

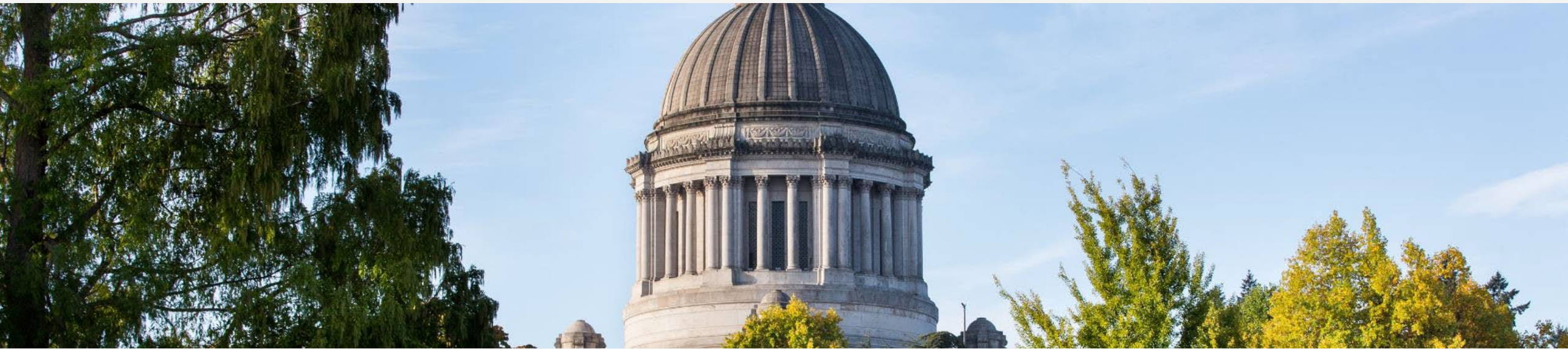
Proposed Final Report

2023 Tax Preference Performance Reviews

Dana Lynn and Pete van Moorsel



November 2023



Proposed Final Report:

2023 Tax Preference Performance Reviews

Legislative Auditor recommends action on five of six reviews.

Citizen Commission unanimously endorsed all recommendations and adopted comments on five.

Last step in 2023 tax preference review process

- July** Presented preliminary report to JLARC
- August** Presented preliminary report to Citizen Commission
- September** Citizen Commission heard public testimony
- October** Citizen Commission adopted comments to report
- November** **Present proposed final report to JLARC**

Legislative Auditor **recommends action** on five of six reviews

Interstate Transportation – four preferences (Clarify)

Hazardous Substance Tax on Pesticides Sold Out of State (Continue and modify)

Rural County and CEZ New Jobs (Continue and modify)

International Services (Terminate)

Historic Ships and Vessels (Clarify)

Continue one preference (no action needed)

Rehabilitated Historic Properties



Citizen Commission takes public testimony and adopts comments

Voting Members

Dr. Grant D. Forsyth, *Chair*
Chief Economist, Avista Corp

Andi Nofziger-Meadows, *Vice Chair*
President, Edmonds Education Association

Ronald L. Bueing
Tax attorney and CPA

Dr. Sharon Kioko
Associate Professor of Public Administration,
Evans School of Public Policy and Governance,
University of Washington

James Orr
Retired teacher

Non-Voting Members

Senator Mark Mullet
JLARC Chair

Pat McCarthy
State Auditor



Citizen Commission
endorsed all six recommendations
and commented on five

Interstate Transportation



Legislative Auditor conclusion

The four preferences make Washington's commercial transportation industry more competitive. They support more freight traffic at ports and higher employment in transportation and freight-dependent industries.

Legislative Auditor recommendation

Clarify

Preferences are no longer necessary to comply with Constitution.

If the Legislature has other objectives, it should state them and establish measurable criteria.

If the objective is not to tax activity where it is constitutionally prohibited, the Legislature should repeal the preferences.

Interstate Transportation



Citizen Commission comments

Retain these preferences but clarify the purpose and metrics to aid future reviews.

- Preferences benefit both large and small transportation companies that operate with relatively low profit margins and provide family wage jobs.
- Preferences for transporting directly to port or to an interim storage facility before shipment to port support the use and viability of the Washington's ports.
- Because Washington's ports are a key part of the economy, and there is intense competition for port services on the West Coast, elimination of the preferences could adversely impact Washington ports.

Hazardous Substance Tax Exemption for Pesticides Sold Out of State



Legislative Auditor conclusion

Preference is for businesses that store and transport agricultural pesticides sold out of state.

Total hazardous substance tax revenue has increased, but likely not due to the preference.

Legislative Auditor recommendation

Continue and modify

Preference improves industry competitiveness.

In light of 2019 changes to the hazardous substance tax, the Legislature should either:

- Consider new metrics to evaluate the preference.
- or
- Recategorize it as one intended to provide tax relief.

Hazardous Substance Tax Exemption for Pesticides Sold Out of State



Citizen Commission comments

The preference meets the goal as intended.

- Without this exemption, Washington-based distributors would be at a significant competitive disadvantage in the primary out of state markets in which these products are to be distributed.
- No similar tax is imposed and no credit is allowed for the Washington hazardous substance tax against similar taxes.

Rural County and CEZ New Jobs



Legislative Auditor conclusion

Beneficiaries created over 1,000 jobs in rural counties, but use continues to decline.

The preference's wage threshold has not been updated since 1997.

Legislative Auditor recommendation

Continue and modify

Continue because the preference has been used by businesses to create jobs.

The Legislature might consider increasing the wage threshold or modifying to increase the number of businesses using it.

Rural County and CEZ New Jobs



Citizen Commission comment

The Legislature should modify the preference to increase the number of businesses applying for the credit.

This may require a more in-depth study of why use of the preference has declined.

International Services



Legislative Auditor conclusion

Preference use is 99% lower than originally expected. It hasn't met the goal of attracting and retaining jobs.

Legislative Auditor recommendation

Terminate

Preference has not achieved the stated intent to attract and retain businesses in targeted areas.

The Legislature may want to consult with the Department of Commerce and local economic development entities to consider other approaches.

Citizen Commission comment

Citizen commission had no comment.

Historic Ships and Vessels



Legislative Auditor conclusion

Owners of 11 historic vessels saved \$21,000 in 2023.

It's unclear if preference met the inferred goal of keeping historic vessels in Washington.

Legislative Auditor recommendation

Clarify

Clarify the objectives and identify performance metrics.

Citizen Commission comment

The recent designation of Washington's coast as a Maritime Washington National Heritage Area gives new opportunities for use of the preference.

Rehabilitated Historic Properties



Legislative Auditor conclusion

Property owners saved \$56.8 million over 10 years, primarily in King County and for commercial properties.

While preference use has declined, use increased 6% between 2020 and 2022.

Legislative Auditor recommendation

Continue

Continue preference because it is meeting its objective to promote historic property revitalization.

JLARC staff will review again before the January 1, 2031, expiration date for new applicants and determine if preference use has increased over time.

Rehabilitated Historic Properties



Citizen Commission comments

Housing availability remains an issue. Continuing this preference could retain or add stock by using existing buildings.

As construction costs rise, the preference makes rehabilitating historic buildings more financially viable, encouraging owners to restore properties.

The Legislature may want to extend the preference to include attached and detached dwelling units associated with existing historic buildings.

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