According to Employment Security Department (ESD) records, beneficiaries reported approximately 2,950 employees in 2015 and 1,824 employees in 2019.

**Exhibit 2.2: Gross revenues of newspaper businesses using the preference have declined 29%**



Source: JLARC staff analysis of Department of Revenue tax return detail, fiscal years 2015-2020. This data includes 109 beneficiaries with NAICS codes indicating they are newspapers.

**Exhibit 2.3: Employment at newspapers using the preference has declined 38%**



Source: JLARC staff analysis of Department of Revenue tax return detail, fiscal years 2015-2020, and Employment Security Department UI data, calendar years 2015-2020. This data includes 109 beneficiaries with NAICS codes indicating they are newspapers.

Employment at all Washington newspapers dropped 33% from 2015 to 2019, and 38% among newspapers claiming the preference. Some newspapers do not claim the preference. These newspapers may not qualify for the preference, may not know about the preference, or may not have tax liability.

Employment has decreased at a faster rate in Washington compared to the rest of the country. According to the

Pew Research Center, national employment in the newspaper industry decreased by 21% between 2015 and 2019. It is unclear why Washington's newspaper employment decreased more sharply than newspaper employment nationally.

## COVID-19 pandemic may have further affected Washington's newspaper industry

The ongoing COVID-19 pandemic may have contributed to additional financial instability for Washington's newspapers.

- According to data compiled by the *Columbia Journalism Review*, at least 43 newspapers in Washington laid off employees in 2020, and 23 newspapers suspended printing operations or reduced the number of days they offer a print newspaper.
- Industry representatives stated that the pandemic caused additional layoffs, furloughs, and other cost-cutting measures.
- Since November 2019, digital subscriptions increased nationally by 51% and print subscriptions decreased by 13%. Digital subscriptions are cheaper than print subscriptions. Multiple new subscribers may be required to offset the loss of each print subscriber.

The full impact of the pandemic on Washington's newspaper industry is unclear.

### 3. Newspapers exploring other funding models

#### Newspaper printers and publishers are exploring alternate funding models, but it is unclear if the industry will stabilize financially



While still relying on advertising and subscribers, the *Salt Lake Tribune* also accepts tax-deductible donations and established an endowment to ensure ongoing funding. Despite these changes, the newspaper reduced its print offerings by switching from a daily to a weekly newspaper in 2020.

JLARC staff reviewed literature on business models and revenue streams in the newspaper industry and interviewed representatives from local newspapers to learn how the newspaper industry is addressing ongoing financial and technological challenges.

#### Newspapers are pursuing alternate funding

Newspapers have traditionally operated as for-profit entities funded by advertising and subscription revenue. Prior to the Great Recession in 2008, about 80% of newspapers' total revenue came from advertising. Since 2010, advertising revenue has dropped by more than two-thirds.

Across the U.S., newspapers are exploring alternate funding to stabilize their revenue streams. For

example, the Salt Lake Tribune converted to non-profit status in 2019.

According to industry representatives, no for-profit newspapers in Washington have converted to non-profits as of early 2021. Local newspapers are using a variety of strategies to compensate for declining revenue, including reducing the number of print days, increasing subscription fees, seeking alternate funding sources, and reducing staff and hours.



Some Washington newspapers serving larger and more urban populations are partnering with non-profit organizations and seeking to create endowed reporting positions<sup>6</sup>. Smaller newspapers have pursued community engagement approaches.

### Exhibit 3.1: Washington newspapers are partnering with other entities to secure funding



*The Seattle Times* partnered with local entities to help fund its news-gathering operations. The newspaper partnered with the Seattle Foundation to channel local philanthropy to fund journalism, raising over \$5 million between 2013 and 2018. In 2019, these entities created the Investigative Journalism Fund to build on the success of other philanthropically funded issue-specific efforts.



*The Spokesman-Review* (Spokane) and *The Daily Herald* (Everett), are securing funding for endowed reporting positions. According to industry representatives, some positions may be issue-specific and others will emphasize investigative reporting.



The four newspapers in Washington owned by McClatchy added reporting positions focusing on indigenous and military communities. The effort is a partnership with Report for America<sup>7</sup> (RFA) to hire journalists whose salaries are split between the RFA and the newspaper. The RFA also helps newsrooms develop philanthropy efforts. In April 2021, the newspapers launched a funding drive to raise tax-deductible donations to help pay the salaries.

Source: JLARC staff analysis.

Newspapers serving smaller markets have experimented with a community engagement model, where the newspaper sponsors an event such as a forum or food show and earns revenue from ticket sales or local business sponsorships. Industry representatives told JLARC staff that prior to the COVID-19 pandemic, these efforts appeared to be working for newspapers serving smaller isolated markets.

### It is too early to tell whether alternate funding efforts will succeed

It is too early to draw conclusions about whether these efforts to develop alternate funding models will persist and succeed, and be adopted more broadly.

<sup>6</sup>Endowed reporting positions are paid for with revenue from an endowment fund established to support news reporting permanently.

<sup>7</sup>Report for America is a national service program that places journalists into local newsrooms across the country to report on under-covered issues.

- Partnerships with local non-profits and creating endowed reporting positions may not be effective in smaller markets because foundation funding and philanthropic resources are concentrated in urban areas.
- Sponsored events may be more challenging in urban areas where there is more competition for consumers' disposable income.

## 4. Other jurisdictions exploring policy options

### Policy efforts in other jurisdictions may serve as a model for Washington

A tax preference for businesses printing or publishing a physical newspaper may be of diminishing utility as the industry continues to transition to digital media. While Washington's print newspaper industry continued to lose revenue and jobs between 2015 and 2019, employment in the internet publishing and broadcasting and web search portals sector<sup>8</sup> increased from 11,300 to 25,200 (123% increase). While this job growth is not exclusive to new providers, it suggests a growing digital footprint in the news industry as print options shrink. If the Legislature is interested in assisting the local newspaper industry, efforts in other states or in Congress may serve as a model.

Other states are exploring ways to support news media beyond tax policy. These approaches do not limit support to businesses engaged in printing or publishing newspapers.

Examples in other states include:

- New Jersey's Civic Information Consortium, which grants state funds to efforts such as training journalists and advancing civic technology projects. Its mission is to strengthen local media and civic participation.
- The Colorado Media Project, a private grant-funded organization of civic leaders, academics, philanthropists, journalists, and business leaders that focuses on increasing newsroom capacity, supporting collaboration across the state, and enhancing community engagement.

Various efforts to help newspapers have been introduced in Congress in recent years:

- The "Saving Local News Act" introduced in 2019 would have provided newspapers with the same tax status as non-profits. The Act did not pass.
- The "Future of Local News Commission Act" introduced in 2020 would have created a panel to identify mechanisms for public funding.
- The "Journalism Competition and Preservation Act" would provide a temporary safe harbor from federal antitrust laws and allow news outlets to collectively negotiate with

<sup>8</sup>As defined by the U.S. Census Bureau, NAICS sector 519130 includes news publishers that do not produce printed products.

online platforms for use of their work. This bill was first introduced in 2019 and reintroduced in March 2021. Countries such as France, Spain, and Australia have also sought to compel online platforms to negotiate licensing agreements with news organizations.

## 5. Applicable statutes

### RCW 82.04.260, RCW 82.04.214

#### Reduced B&O rate for newspaper printers and publishers

##### RCW 82.04.260

##### Tax on manufacturers and processors of various foods and by-products

(1) Upon every person engaging within this state in the business of manufacturing:

(a) Wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil; as to such persons the amount of tax with respect to such business is equal to the value of the flour, pearl barley, oil, canola meal, or canola by-product manufactured, multiplied by the rate of 0.138 percent;

(b) Beginning July 1, 2025, seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing, to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state;

(c)(i) Except as provided otherwise in (c)(iii) of this subsection, from July 1, 2025, until January 1, 2036, dairy products; or selling dairy products that the person has manufactured to purchasers who either transport in the ordinary course of business the goods out of state or purchasers who use such dairy products as an ingredient or component in the manufacturing of a dairy product; as to such persons the tax imposed is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state or sold to a manufacturer for use as an ingredient or component in the manufacturing of a dairy product.

(ii) For the purposes of this subsection (1)(c), "dairy products" means:

(A) Products, not including any marijuana-infused product, that as of September 20, 2001, are identified in 21 C.F.R., chapter 1, parts 131, 133, and 135, including by-products from the manufacturing of the dairy products, such as whey and casein; and

(B) Products comprised of not less than seventy percent dairy products that qualify under (c)(ii)(A) of this subsection, measured by weight or volume.

(iii) The preferential tax rate provided to taxpayers under this subsection (1)(c) does not apply to sales of dairy products on or after July 1, 2023, where a dairy product is used by the purchaser as an ingredient or component in the manufacturing in Washington of a dairy product;

(d)(i) Beginning July 1, 2025, fruits or vegetables by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables, or selling at wholesale fruits or vegetables manufactured by the seller by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables and sold to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state.

(ii) For purposes of this subsection (1)(d), "fruits" and "vegetables" do not include marijuana, useable marijuana, or marijuana-infused products; and

(e) Wood biomass fuel; as to such persons the amount of tax with respect to the business is equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent. For the purposes of this section, "wood biomass fuel" means a liquid or gaseous fuel that is produced from lignocellulosic feedstocks, including wood, forest, or field residue and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.

(2) Upon every person engaging within this state in the business of splitting or processing dried peas; as to such persons the amount of tax with respect to such business is equal to the value of the peas split or processed, multiplied by the rate of 0.138 percent.

(3) Upon every nonprofit corporation and nonprofit association engaging within this state in research and development, as to such corporations and associations, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.484 percent.

(4) Upon every person engaging within this state in the business of slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale only and not at retail; as to such persons the tax imposed is equal to the gross proceeds derived from such sales multiplied by the rate of 0.138 percent.

(5)(a) Upon every person engaging within this state in the business of acting as a travel agent or tour operator and whose annual taxable amount for the prior calendar year was two hundred fifty thousand dollars or less; as to such persons the amount of the tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent.

(b) Upon every person engaging within this state in the business of acting as a travel agent or tour operator and whose annual taxable amount for the calendar year was more than two hundred fifty thousand dollars; as to such persons the amount of the tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent through June 30, 2019, and 0.9 percent beginning July 1, 2019.

(6) Upon every person engaging within this state in business as an international steamship agent, international customs house broker, international freight forwarder, vessel and/or cargo charter broker in foreign commerce, and/or international air cargo agent; as to such persons the amount of the tax with respect to only international activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent.

(7) Upon every person engaging within this state in the business of stevedoring and associated activities pertinent to the movement of goods and commodities in waterborne interstate or foreign commerce; as to such persons the amount of tax with respect to such business is equal to the gross proceeds derived from such activities multiplied by the rate of 0.275 percent. Persons subject to taxation under this subsection are exempt from payment of taxes imposed by chapter 82.16 RCW for that portion of their business subject to taxation under this subsection. Stevedoring and associated activities pertinent to the conduct of goods and commodities in waterborne interstate or foreign commerce are defined as all activities of a labor, service or transportation nature whereby cargo may be loaded or unloaded to or from vessels or barges, passing over, onto or under a wharf, pier, or similar structure; cargo may be moved to a warehouse or similar holding or storage yard or area to await further movement in import or export or may move to a consolidation freight station and be stuffed, unstuffed, containerized, separated or otherwise segregated or aggregated for delivery or loaded on any mode of transportation for delivery to its consignee. Specific activities included in this definition are: Wharfage, handling, loading, unloading, moving of cargo to a convenient place of delivery to the consignee or a convenient place for further movement to export mode; documentation services in connection with the receipt, delivery, checking, care, custody and control of cargo required in the transfer of cargo; imported automobile handling prior to delivery to consignee; terminal stevedoring and incidental vessel services, including but not limited to plugging and unplugging refrigerator service to containers, trailers, and other refrigerated cargo receptacles, and securing ship hatch covers.

(8)(a) Upon every person engaging within this state in the business of disposing of low-level waste, as defined in \*RCW 43.145.010; as to such persons the amount of the tax with respect to such business is equal to the gross income of the business, excluding any fees imposed under \*\*chapter 43.200 RCW, multiplied by the rate of 3.3 percent.

(b) If the gross income of the taxpayer is attributable to activities both within and without this state, the gross income attributable to this state must be determined in accordance with the methods of apportionment required under RCW 82.04.460.

(9) Upon every person engaging within this state as an insurance producer or title insurance agent licensed under chapter 48.17 RCW or a surplus line broker licensed under chapter 48.15

RCW; as to such persons, the amount of the tax with respect to such licensed activities is equal to the gross income of such business multiplied by the rate of 0.484 percent.

(10) Upon every person engaging within this state in business as a hospital, as defined in chapter 70.41 RCW, that is operated as a nonprofit corporation or by the state or any of its political subdivisions, as to such persons, the amount of tax with respect to such activities is equal to the gross income of the business multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter.

(11)(a) Beginning October 1, 2005, upon every person engaging within this state in the business of manufacturing commercial airplanes, or components of such airplanes, or making sales, at retail or wholesale, of commercial airplanes or components of such airplanes, manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of:

(i) 0.4235 percent from October 1, 2005, through June 30, 2007;

(ii) 0.2904 percent beginning July 1, 2007, through March 31, 2020; and

(iii) Beginning April 1, 2020, 0.484 percent, subject to any reduction required under (e) of this subsection (11). The tax rate in this subsection (11)(a)(iii) applies to all business activities described in this subsection (11)(a).

(b) Beginning July 1, 2008, upon every person who is not eligible to report under the provisions of (a) of this subsection (11) and is engaging within this state in the business of manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such tooling manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, be equal to the gross income of the business, multiplied by the rate of:

(i) 0.2904 percent through March 31, 2020; and

(ii) Beginning April 1, 2020, the following rates, which are subject to any reduction required under (e) of this subsection (11):

(A) The rate under RCW 82.04.250(1) on the business of making retail sales of tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes; and

(B) 0.484 percent on all other business activities described in this subsection (11)(b).

(c) For the purposes of this subsection (11), "commercial airplane" and "component" have the same meanings as provided in RCW 82.32.550.

(d)(i) In addition to all other requirements under this title, a person reporting under the tax rate provided in this subsection (11) must file a complete annual tax performance report with the department under RCW 82.32.534. However, this requirement does not apply to persons

reporting under the tax rate in (a)(iii) of this subsection (11), so long as that rate remains 0.484 percent, or under any of the tax rates in (b)(ii)(A) and (B) of this subsection (11), so long as those tax rates remain the rate imposed pursuant to RCW 82.04.250(1) and 0.484 percent, respectively.

(ii) Nothing in (d)(i) of this subsection (11) may be construed as affecting the obligation of a person reporting under a tax rate provided in this subsection (11) to file a complete annual tax performance report with the department under RCW 82.32.534: (A) Pursuant to another provision of this title as a result of claiming a tax credit or exemption; or (B) pursuant to (d)(i) of this subsection (11) as a result of claiming the tax rates in (a)(ii) or (b)(i) of this subsection (11) for periods ending before April 1, 2020.

(e)(i) After March 31, 2021, the tax rates under (a)(iii) and (b)(ii) of this subsection (11) must be reduced to 0.357 percent provided the conditions in RCW 82.04.2602 are met. The effective date of the rates authorized under this subsection (11)(e) must occur on the first day of the next calendar quarter that is at least sixty days after the department receives the last of the two written notices pursuant to RCW 82.04.2602 (3) and (4).

(ii) Both a significant commercial airplane manufacturer separately and the rest of the aerospace industry as a whole, receiving the rate of 0.357 percent under this subsection (11)(e) are subject to the aerospace apprenticeship utilization rates required under RCW 49.04.220 by April 1, 2026, or five years after the effective date of the 0.357 percent rate authorized under this subsection (11)(e), whichever is later, as determined by the department of labor and industries.

(iii) The provisions of RCW 82.32.805 and 82.32.808 do not apply to this subsection (11)(e).

(f)(i) Except as provided in (f)(ii) of this subsection (11), this subsection (11) does not apply on and after July 1, 2040.

(ii) With respect to the manufacturing of commercial airplanes or making sales, at retail or wholesale, of commercial airplanes, this subsection (11) does not apply on and after July 1st of the year in which the department makes a determination that any final assembly or wing assembly of any version or variant of a commercial airplane that is the basis of a siting of a significant commercial airplane manufacturing program in the state under RCW 82.32.850 has been sited outside the state of Washington. This subsection (11)(f)(ii) only applies to the manufacturing or sale of commercial airplanes that are the basis of a siting of a significant commercial airplane manufacturing program in the state under RCW 82.32.850. This subsection (11)(f)(ii) continues to apply during the time that a person is subject to the tax rate in (a)(iii) of this subsection (11).

(g) For the purposes of this subsection, "a significant commercial airplane manufacturer" means a manufacturer of commercial airplanes with at least fifty thousand full-time employees in Washington as of January 1, 2021.

(12)(a) Until July 1, 2045, upon every person engaging within this state in the business of extracting timber or extracting for hire timber; as to such persons the amount of tax with respect to the business is, in the case of extractors, equal to the value of products, including by-products, extracted, or in the case of extractors for hire, equal to the gross income of the business,

multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2045.

(b) Until July 1, 2045, upon every person engaging within this state in the business of manufacturing or processing for hire: (i) Timber into timber products or wood products; (ii) timber products into other timber products or wood products; or (iii) products defined in RCW 19.27.570(1): as to such persons the amount of the tax with respect to the business is, in the case of manufacturers, equal to the value of products, including by-products, manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2045.

(c) Until July 1, 2045, upon every person engaging within this state in the business of selling at wholesale: (i) Timber extracted by that person; (ii) timber products manufactured by that person from timber or other timber products; (iii) wood products manufactured by that person from timber or timber products; or (iv) products defined in RCW 19.27.570(1) manufactured by that person; as to such persons the amount of the tax with respect to the business is equal to the gross proceeds of sales of the timber, timber products, wood products, or products defined in RCW 19.27.570(1) multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2045.

(d) Until July 1, 2045, upon every person engaging within this state in the business of selling standing timber; as to such persons the amount of the tax with respect to the business is equal to the gross income of the business multiplied by the rate of 0.2904 percent. For purposes of this subsection (12)(d), "selling standing timber" means the sale of timber apart from the land, where the buyer is required to sever the timber within thirty months from the date of the original contract, regardless of the method of payment for the timber and whether title to the timber transfers before, upon, or after severance.

(e) For purposes of this subsection, the following definitions apply:

(i) "Biocomposite surface products" means surface material products containing, by weight or volume, more than fifty percent recycled paper and that also use nonpetroleum-based phenolic resin as a bonding agent.

(ii) "Paper and paper products" means products made of interwoven cellulosic fibers held together largely by hydrogen bonding. "Paper and paper products" includes newsprint; office, printing, fine, and pressure-sensitive papers; paper napkins, towels, and toilet tissue; kraft bag, construction, and other kraft industrial papers; paperboard, liquid packaging containers, containerboard, corrugated, and solid-fiber containers including linerboard and corrugated medium; and related types of cellulosic products containing primarily, by weight or volume, cellulosic materials. "Paper and paper products" does not include books, newspapers, magazines, periodicals, and other printed publications, advertising materials, calendars, and similar types of printed materials.

(iii) "Recycled paper" means paper and paper products having fifty percent or more of their fiber content that comes from postconsumer waste. For purposes of this subsection (12)(e)(iii),



"postconsumer waste" means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.

(iv) "Timber" means forest trees, standing or down, on privately or publicly owned land. "Timber" does not include Christmas trees that are cultivated by agricultural methods or short-rotation hardwoods as defined in RCW 84.33.035.

(v) "Timber products" means:

(A) Logs, wood chips, sawdust, wood waste, and similar products obtained wholly from the processing of timber, short-rotation hardwoods as defined in RCW 84.33.035, or both;

(B) Pulp, including market pulp and pulp derived from recovered paper or paper products; and

(C) Recycled paper, but only when used in the manufacture of biocomposite surface products.

(vi) "Wood products" means paper and paper products; dimensional lumber; engineered wood products such as particleboard, oriented strand board, medium density fiberboard, and plywood; wood doors; wood windows; and biocomposite surface products.

(f) Except for small harvesters as defined in RCW 84.33.035, a person reporting under the tax rate provided in this subsection (12) must file a complete annual tax performance report with the department under RCW 82.32.534.

(g) Nothing in this subsection (12) may be construed to affect the taxation of any activity defined as a retail sale in RCW 82.04.050(2) (b) or (c), defined as a wholesale sale in RCW 82.04.060(2), or taxed under RCW 82.04.280(1)(g).

(13) Upon every person engaging within this state in inspecting, testing, labeling, and storing canned salmon owned by another person, as to such persons, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.484 percent.

(14)(a) Upon every person engaging within this state in the business of printing a newspaper, publishing a newspaper, or both, the amount of tax on such business is equal to the gross income of the business multiplied by the rate of 0.35 percent until July 1, 2024, and 0.484 percent thereafter.

(b) A person reporting under the tax rate provided in this subsection (14) must file a complete annual tax performance report with the department under RCW 82.32.834.

## Definitions

### RCW 82.04.214

(1) "Newspaper" means:

(a) A publication issued regularly at stated intervals at least twice a month and printed on newsprint in tabloid or broadsheet format folded loosely together without stapling, glue, or any other binding of any kind, including any supplement of a printed newspaper; and

(b) An electronic version of a printed newspaper that:

- (i) Shares content with the printed newspaper; and
  - (ii) Is prominently identified by the same name as the printed newspaper or otherwise conspicuously indicates that it is a complement to the printed newspaper.
- (2) For purposes of this section, "supplement" means a printed publication, including a magazine or advertising section, that is:
- (a) Labeled and identified as part of the printed newspaper; and
  - (b) Circulated or distributed:
    - (i) As an insert or attachment to the printed newspaper; or
    - (ii) Separate and apart from the printed newspaper so long as the distribution is within the general circulation area of the newspaper.

## RECOMMENDATIONS & RESPONSES

### Legislative Auditor's Recommendation

#### The Legislative Auditor recommends reviewing this preference

The Legislature should review this preference to determine if it provides sufficient relief to newspaper printers and publishers and whether additional assistance is needed as these businesses attempt to stabilize financially. The preference has been in place for 12 years and the newspaper industry continues to lose revenue and jobs. If the Legislature is interested in helping the news industry more broadly, it should consider additional approaches.

**Legislation Required:** Yes

**Fiscal Impact:** Unknown

### Letter from Commission Chair

Available on [Citizen Commission website](#) October 2021.

### Commissioners' Recommendation

Available on [Citizen Commission website](#) October 2021.


### Agency Response

If applicable, available on [Citizen Commission website](#) October 2021.

# MORE ABOUT THIS REVIEW

## Study questions

Click image to view PDF of proposed study questions.



### PROPOSED STUDY QUESTIONS

## Tax Preference for Newspaper Industry

State of Washington Joint Legislative Audit and Review Committee
September 2020

#### JLARC to review a B&O tax preference for businesses that publish and print newspapers


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.

#### Preference is intended to provide relief for the newspaper industry while it works to stabilize its revenues and funding sources in the digital era

The Legislature passed this preference in 2009 with the stated intent to provide temporary tax relief to the newspaper industry until its revenues and funding sources have stabilized. Due to changes in technology, the industry's main revenue source—print advertising—was no longer generating the revenue needed to support newspaper businesses.

Before this tax preference was enacted, the 2008 Legislature expanded the definition of newspapers to include print only and businesses that publish both a print and online version of the same newspaper. This allowed these businesses to pay a uniform B&O tax rate. Online-only newspapers are under a different tax classification that results in a higher tax rate.

In 2009, the Legislature enacted this tax preference by establishing a preferential B&O tax rate that applied to newspapers under the definition above. The rate is currently 0.35% and is scheduled to sunset on July 1, 2024. This preferential rate does not apply to online-only newspapers, which pay a rate of 1.5%.



#### The Legislature intends to allow the preference to expire if there is a positive trend in annual gross revenues

If the average year-to-year change in gross revenues over three years is positive for businesses claiming the preference, the Legislature explicitly stated it intends to allow the preference to expire.

#### This study will address the following questions:

1. Which businesses have used the preference, and how much have they saved using the lower B&O tax rate?
2. How have revenues and employment numbers changed for businesses using the preference over the past three years?
3. What business models exist in the newspaper industry and have they impacted financial stability?

#### Study Timeframe

Preliminary Report: July 2022      Proposed Final Report: December 2022

#### Study Team

Team Lead	Rachel Murata	(360) 786-5293	<a href="mailto:Rachel.Murata@leg.wa.gov">Rachel.Murata@leg.wa.gov</a>
Project Intern	Camille Hakansson		<a href="mailto:Camille.Hakansson@leg.wa.gov">Camille.Hakansson@leg.wa.gov</a>
Project Coordinator	Eric Thomas	(360) 786-5182	<a href="mailto:Eric.Thomas@leg.wa.gov">Eric.Thomas@leg.wa.gov</a>
Legislative Auditor	Keenan Konopaski	(360) 786-5187	<a href="mailto:keenan.konopaski@leg.wa.gov">keenan.konopaski@leg.wa.gov</a>

#### JLARC Study Process

Study Mandate

Budget, legislation, committee direction

→

Proposed Study Questions

→

Legislative Auditor's Preliminary Report

→

For Tax Preferences:

- Citizen Commission meeting
- Public testimony
- Commission adopts comments

→

Legislative Auditor's Proposed Final Report

Agency response included

→

Final Report

Option to append committee comment

⊙ Committee votes to distribute completed audit

**JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE**

106 11<sup>th</sup> Ave SW, Olympia, WA 98501 | Email: [JLARC@leg.wa.gov](mailto:JLARC@leg.wa.gov) | Website: [www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)

Twitter: @WALegAuditor | Phone: (360) 786-5171 | Fax: (360) 786-5180

Washington Joint Legislative Audit and  
Review Committee

106 11th Ave SW, Suite 2500  
PO Box 40910  
Olympia, WA 98504-0910

Phone: 360-786-5171

Email: [JLARC@leg.wa.gov](mailto:JLARC@leg.wa.gov)

