PROPOSED FINAL 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.

December 2021

Executive Summary

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

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[1]. 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.

[1]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.	**Unclear.** 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.	**Met**. 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

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should consider additional approaches to supporting local newspapers. Testimony suggests (1) the current preference may be too small relative to the challenges facing local papers, and (2) local papers still support democratic and community vitality with the dissemination of local news absent from newer, national digital providers. Additionally, local papers offer an alternative for residents with barriers to accessing newer digital formats.

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[2] are also taxed at the preferential rate due to a 2008 change in the definition of newspaper (RCW 82.04.214).

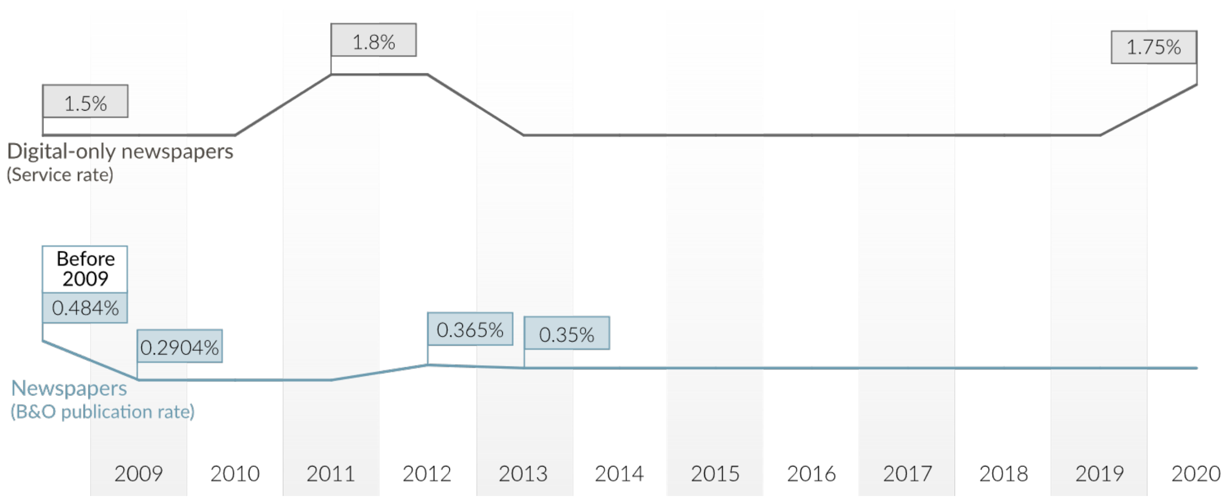
[2]Digital newspapers are the digital versions of a printed newspapers. Digital newspapers must have the same name and content as their printed versions, and can be published online or as a copy on a mobile device, such as a cell phone or e-reader.

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.

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[3]:

- **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

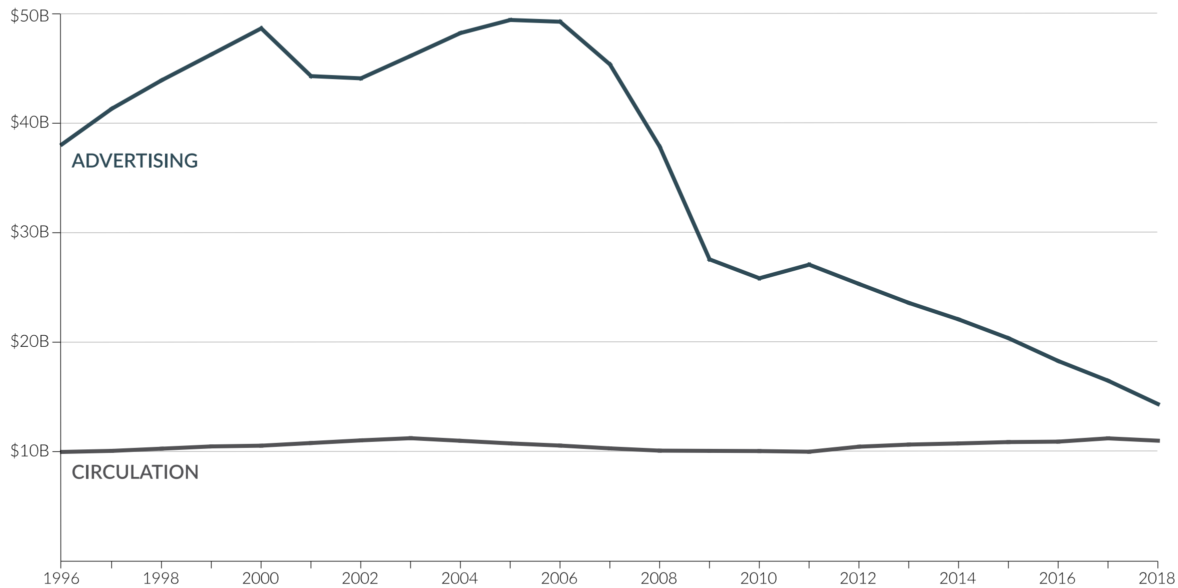
Statute defines a newspaper by its physical form and how often it is published rather than its content, consistent with a 1989 U.S. Supreme Court decision (Texas Monthly v. Bullock). This may result in some unintended beneficiaries. For example, book and periodical publishers, some supermarkets, advertising 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[4] 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.

[3] 82.04.214 RCW
[4] 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[5] to identify

[5]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	

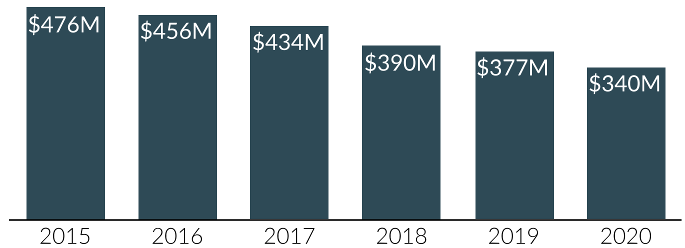
Source: JLARC staff analysis of Department of Revenue tax return detail, fiscal years 2016-2020. FY 2021-2023 estimated based on the average annual percentage change in beneficiary savings from 2015-2020. Amounts rounded to nearest $1,000.

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.

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

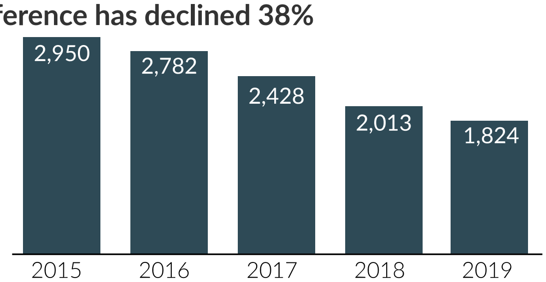


Source: JLARC staff analysis of Department of Revenue tax return detail, fiscal years 2015-2020. This data includes 109 beneficiaries with NAICS codes indicating they are newspapers.

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 2.3: 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[6]. 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[7] (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.

[6]Endowed reporting positions are paid for with revenue from an endowment fund established to support news reporting permanently.

[7]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[8] 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

[8]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, intent statement, and tax preference performance statement

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.

Notes: Findings—Intent—Tax preference performance statement—2015 3rd sp.s. c 6 § 602:

"(1) The legislature finds that over the last fifteen years, technological transformation and other developments have radically changed the newspaper industry business model, which remains in transition. The legislature further finds that the economic hardship wrought by this digital transformation has been substantial. The legislature finds that a strong and vibrant newspaper industry in Washington is beneficial to the state's citizens and to the conduct of good government at every level. The legislature further finds that advertising revenue of all United States newspapers fell from 63.5 billion dollars in 2000 to about twenty-three billion dollars in 2013, and is still falling. The legislature further finds that traditional news organizations' ability to support high quality news gathering and reporting relied primarily on a model in which advertisers paid to reach mass audiences attracted by newspapers. The legislature further finds that advertisers found it advantageous to pay to reach a mass audience because other advertising mediums were limited and less effective. The digital era has greatly fractured traditional spending by advertisers and turned this model on its head such that newspapers continue to require time to adapt so they may continue their public service mission. The legislature also finds that the business and occupation tax rate for the newspaper industry was pegged to the general manufacturing and wholesaling rate from 1937 until 2009, when the legislature extended tax relief to the industry due to this shift. It is the legislature's intent to extend this tax relief to the industry until its revenues and business model have stabilized. It is the legislature's further intent to provide a uniform tax rate for the industry to minimize the burden of reporting state business and occupation taxes for different types of revenue, which oftentimes are impossible to account for separately by the taxpayer.

(2)(a) This subsection is the tax preference performance statement for the newspaper tax preferences in section 602 of this act. The 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.

(b) The legislature categorizes this tax preference as one intended to provide temporary tax relief as described in RCW 82.32.808(2)(e).

(c) It is the legislature's specific public policy objective to provide business and occupation tax relief to the newspaper industry as it continues to adjust to significant revenue shifts and technological changes. As a secondary public policy objective, it is the legislature's intent to provide a permanent uniform rate for the industry.

(d) To measure the effectiveness of the preference provided in this act in achieving the specific public policy objective described in (c) of this subsection, the joint legislative audit and review committee must evaluate year-to-year changes in gross revenue derived from all sources for newspaper firms claiming the preferential tax rate under RCW 82.04.260(14). If the average year-to-year change in gross revenue is positive, including the last three years included in the tax preference review by the joint legislative audit and review committee, it is the legislature's intent to allow the tax preference to expire and to reinstate the traditional rate of 0.484 percent.

(e)(i) The information provided in the annual tax preference accountability report submitted by taxpayers as required by the department of revenue and taxpayer data provided by the department of revenue is intended to provide the informational basis for the evaluation under (d) of this subsection.

(ii) In addition to the data source described under (e)(i) of this subsection, the joint legislative audit and review committee may use any other data it deems necessary in performing the evaluation under (d) of this subsection." [2015 3rd sp.s. c 6 § 601.]

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

State of Washington

Citizen Commission for Performance Measurement of Tax Preferences

COMMISSION MEMBERS

Dr. Grant Forsyth *Chair*
Avista Corp.

Ronald Bueing *Vice Chair*

Diane Lourdes Dick
Seattle University School of Law

Dr. Sharon Kioko
Evans School of Public Policy and Governance
University of Washington

Andi Nofziger-Meadows
Edmonds Education Association

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Representative Gerry Pollet
Chair, Joint Legislative Audit and Review Committee

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October 27, 2021

The Honorable Senator Christine Rolfes
The Honorable Senator Lynda Wilson
The Honorable Senator Mark Mullet
The Honorable Senator Perry Dozier
The Honorable Senator Annette Cleveland
The Honorable Senator Ron Muzzall
The Honorable Senator Reuven Carlyle
The Honorable Senator Doug Ericksen
The Honorable Senator Karen Keiser
The Honorable Senator Curtis King
The Honorable Representative Timm Ormsby
The Honorable Representative Drew Stokesbary
The Honorable Representative Noel Frame
The Honorable Representative Ed Orcutt
The Honorable Representative Cindy Ryu
The Honorable Representative Bill Jenkin
The Honorable Representative Eileen Cody
The Honorable Representative Joe Schmick
The Honorable Representative Joe Fitzgibbon
The Honorable Representative Mary Dye
The Honorable Representative Shelly Kloba
The Honorable Representative Drew MacEwen

Re: 2021 Tax Preference

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.** Our comments are informed by JLARC staff work, public testimony and our professional knowledge of Washington's tax structure.

The Citizen Commission consists of five voting members, appointed by each of thefour caucuses and the Governor's office and represent a broad range of ideologies and professional backgrounds. Members include a retired tax attorney and CPA, a Seattle University law professor, the president of the Edmonds Education Association, a University of Washington public policy professor, and myself, the Chief Economist at Avista. Notably, reviews this year included:

Four preferences in which the Legislative Auditor recommended legislative action:

- A review of a preference for **Manufacturers' Deferral**, in which the Legislative Auditor concluded that "*Four businesses used the tax deferral and met job goals through temporary construction work rather than permanent manufacturing jobs. Businesses likely would have built the facilities without the deferral. To increase manufacturing jobs or training, the Legislature should consider modifying the deferral program.*"
- A review of a **Reduced B&O Rate for Printing and Publishing Newspapers**, in which the Legislative Auditor concluded that "*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.*"

Letter from Commission Chair

- A review of seven preferences for **Medical Cannabis**, in which the Legislative Auditor concluded that "*Seven medical cannabis tax preferences provide tax relief to patients and cooperatives. After 2019 statutory changes, it is unclear how pending taxpayer guidance may affect beneficiary savings.*"
- An exemption for the Washington **Health Benefit Exchange**, in which the Legislative Auditor concluded that "*The preference reduces the Exchange's administrative costs by $1 million per year, allowing it to maximize its funding for operating a health insurance marketplace. The Legislature should extend the July 2023 expiration date or make the preference permanent.*"

Recommendations to allow one preference to expire and to clarify the intent of another

- A review of a **Credit for Renewable Energy Program Payments**, in which the Legislative Auditor concluded that "*The tax credit program increased Washington's solar capacity and met its solar-related employment target. It did not broaden low-income participation. Solar installations have continued after the program reached its funding limit.*"
- An exemption for **Nonprofit Outpatient Dialysis Facilities**, in which the Legislative Auditor concluded that "*Preference provides tax relief to nonprofit outpatient dialysis facilities, which outperform for-profit counterparts on two standard measures. Legislature should clarify its intent.*"

One recommendation implemented during the 2021 session

- During the 2021 session, the Legislature amended chapter 84.25 RCW, related to a **Targeted Urban Area Exemption** to change the population criteria and extend the expiration date, in response to the Legislative Auditor's recommendation.

The full text of the Commission's recommendations is included below and will be added to JLARC's proposed final report in December. Summaries of the JLARC staff's analysis and recommendations and brief video summaries of each preference are 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. These reviews provide valuable information as the Legislature considers whether individual preferences are meeting policy objectives. 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

Grant D. Forsyth, Chair
Citizen Commission for Performance Measurement of Tax Preferences

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should consider additional approaches to supporting local newspapers. Testimony suggests (1) the current preference may be too small relative to the challenges facing local papers, and (2) local papers still support democratic and community vitality with the dissemination of local news absent from newer, national digital providers. Additionally, local papers offer an alternative for residents with barriers to accessing newer digital formats.

DOR & OFM Response

STATE OF WASHINGTON

September 7, 2021

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

FROM: David Schumacher, Director
Office of Financial Management

Vikki Smith, Director
Department of Revenue

SUBJECT: JLARC PRELIMINARY REPORT ON 2021 TAX PREFERENCE PERFORMANCE REVIEWS

The Office of Financial Management and the Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2021 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 that the state of Washington maintains a fair and equitable tax system.

We have no specific comments on the following reports:

- Health Benefit Exchange
- Manufacturer's Deferral
- Newspapers
- Nonprofit Kidney Dialysis
- Credit for Renewable Energy Program Payments
- Targeted Urban Area Exemption

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 to clarify intent.

As you requested, here is the Department of Revenue's response on the recommendation provided in the Medical Cannabis Report.

RECOMMENDATION	AGENCY POSITION	COMMENTS
The Department of Revenue and the Department of Health should update guidance to reflect 2019 statutory changes.	Concur	The Department of Revenue concurs with this recommendation. However, we must wait to publish guidance until the Department of Health (DOH) has provided its guidance. We have worked with DOH and learned it is in the process of updating its public guidance concerning compliant marijuana products. DOH is the authorized agency that determines which products are compliant marijuana products that would qualify for the preference. Once updated guidance has been provided by DOH, the Department of Revenue will update the Sales and Use Tax Exemptions for Marijuana Retailers with a Medical Endorsement special notice that was originally published May 6, 2016, consistent with the DOH guidance.

Thank you again for the opportunity to review this preliminary report.

Commerce Response

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September 14, 2021

Keenan Konopaski, Legislative Auditor
Joint Legislative Audit & Review Committee
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Keenan.konopaski@leg.wa.gov

Dear Mr. Konopaski,

As requested in your letter dated August, 26, 2021, the Department of Commerce is providing formal comments to the following Joint Legislative Audit and Review Committee's (JLARC) 2021 tax preference reviews. The Department largely agrees with JLARC's recommendations and provides key considerations to advise the Legislature below.

- Credit for Renewable Energy Program Payments. Allows utilities to pay customers for every kilowatt-hour of electricity they generate from their own renewable energy systems.

Commerce offers comments on this tax preference based on its role under RCW 43.21F.045 as the state energy policy office. Commerce has no direct role in the implementation of this tax preference. Commerce has reviewed the comments of the Washington State University Energy Program and agrees with those comments.

Commerce supports the Legislative Auditor's recommendation to allow this tax preference to expire. As noted in the recommendation, the incentive mechanism has largely met its intended purposes of expanding renewable energy systems and expanding employment in clean energy.

Expiration is also consistent with the Legislature's intent expressed when it enacted this tax preference:

> The legislature intends to provide an incentive sufficient to promote installation of systems through 2021, at which point the legislature expects that the state's renewable energy industry will be capable of sustained growth and vitality without the cost recovery incentive. [2017 3rd sp.s. c 36 § 1.]

The 2017 legislation was the third round of taxpayer funds provided to support development of small scale solar photovoltaic projects in Washington, and the consensus at that time was that a final, limited amount of funding should be provided. The state now has more comprehensive mechanisms in place to encourage the development of renewable energy sources, most notably the Clean Energy Transformation Act of 2019.

However, Commerce believes that the statement that the preference "did not broaden low-income participation" is overly broad. The analysis itself shows that community solar participation included low-income customers. Commerce agrees with the Legislative Auditor's conclusion that, "If the Legislature

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Commerce Response

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wants to broaden low-income participation in the production and use of solar energy, it should consider other options."

The Legislature may also wish to consider policy options that focus more directly on the resilience benefit of distributed energy resources such as customer-sited solar photovoltaic systems. Distributed energy resources may reduce the impact of power outages and allow communities to recover more quickly from natural disasters.

- Reduced B&O rate for Printing and Publishing Newspapers. Provides reduced B&O rate to any business producing print and digital newspapers.

Commerce supports JLARC's recommendation for review by the Legislature without further comment.

- Targeted Urban Area Exemption. Provides a local property tax exemption for new industrial or manufacturing development.

Commerce supports the Legislative Auditor's recommendation to schedule the preference for review in 2028. This preference can support the state's goals to increase the manufacturing workforce and growth of state and local economies for those planning under the Growth Management Act (GMA); however, those counties not fully planning under the GMA won't benefit from the modified exemption.

The modification of the exemption to allow all Washington cities and towns in counties planning under the GMA to use the preference is a good change that aligns with the strength of the distribution of manufacturing jobs currently. That is, 80% of the state's manufacturing jobs are in urban counties with 60% of the total jobs in King and Snohomish counties alone. The 11 counties not planning under GMA have 4.4% of the state's manufacturing workforce, and if you exclude Cowlitz County which has a strong manufacturing workforce, that drops to 2.2%. This means the areas that need incentives to increase manufacturing won't get one with this proposal.

The modified tax preference can help:

- The state meet its 10-year goal to double the state's manufacturing workforce under HB 1170 (2021).
- Incentivize the creation or expansion of regional clusters of industrial/manufacturing uses for both new and existing industries.
- Incentivize the use of underutilized and available sites in some rural counties, which has the potential to grow family wage jobs, as well as state and local tax revenues.

- Manufacturers' Deferral tax preference. Provides a tax deferral for manufacturers that build or expand facilities or purchase equipment.

Commerce supports the Legislative Auditor's recommendation to extend and modify the preference and notes that low take-up rate of this program may give the false impression that this benefit isn't needed.

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The opposite is true – such a program could greatly benefit Washington, especially given its regional-orientation that grows opportunities across the state. The program in its current form doesn't match the speed of business, and the following changes could improve Washington's competitive position:

- Temporary construction positions. Commerce supports JLARC's recommendation to modify this program to spur the creation of permanent, full-time manufacturing jobs rather than permanent and temporary as currently allowed.
- Extending the sunset. Businesses can no longer apply for deferral after January 1, 2026. Commerce recommends extending this sunset, with particular consideration for recently passed HB 1170, which sets the goal to double the number of manufacturing jobs in the state over the next 10 years.
- Construction impacts. JLARC's critical finding that recipients of this benefit report faster construction periods, while perhaps an unintended outcome, is another reason we are supportive of extending this program. Accelerating growth in manufacturing will require faster delivery of production spaces and this is one tool to do that.
- Expansion of access to maximize benefits. A critical challenge in take-up of this program is the 2 project per year cap and the first-in-time basis of application. We recommend removing the first-in-time basis for eligibility and increasing the number of allowable projects. Such changes could increase the deferral total from the 18% currently utilized if additional consideration were given to larger projects or a greater number of smaller-scale projects.

Thank you for the opportunity to provide formal comments on the above tax preference reviews. Please contact my Legislative Director, Jasmine Vasavada, at 360-480-6622 or Jasmine.Vasavada@commerce.wa.gov if you have any questions.

Sincerely,

Lisa J. Brown

Lisa Brown
Director

CC: Jasmine Vasavada, Legislative Director, Commerce
Marie Davis, Senior Policy Advisor, Commerce
Glenn Blackmon, Energy Policy Office Manager, Commerce
Buck Lucas, Management Analyst, Commerce

MORE ABOUT THIS REVIEW
Study questions

Click image to view PDF of proposed study questions.

Washington JLARC

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	Rachel.Murata@leg.wa.gov
Project Intern	Camille Hakansson		Camille.Hakansson@leg.wa.gov
Project Coordinator	Eric Thomas	(360) 786-5182	Eric.Thomas@leg.wa.gov
Legislative Auditor	Keenan Konopaski	(360) 786-5187	keenan.konopaski@leg.wa.gov

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

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