



PRELIMINARY REPORT

# 2022 Tax Preference Performance Reviews

Five of seven Legislative Auditor recommendations require action

# Tax reviews follow same audit standards, different process than other work

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Legislature created Citizen Commission for Performance Measurement of Tax Preferences.

- Five-member body created by Legislature.
- Determines review schedule – considerations include industry groupings, expiration dates, and Legislative direction.
- Takes public testimony and adopts comments on staff work.



# JLARC directed to address five key areas

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## **Public policy objectives:**

Intent of the preference and is it being achieved?



**Revenue and economic impacts** to the taxpayers and to the government?



## **Beneficiaries:**

What entities are affected and what are their savings?



Do **other states** have a similar tax preference?



Required to make **recommendation** to Legislature.



## Legislative Auditor **recommends action** on five preferences:

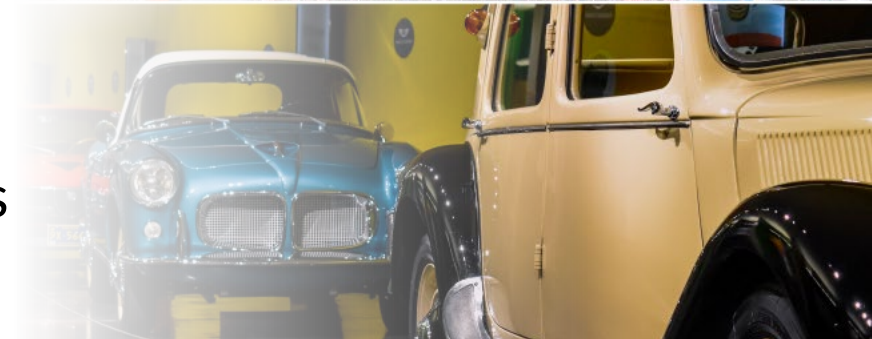
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- Commute Trip Reduction
- Nonprofit Hospitals and Cancer Clinics
- Dairy Processors
- Fruit and Vegetable Processors
- Seafood Processors

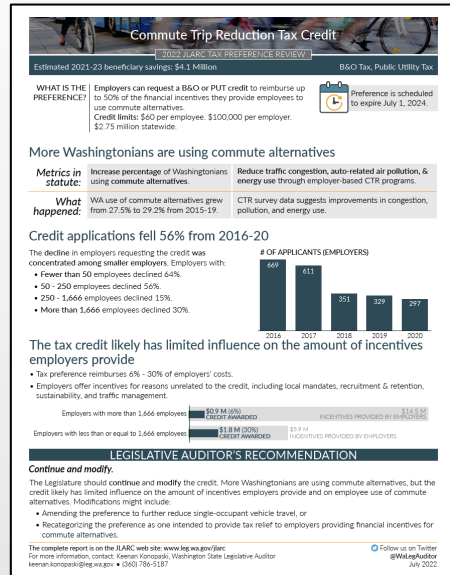
## Two preferences **do not require** legislative action:

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- Historic Automobile Museums Sales and Use Tax Deferral
- Dairy products used as ingredients for other dairy products



# All reports include



ONE PAGE  
OVERVIEW



VIDEO  
SUMMARY





B&O Tax & Public Utility Tax

# Commute Trip Reduction

**Legislative Auditor's Conclusion:** More Washingtonians are using commute alternatives. However, fewer employers are requesting the tax credit, and the credit likely has limited influence on the amount of financial incentives employers provide.

Scheduled to  
Expire:  
July 1, 2024

Estimated 2021-23  
Beneficiary  
Savings:  
\$4.1 million

# Credit for up to 50% of financial incentives to use commute alternatives

## Qualifying commute alternatives:



Ride sharing.



Using public transportation.



Using car sharing programs.



Non-motorized commuting.

## Annual statutory limits:



\$60 per employee.



\$100,000 per employer.

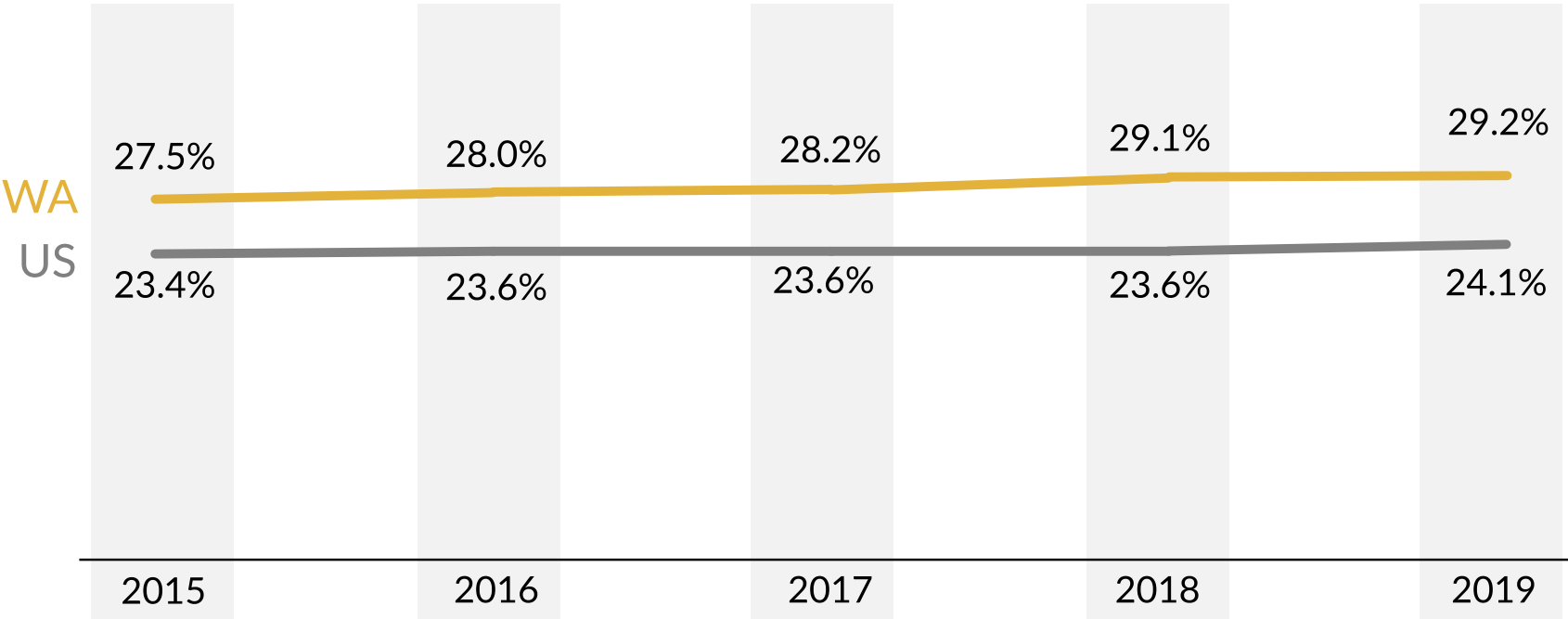


\$2.75 million statewide.

DOR prorates applications if state cap exceeded.

# Stated objective: Increase Washingtonians' use of commute alternatives

Statute directs Legislative Auditor to recommend continuing preference if review finds this objective is met.



Statewide, more commuters are using commute alternatives.

Source: American Community Survey 1-Year Estimates.



# Stated objective: Reduce traffic congestion, energy use, and air pollution

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CTR employee survey data:



800 – 1,000 sites.



500,000 – 600,000 employees.

Credit beneficiaries:



30% of sites.



52% of employees.

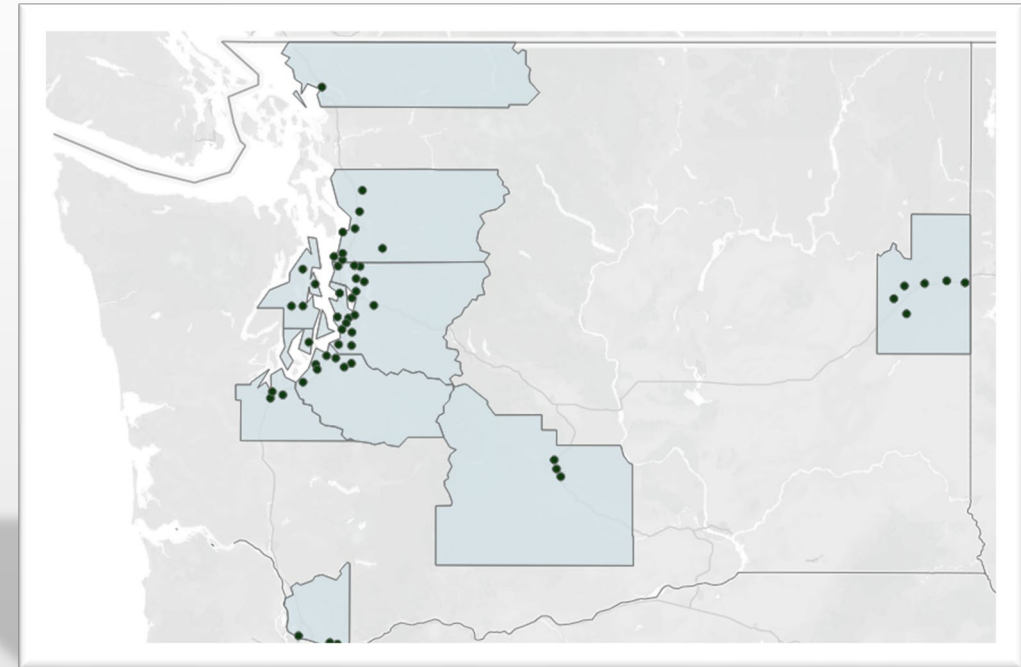
King County:



52% of sites.

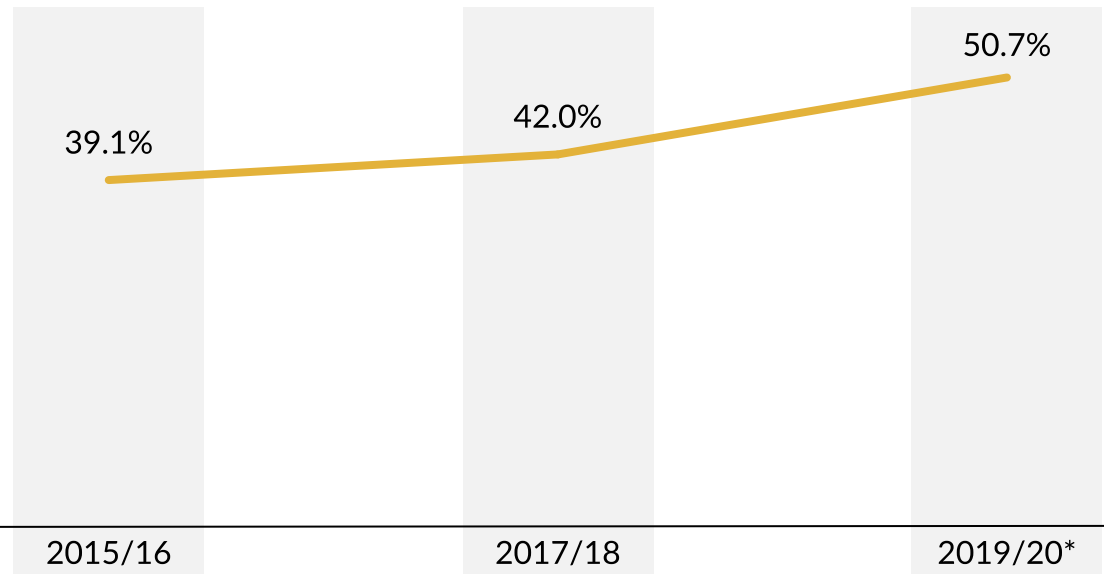


65% of employees.

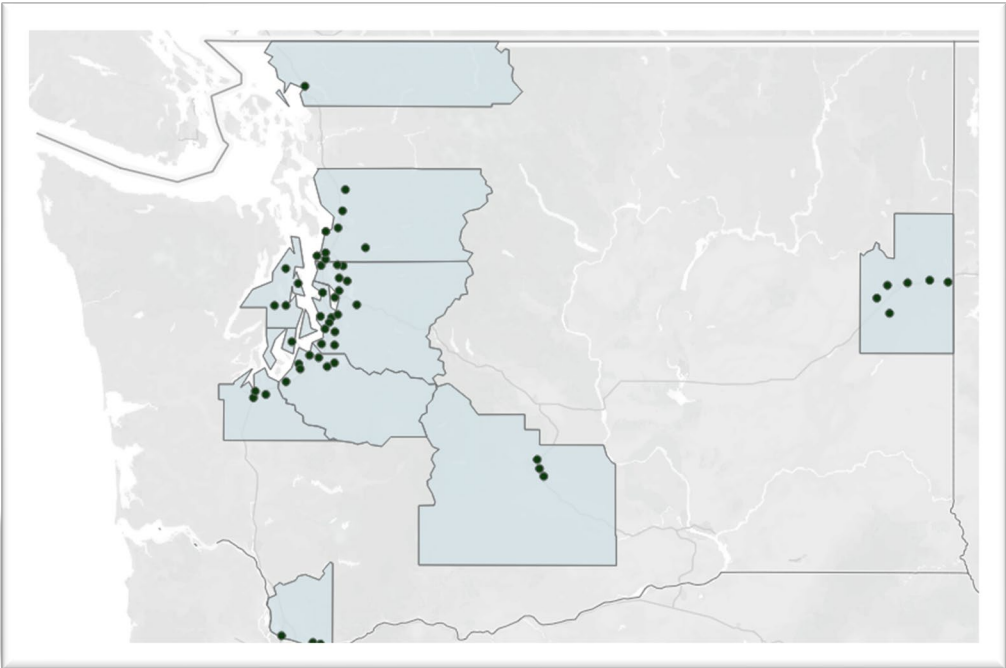


# Stated objective: Reduce traffic congestion, energy use, and air pollution

More CTR site employees use commute alternatives

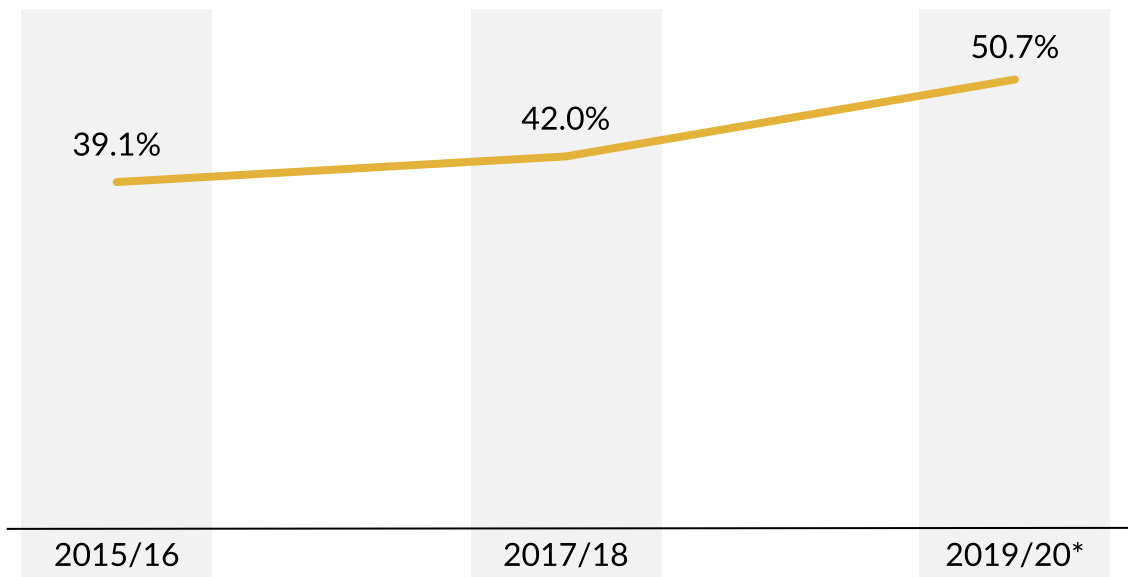


\*2019-20 survey cycle includes the start of the COVID-19 pandemic and represents responses from fewer CTR sites.






# Stated objective: Reduce traffic congestion, energy use, and air pollution

More CTR site employees use commute alternatives



\*2019-20 survey cycle includes the start of the COVID-19 pandemic and represents responses from fewer CTR sites.

Annual, per-employee average  
(2015-16 to 2017-18):

-  Vehicle-miles traveled: (320 miles) ↓
-  Fuel consumption: (15 gallons) ↓
-  GHG Emissions: (0.13 tons) ↓



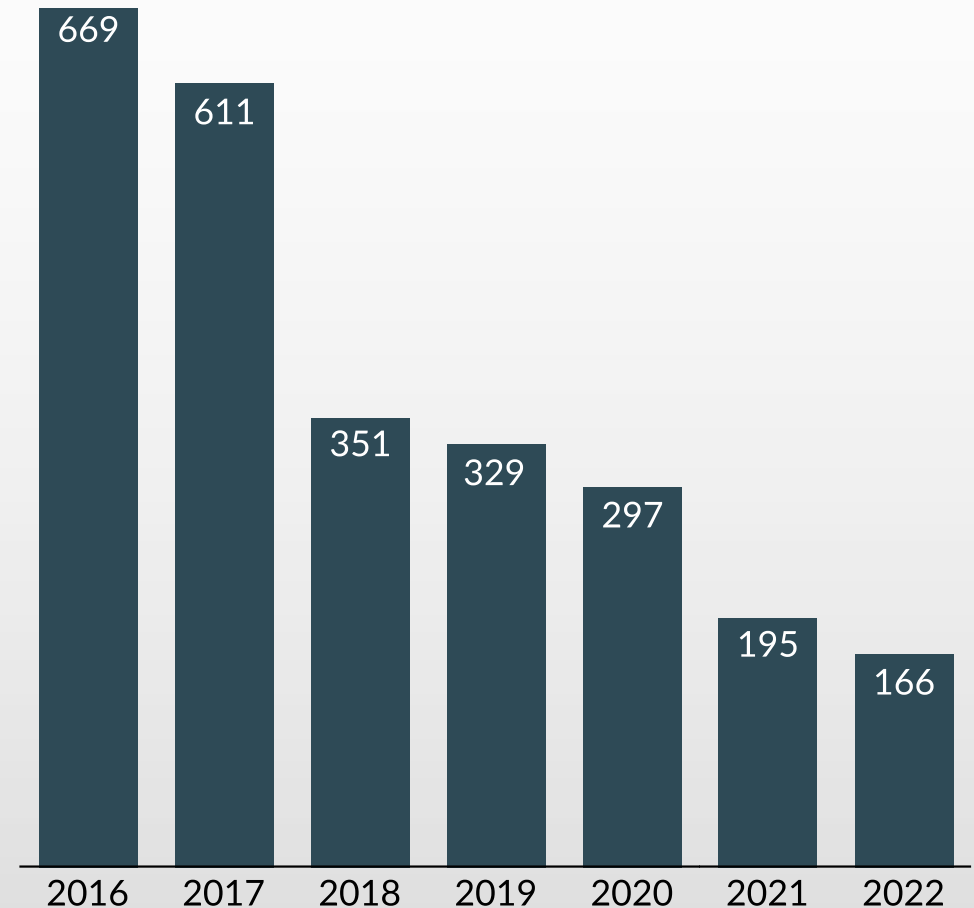
# Fewer employers are requesting credit

Credit applicants declined 56% from 2016-20.

Smaller employers had the largest drop in applications.

Decline continued during the COVID-19 pandemic.

# OF APPLICANTS (EMPLOYERS)



# Fewer employers are requesting credit

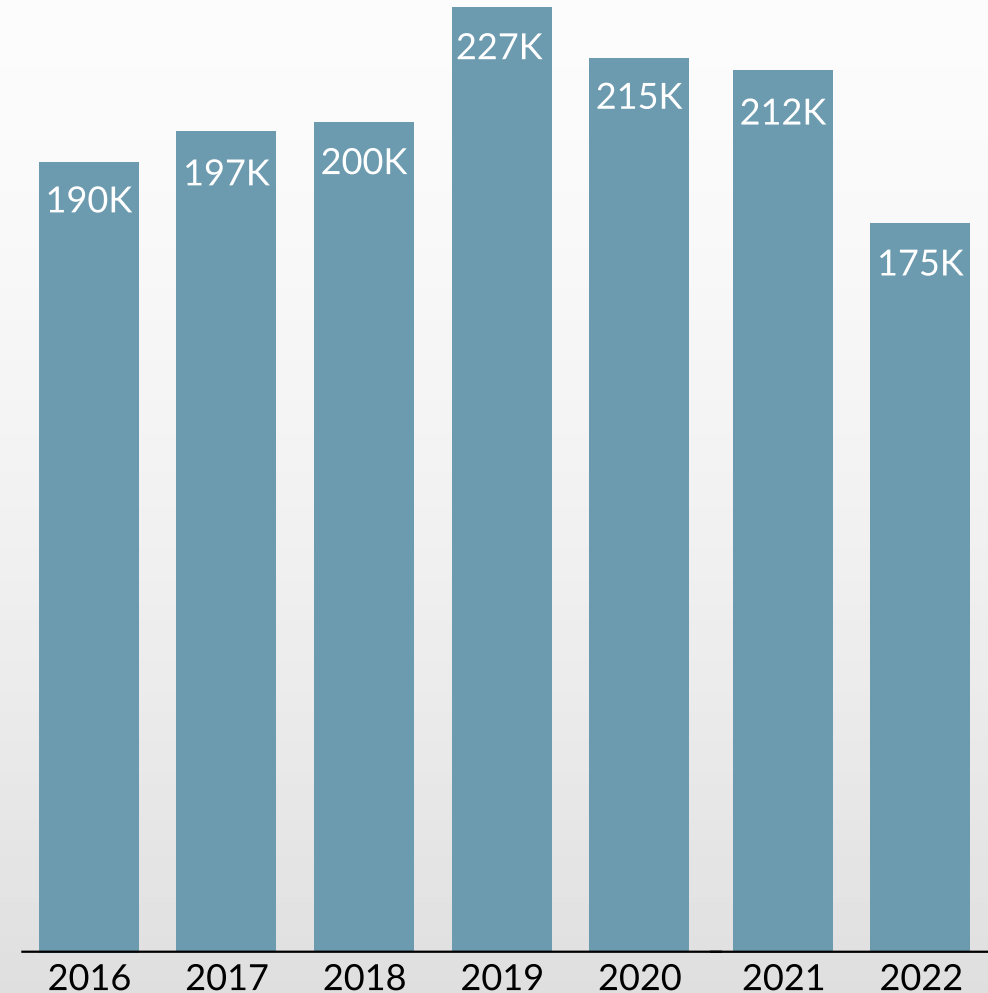
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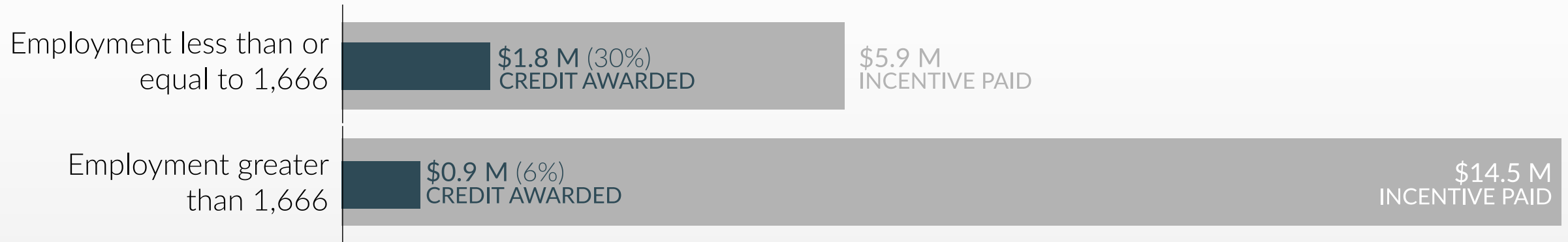
Number of employees receiving incentives was more stable.

# OF EMPLOYEES



# Preference likely of limited influence

Statutory caps reduce credit reimbursement rates.



Fewer employers are applying for the credit.



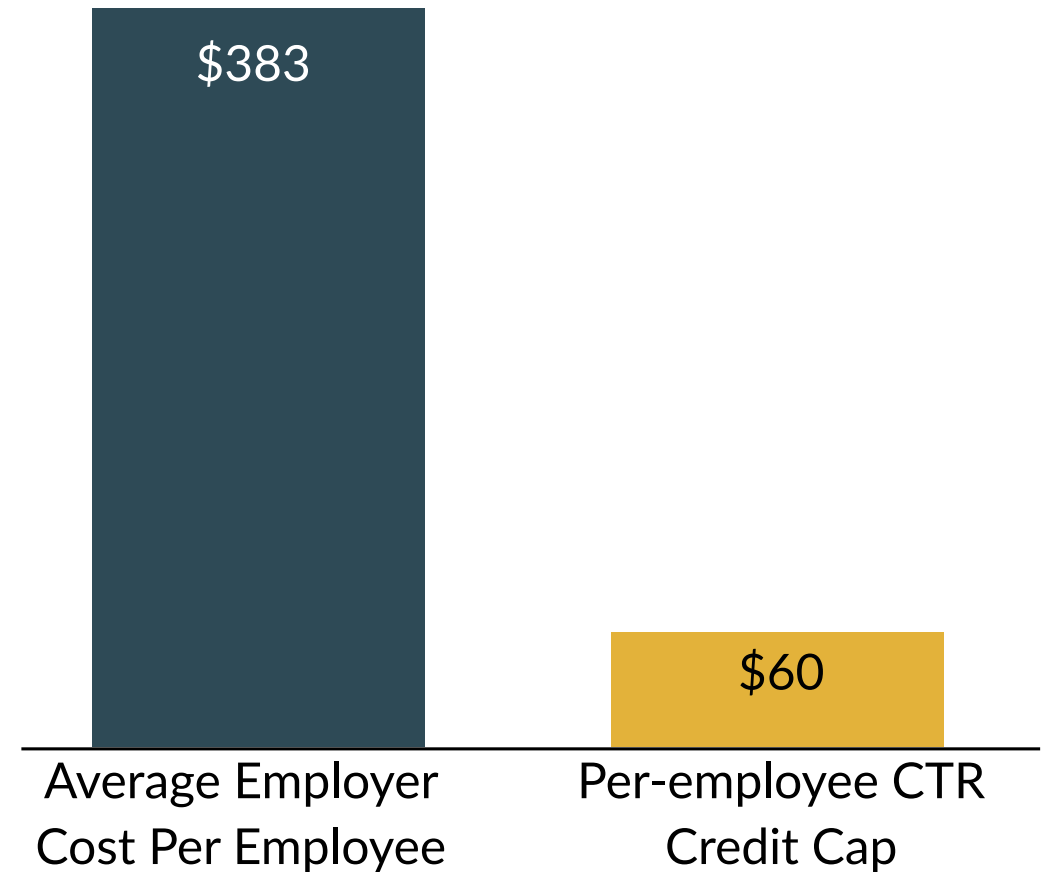
# Employer spending exceeds credit caps

## ORCA Business Passport program

Employers with 5-500 employees:




- Spent \$383 per employee in 2020.
- 35/455 employers applied for credit.

Largest employers spent \$53 million on employee transit passes in 2019.



# Employers offer incentives for reasons other than credit

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-  Employee recruitment & retention
-  Sustainability & traffic management
-  Local mandates



A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a hazy background with trees and a lawn in the foreground.

# Legislative Auditor's Recommendation

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**Continue** and **modify** the preference.

**Continue** because more Washingtonians use commute alternatives.

**Modify** because the credit likely has limited influence on the amount of incentives employers provide. Modifications might include:

- **Amending** the preference to further reduce single-occupant vehicle travel; or
- **Recategorizing** the preference as one intended to provide tax relief to employers providing financial incentives for commute alternatives.





B&O Taxes

# Food Processors

**Legislative Auditor's Conclusion:** Dairy and fruit & vegetable beneficiaries had job and wage increases that exceeded industry and state averages. Seafood beneficiaries saw a decline in both. Although preferences reduced taxes, they remain higher than in neighboring states.

All B&O tax exemptions scheduled to expire by **July 1, 2025**.  
Most replaced by preferential B&O tax rates.

**Estimated 2023-25 Beneficiary Savings:**  
Dairy: \$10.5 M  
Fruit & vegetable: \$22.7 M  
Seafood: \$4.9 M

# Presentation Overview



B&O tax preferences

Three industry job and wage analysis

Comparative effective tax rate analysis

# B&O tax exemptions for processors of:

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Dairy products

Fruit & vegetables

Seafood products

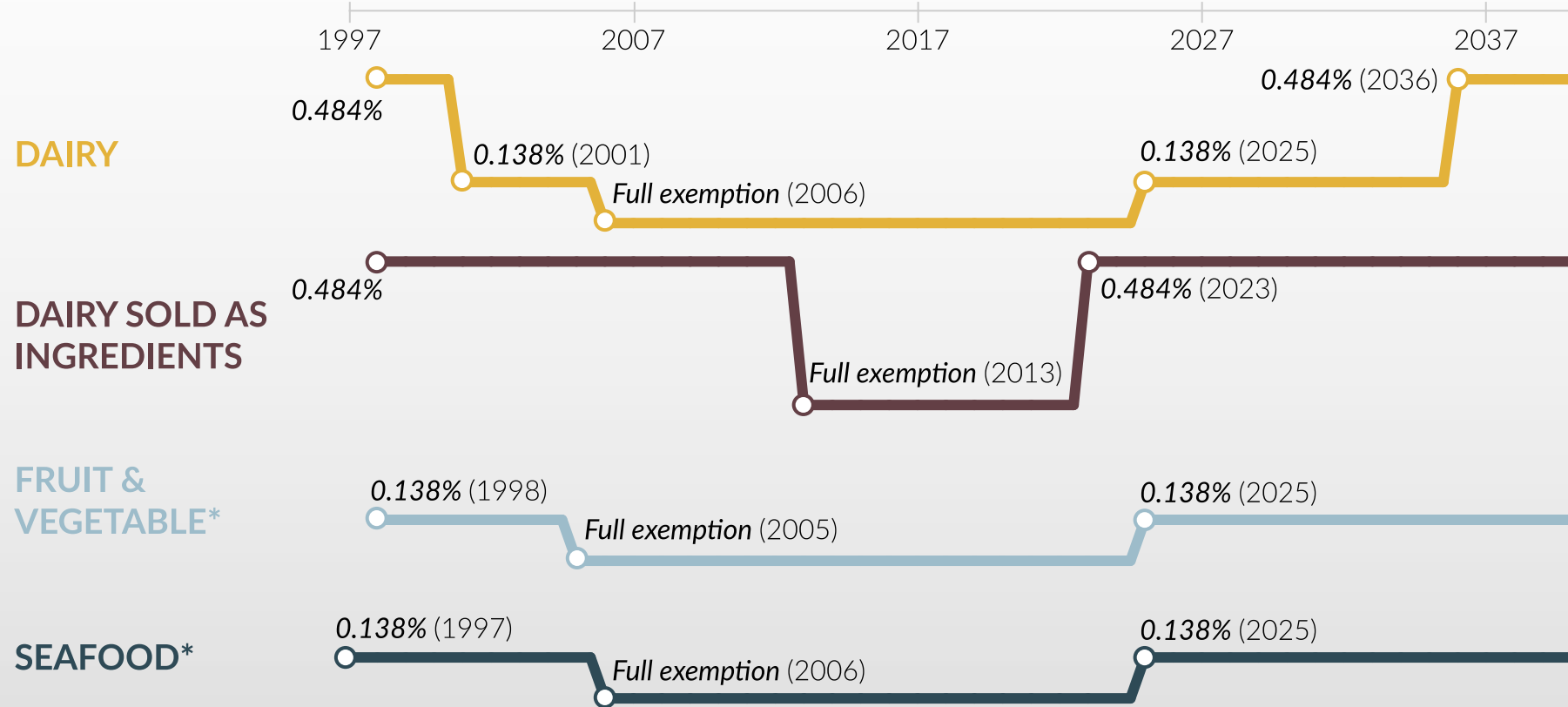
- **Manufacturing products** such as yogurt and cheese, frozen French fries, wine, and frozen fish fillets.
  - **Sales of products by the manufacturer** to in-state buyers who transport the items out of state.
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## Targeted B&O tax exemption for:

- Wholesale sales of dairy products to produce other dairy products, such as powdered whey.



# When exemptions expire, 3 will be replaced with preferential rates and 1 will return to general B&O rate



*\*Seafood and fruit & vegetable processors have paid varying preferential B&O tax rates since 1959 and 1965, respectively.*

# Presentation Overview



Preferences

Three industry job and wage analysis

Effective tax rate analysis

# Dairy product processors

Beneficiaries employ 94% of industry workers.

Darigold, Inc. is the largest user, with 83% of all savings from 2015-2020.

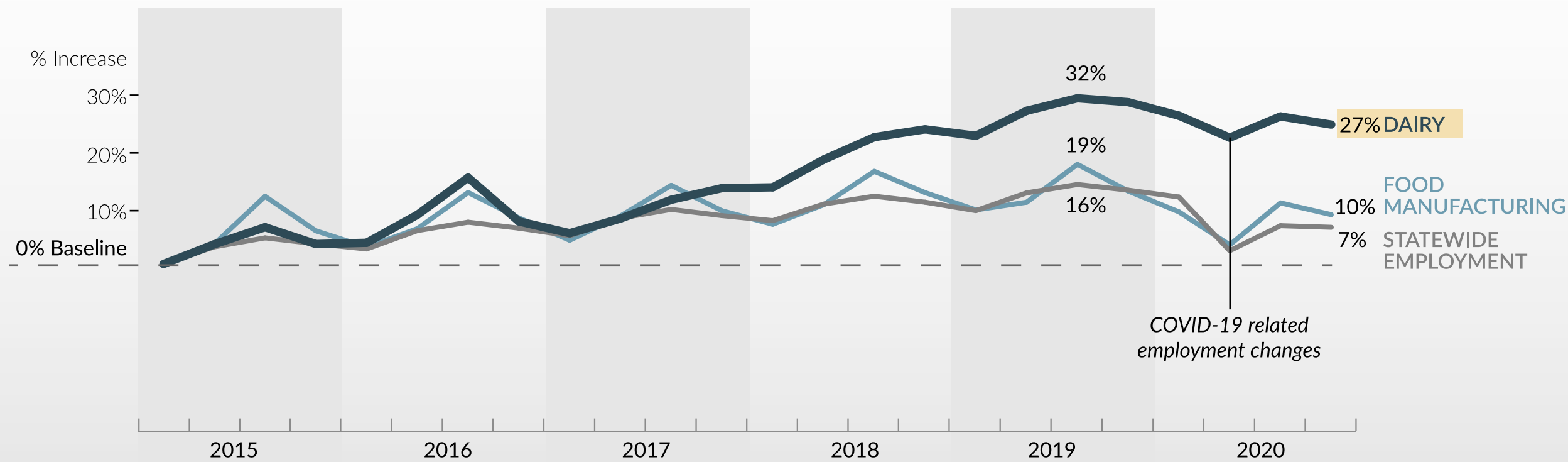
2015 - 2020

DARIGOLD | OTHER BENEFICIARIES

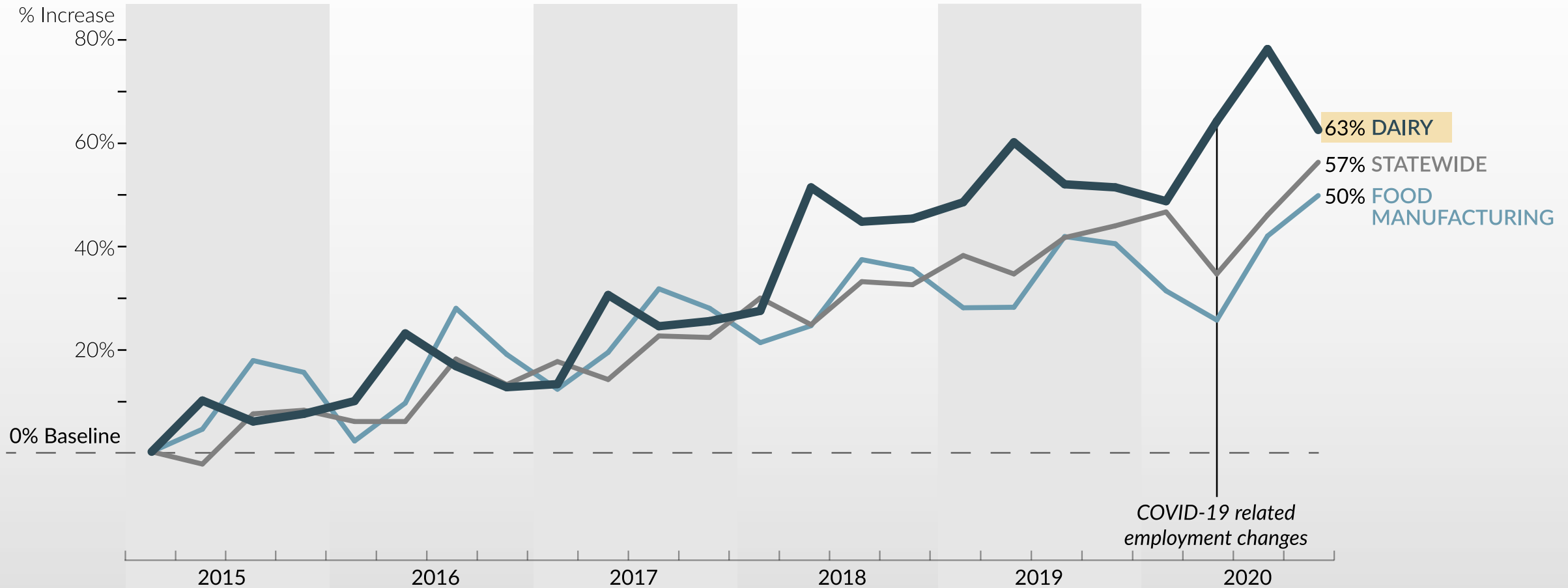
83% 17%



# Dairy beneficiary jobs grew 27% - 2015-20



# Dairy beneficiary employee wages increased 63% - 2015-20



# 2013 targeted dairy product B&O tax exemption

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Dairy products sold at wholesale by the manufacturer for use as ingredient to make other dairy products (e.g., infant formula or powdered whey).

Industry representatives said the project this was intended to incentivize did not occur.

Average annual use - \$62,000 since 2015.

# Fruit & vegetable processors

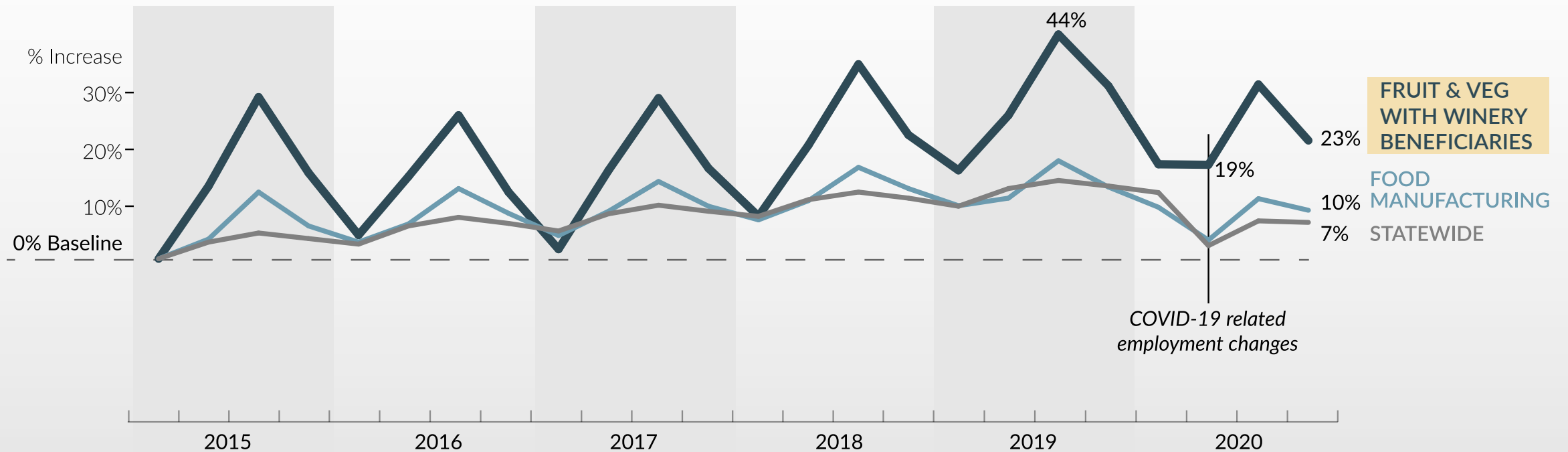
Beneficiaries employ 74% of industry workers.

**Wineries** comprise 71% of beneficiaries but claim 19% of the tax savings.

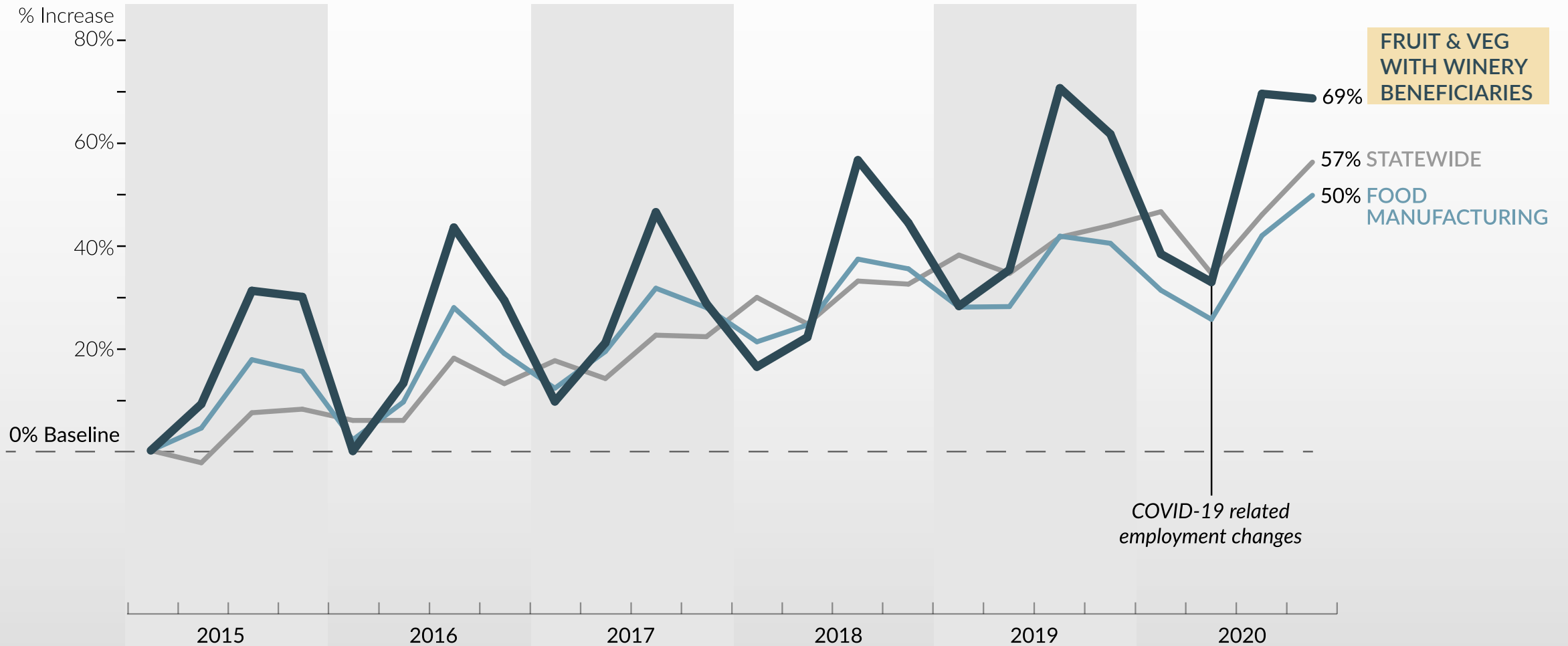




# F&V beneficiary jobs grew 23% - 2015-20



# F&V beneficiary wages grew 69% - 2015-20



# Seafood product processors

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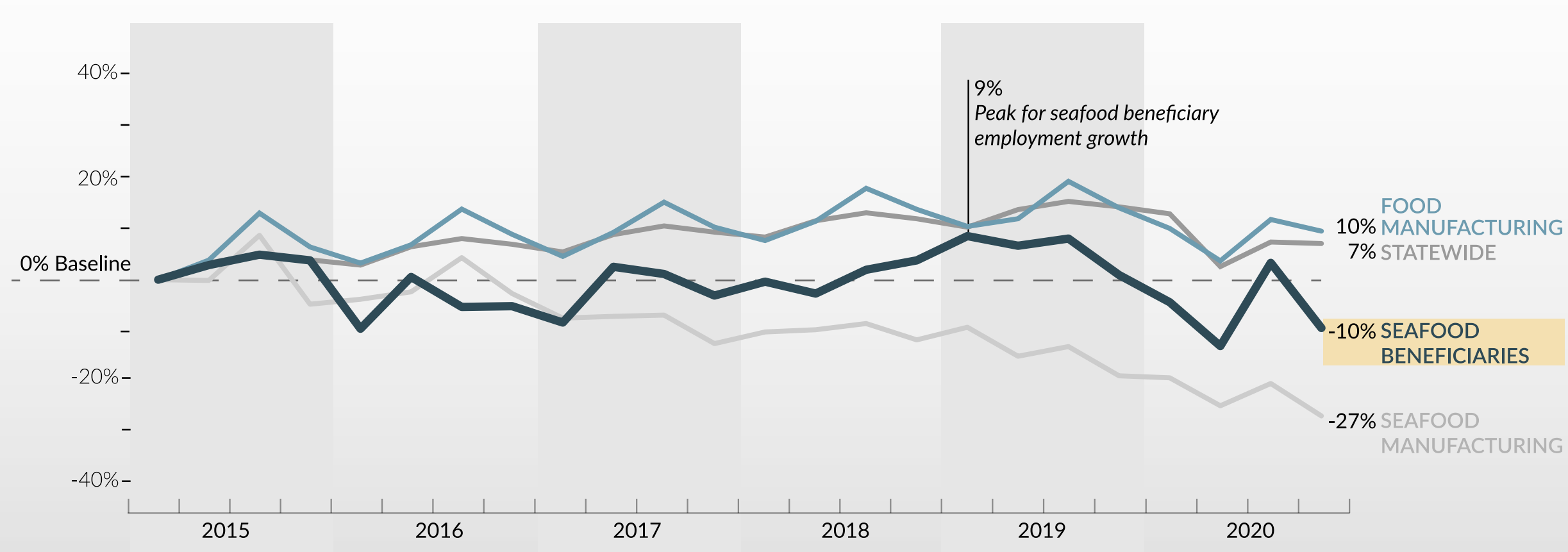
Beneficiaries employ 35%-51% of industry workers.

Unclear why more businesses don't use preference. Economists and industry reps note:

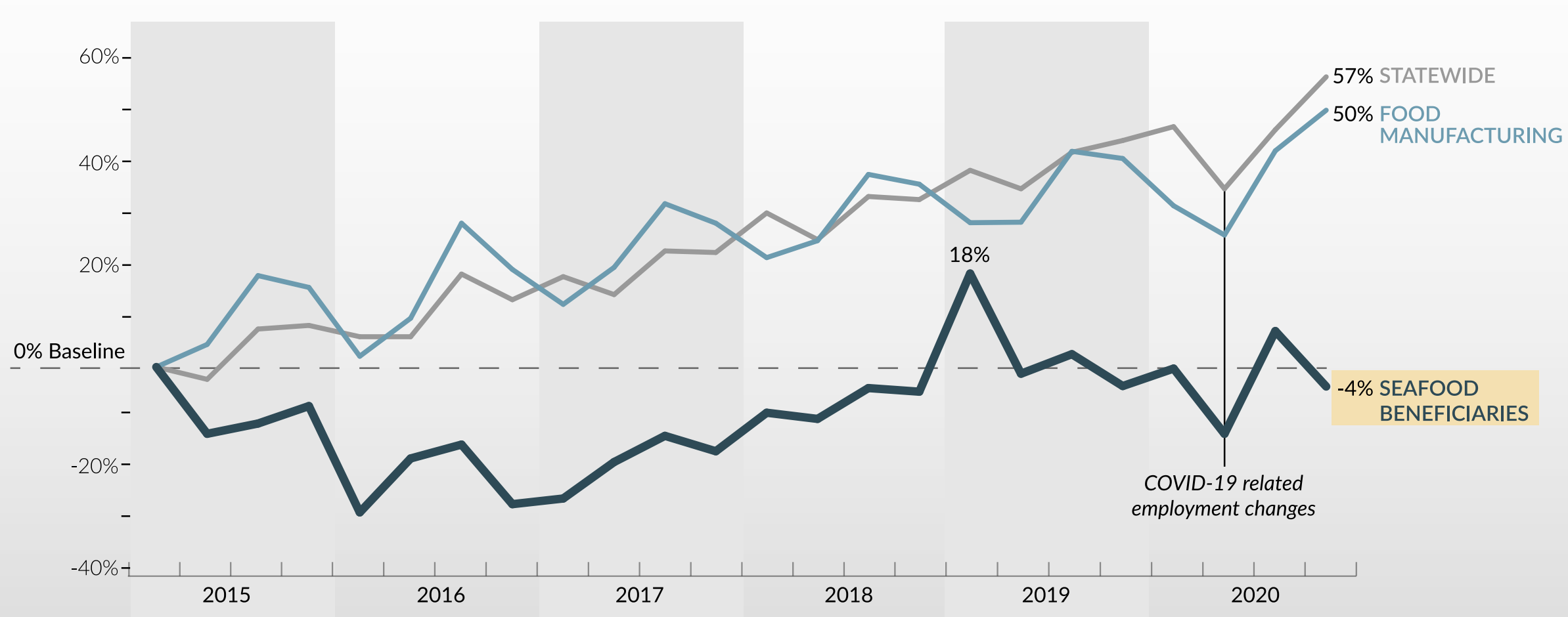
- Not all WA seafood processing businesses conduct qualifying activities in-state.
- Self-employed fishing/processing businesses not included in employee data.



# Seafood beneficiary jobs dropped 10% - 2015-20



# Seafood beneficiary wages decreased 4% - 2015-20





# Presentation Overview



Preferences

Three industry job and wage analysis

Effective tax rate analysis

# Preferences reduce effective tax rates, but WA still has highest rate among neighboring states (ID, OR, CA, AK)

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**Effective tax rate (ETR):** the percentage reduction in a hypothetical firm's rate of return due to taxes over 30-year period.

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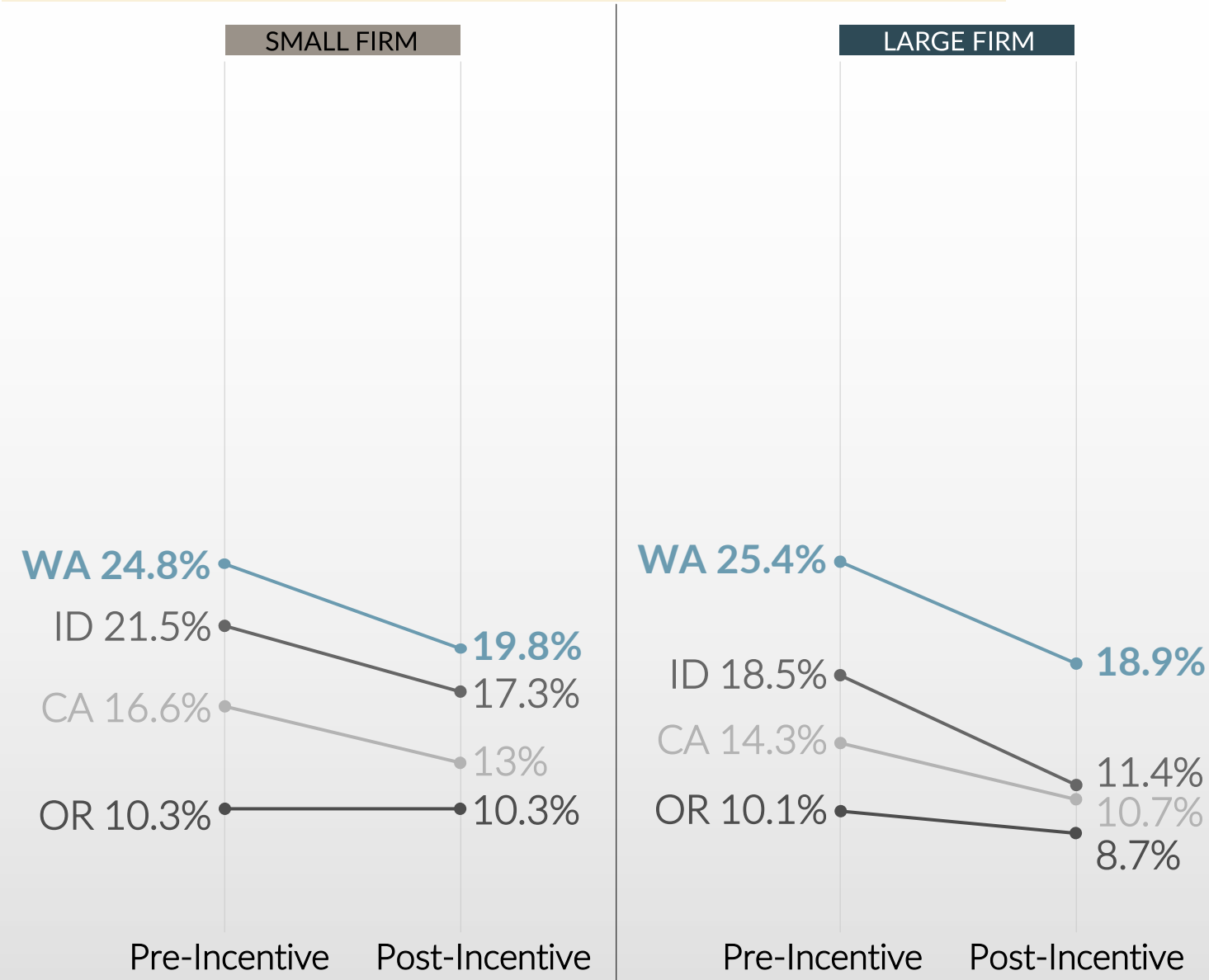
Hypothetical small and large manufacturing firms for each industry:

- Pre-incentive ETRs – calculated based on each state's tax structure.
- Post-incentive ETRs – calculated after various state incentives are applied, reducing the tax rate by some percentage.

# For each industry, Washington had highest ETR, pre- and post- incentive

In each scenario, Ernst & Young noted a significant factor in the results was **Washington's** relatively high combined state/local sales tax.

ETR detail for fruit and vegetable processors, NAICS 3114.



A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a hazy background with trees and a lawn in the foreground.

# Legislative Auditor's Recommendation

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**B&O tax preferences for fruit and vegetable and dairy product processors: Continue and clarify**

Because they are meeting the objectives of providing tax relief and creating and retaining industry jobs.

To facilitate future reviews, the Legislature should clarify its expectations for job and wage growth and determine the level of tax relief needed to meet those expectations.



A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a hazy background with trees and a lawn in the foreground.

# Legislative Auditor's Recommendation

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**B&O tax exemption for sales of dairy products used as ingredients to create other dairy products: Allow to expire**

Allow to expire as scheduled, July 1, 2023. The activity that the preference was intended to incentivize did not occur.

A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a hazy background. The building is surrounded by green lawns and some trees in the foreground.

# Legislative Auditor's Recommendation

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**B&O preferences for seafood processors: Review and clarify**

Because they are only meeting one of two objectives.

While the preferences provide tax relief, beneficiary jobs in Washington have declined and their employee wages have decreased. It is unclear why more businesses are not using the preference or what the Legislature's expectations are for the industry's jobs and wages.



## PROPERTY TAX

# Nonprofit Hospitals and Nonprofit Cancer Clinics

**Legislative Auditor's Conclusion:** The property tax exemptions meet the inferred intent of encouraging charity care and community benefits. Beneficiaries provide 99% of charity care statewide, and the value of charity care exceeds tax savings.

No expiration dates

Estimated 2023-25  
Beneficiary Savings:  
\$259.4 million



# Real and personal property exempt from tax under two separate laws

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**Private nonprofit and public hospitals (RCW 84.36.040(1)(e)).**

- Exemption predates statehood.

**Nonprofit cancer clinics affiliated with a nonprofit hospital (RCW 84.36.046).**

- Exemption enacted in 1997.

**Inferred objective:** Support provision of charity care and community benefits.



# Nonprofit hospitals and cancer clinics provide 3Xs the charity care than they received in tax savings and meet inferred intent

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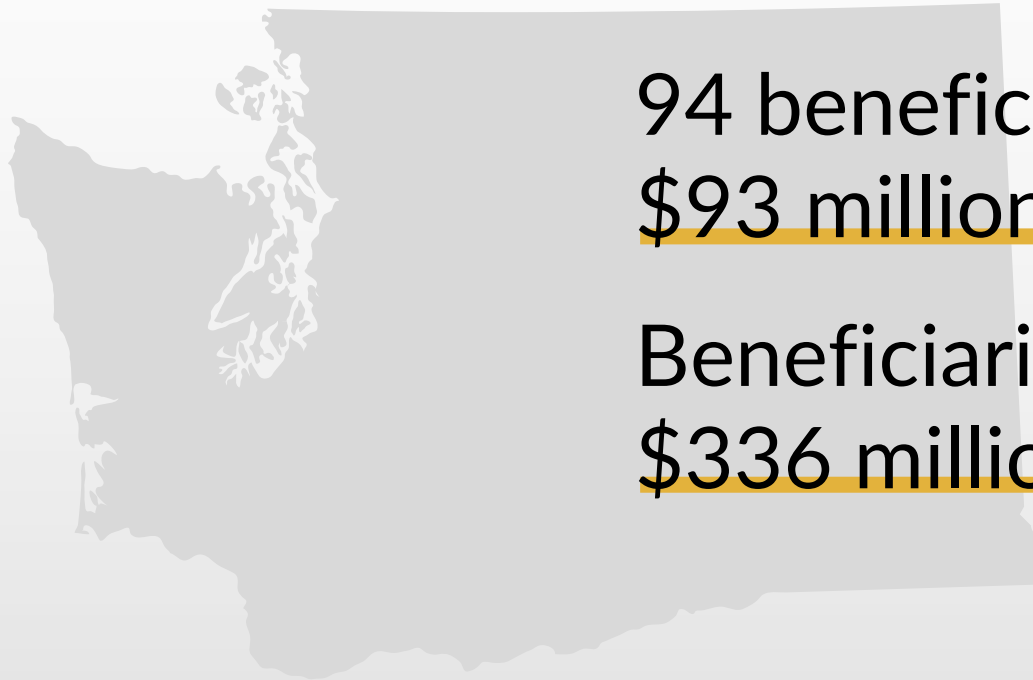
**Charity care =**  
medical care for  
which payment isn't  
expected and patient  
isn't billed.

**Community benefits =**  
providing unreimbursed  
medical care under  
programs with certain  
eligibility requirements,  
and services like  
providing education and  
research programs.



# In 2019, beneficiary hospitals provided 99% of all charity care given in WA

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94 beneficiaries saved over \$93 million in FY19.

Beneficiaries provided over \$336 million in charity care.

A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a clear sky. The building is surrounded by green lawns and some trees in the foreground.

# Legislative Auditor's Recommendation

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**Clarify the objectives** of the preferences.

If the tax preferences are intended to support certain outcomes, the Legislature should clarify its expectations by adding performance statements that clearly state the public policy objectives and metrics to determine if the objectives have been met.



Sales & Use Tax Deferral

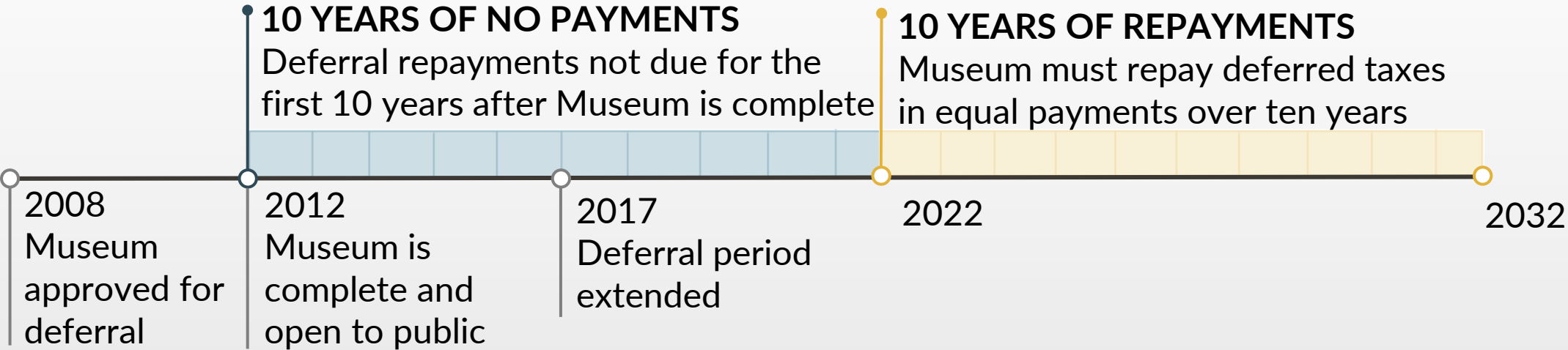
# Historic Automobile Museums

**Legislative Auditor's Conclusion:** The tax deferral meets the public policy objective of improving the fiscal stability of its one beneficiary. This may have improved economic vitality, but other local financial incentives likely had a larger influence.

Closed to new  
participants:  
12/31/2008

Estimated  
Beneficiary Savings  
2012-32:  
\$466,000

# Sales and use tax deferral on museum construction costs





# Deferral intended to increase the fiscal stability of the Museum

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Deferral functions as an interest-free loan.

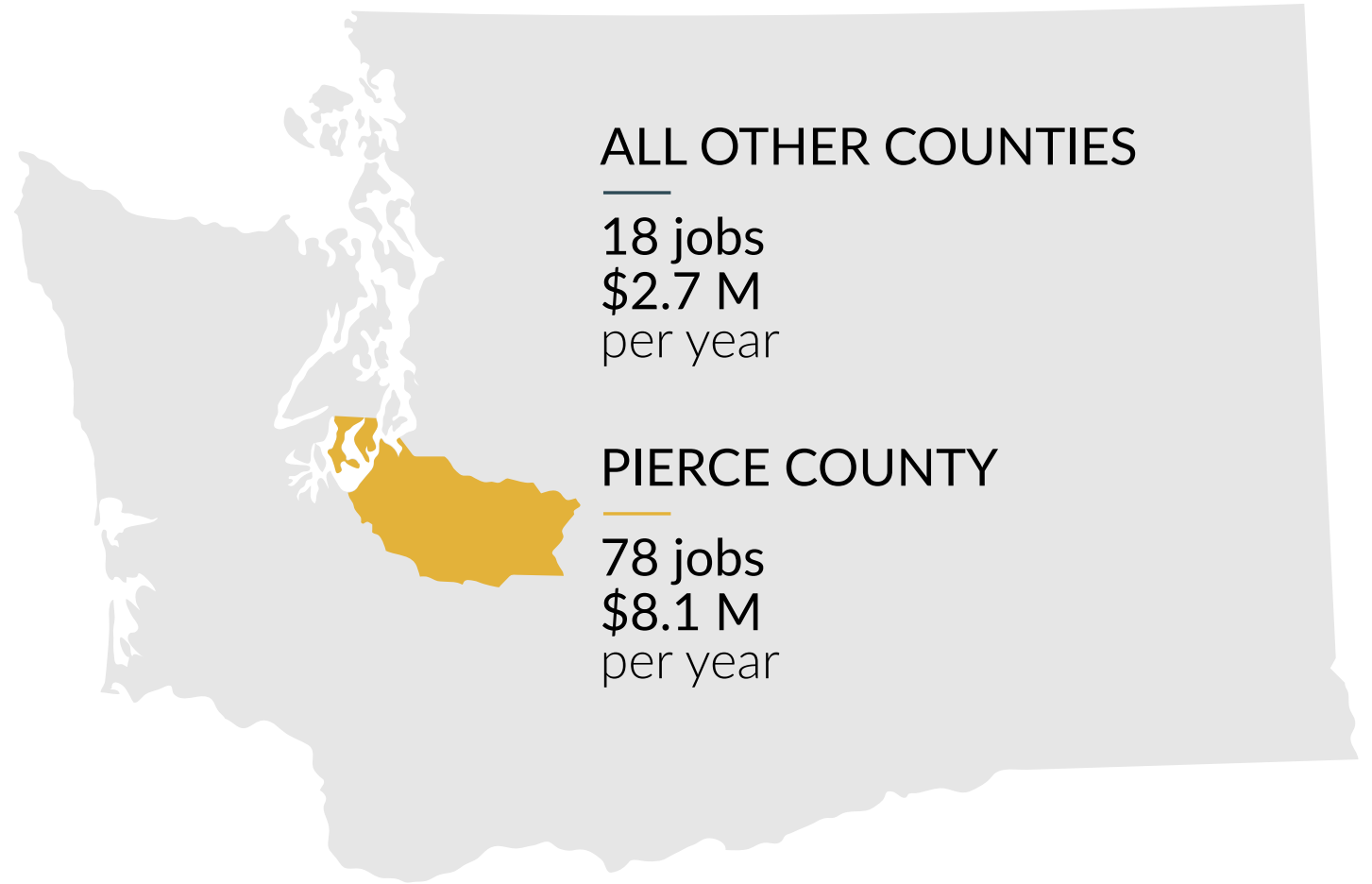
Museum deferred \$1.99 million in sales and use tax.

Total beneficiary savings (2012-32): \$466,000.





# Museum contributes to local and state economies

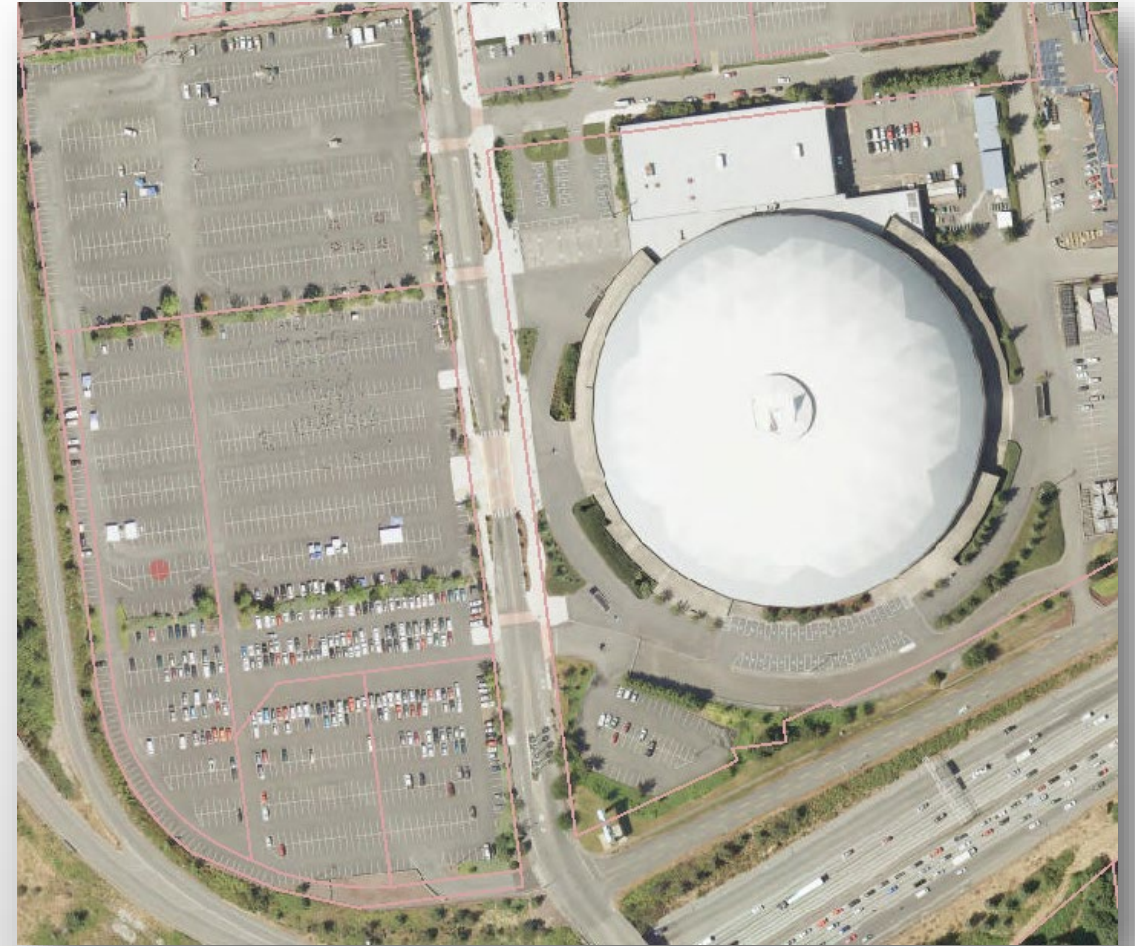


# Impact of the deferral likely is limited

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Museum benefited from other public financial support

City of Tacoma donated \$17 million in land



A photograph of the Washington State Capitol building, featuring a large dome and classical architecture, set against a clear sky. The building is surrounded by green lawns and some trees in the foreground.

# Legislative Auditor's Recommendation

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**Continue until deferral is repaid in 2032**

After that, the tax preference will no longer be necessary in statute.



# Next Steps

**July** | Present preliminary report to JLARC.

**August** | Present preliminary report to Citizen Commission.

**September** | Citizen Commission obtains public testimony.

**October** | Citizen Commission adopts comments on the report.

**November** | Present proposed final report to JLARC.

**View the 2022 Tax Preference Reviews:**

[www.leg.wa.gov/jlarc](http://www.leg.wa.gov/jlarc)



Video Summaries



Interactive Data



One Page Overviews



PDF Versions





# Contact Us

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