Overview: 2024 Tax Preference Performance Reviews

24-05 FINAL REPORT | DECEMBER 2024

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Six reports evaluate 29 tax preferences and offer recommendations for legislative action

State law requires JLARC staff to review tax preferences. The Citizen Commission for Performance Measurement of Tax Preferences selects the preferences for review each year (Ch. 43.136 RCW).

Two reports evaluate preferences not previously reviewed

By law, the evaluation includes whether a preference achieves the Legislature's objectives, who benefits, how much they save, and other factors.

- **Alternative fuel vehicles:** This briefing report reviews eight preferences intended to increase the number of alternative fuel vehicles in Washington. Four of the preferences are set to expire in 2025.
- **Home energy assistance:** This review evaluates a $2.5 million annual public utility tax credit for utilities that provide energy assistance to low-income families. The credit likely has no impact on the assistance provided.

Four reports offer updated information about preferences we reviewed in the past

For these, JLARC staff consider what has changed and whether our previous recommendations and conclusions hold up.

Notable changes include:

- **Aerospace:** Savings from a package of aerospace preferences declined 63%. This is primarily due to the repeal of a preferential tax rate to comply with a World Trade Organization ruling.
- **Precious metals and monetized bullion:** Savings for buyers and sellers increased 457% from 2017. Changes in marketplace fairness laws since the last review make the preferences' impact on competitiveness unclear.

- **Customized workforce training:** Use of a B&O tax credit for this training has declined 86% from its peak.
- **Aluminum:** All aluminum smelters in Washington have closed and none of the preferences have been used since 2021.

Each review includes recommendations for legislative action

- By law, the Legislative Auditor must recommend actions the Legislature could take for each preference based on the findings of each review.
- Without action in the 2025 session, four of the alternative fuel vehicle preferences will expire. The customized workforce training preference is set to expire in 2026, and four of the aluminum preferences in 2027. The other preferences do not have expiration dates.

Committee action to distribute report

On December 4, 2024 this report was approved for distribution by the Joint Legislative Audit and Review Committee. Action to distribute this report does not imply the Committee agrees or disagrees with Legislative Auditor recommendations.

Alternative fuel vehicles and infrastructure

Legislative Auditor's conclusion

Alternative fuel vehicles and associated infrastructure increased in Washington. The effect of the preferences is unclear because changes in the market and increased state and federal incentives also influence adoption.

Key points

- The 2019 Legislature created or amended eight tax preferences intended to increase the number of alternative fuel vehicles (AFVs) in Washington.
- The Legislature's intent has been met: The number of AFVs in Washington has grown 230%, regardless of limits on tax preference eligibility and decreasing exemption amounts. There are more public chargers, zero-emission buses, and alternative fuel commercial vehicles and infrastructure today than in 2019.
- It is not possible to isolate the impact of these preferences on this growth.

- Funding at the state and federal level promoting AFVs, zero-emission buses and associated infrastructure has increased by hundreds of millions of dollars since 2019.
- This review provides the first accounting of the use of these preferences since they were enacted.

About these preferences

Estimated savings: $98 million (2023-25 biennium)

Expiration date: 2025 or when limit is reached

Tax type: Multiple taxes

Applicable statute(s): Multiple

Legislative Auditor's recommendation

The Legislature should determine whether to continue the eight tax preferences, and at what level, before four of them expire in 2025.

Commissioners' recommendation

The commission endorses the Legislative Auditor's recommendation with comment. When determining whether to continue the preferences, the Legislature should 1) consider the Department of Commerce's recommendation to centralize incentive programs to improve clarity, ease of access, and efficiency, and 2) explore the Department of Commerce's suggestion to shift resources from a tax exemption to a rebate program. Increased clarity, ease of access, and efficiency should increase levels of participation in all programs and the public benefit return on investment.

Public utility tax credit for home energy assistance

Legislative Auditor's conclusion

Utilities are providing more home energy assistance to low-income families, but the tax credit likely does not influence the amount of energy assistance provided.

Key points

- Electric and gas utilities can request a public utility tax credit for up to 50% of the energy assistance they give to low-income customers.
- Statute caps the total credit at $2.5 million per year. This amount is allocated to about 60 utilities that receive federal home energy grants for their low-income customers.

- Half of these utilities provide additional energy assistance and claim almost all the available credit each year.
- The tax preference likely does not influence the amount of energy assistance provided. Beneficiaries provided $76 million in energy assistance in 2023. The credit reimbursed 3.3% of that amount.
- Statutory changes in 2019 and 2021 require utilities to provide energy assistance to low-income customers.

About these preferences

Estimated savings: $5 million (2027-29 biennium)
Expiration date: None

Tax type: Public Utility Tax
Applicable statute(s): **RCW 82.16.0497**

Legislative Auditor's recommendation

The Legislature should state public policy objectives and, if applicable, set performance metrics.

- If the Legislature's objective is to encourage utilities to offer more utility-funded energy assistance, it should consult with the Department of Commerce to identify changes that achieve that goal. Possible options include increasing the amount of the credit or amending the qualification criteria.
- Alternatively, if the Legislature's objective is providing tax relief, it should categorize the preference as one intended to do so.

Commissioners' recommendation

The commission endorses the Legislative Auditor's recommendations without comment.

Aerospace

Legislative Auditor's conclusion

The preferences continue to meet legislative goals to lower costs, maintain the industry's presence, and encourage strong wages. Employment has decreased since 2019, and it remains unclear if job growth meets expectations.

Key points

- The Legislature enacted nine tax preferences that benefit the aerospace industry. It repealed one preferential tax rate to comply with a World Trade Organization ruling.
- The preferences lower costs and improve competitiveness by reducing the industry's effective tax rate. However, the reduction is smaller than it was in 2019.
- Washington's aerospace industry is still among the largest in the country and pays wages that are above industry and statewide averages.
- Aerospace industry employment has declined since 2019. It is above 2003 levels, so it continues to be unclear if employment levels meet legislative expectations.

About these preferences

Estimated savings: $205.4 million (CY 2028-29)
Expiration date: July 1, 2040

Tax type: Multiple taxes
Applicable statute(s): **Multiple**

Legislative Auditor's recommendations

1. The Legislature should clarify its expectations for the level of aerospace industry employment.
2. The Legislature should consider eliminating the requirement that JLARC review these preferences every 5 years. The preferences would then revert to the standard 10-year review cycle for tax preferences.

Commissioners' recommendation

The commission endorses the Legislative Auditor's recommendations without comment.

Precious metals and monetized bullion

Legislative Auditor's conclusion

Together, businesses and buyers saved $28.4 million in fiscal year 2023, an increase of 457% since 2017. The preferences' effect on the competitiveness of Washington businesses is unclear because it depends on the circumstances of the sale.

Key points

- The 1985 Legislature enacted two preferences for sales of precious metals and monetized bullion. One is a sales and use tax exemption and the other gives special B&O tax treatment.

- As JLARC concluded in 2012, precious metals and monetized bullion businesses continue to pay B&O tax on a smaller portion of their income than sellers of other types of investments.
- Beneficiary savings have increased. The amount reported by out-of-state businesses has grown to nearly 40%.
- The sales and use tax exemption treats sales of precious metals and monetized bullion like other investments. The preference's impact on the competitiveness of Washington businesses is unclear because it depends on the circumstances of the sale.

About these preferences

Estimated savings: $55 million (2027-29 biennium)

Expiration date: None

Tax type: Sales and use; Business and occupation (B&O)

Applicable statute(s): **RCW 82.04.062**

Legislative Auditor's recommendation

The Legislature should determine whether to continue the preferences for sales of precious metals and monetized bullion. If it continues the preferences, the Legislature should state its public policy objective and set performance metrics.

- If the goal is to treat these sales like those of other investments, the Legislature should consider the different effects of the two preferences.
- If the goal is to keep Washington sellers competitive with out-of-state sellers, the Legislature should consider whether the preferences have the intended effect.

Commissioners' recommendation

The commission does not endorse the Legislative Auditor's recommendation with comment. The Citizen Commission for Performance Measurement of Tax Preferences recommends continuing the preferences and clarifying them to state public policy objectives. If the objective is to level the playing field with out-of-state competitors, the metric should be a measure of the industry's presence in the state. The Legislature should also consider whether the preferences are critical to the tax structure, given the industry's dependence on their availability.

Customized workforce training

Legislative Auditor's conclusion

The B&O tax credit has met the Legislature's threshold for continuation. However, use has declined 86% from its peak, and the credit's effect on business retention and expansion is unclear.

Key points

- The preference is a B&O tax credit that allows businesses to reduce costs for customized employee training by 50%.
- Use of both the training program and tax credit declined since 2018. It is unclear if the credit affected business retention or expansion.
- The tax credit met the Legislature's target for continuation. As of December 2023, 77% of the loans were repaid on time and in full. The rest are in active repayment.
- Credit use is concentrated in four counties and the manufacturing industry. Four schools conducted 81% of the trainings.

About these preferences

Estimated savings: $34,000 (2025-2027 biennium)

Expiration date: July 1, 2026

Tax type: Business and occupation (B&O) tax

Applicable statute(s): RCW 82.04.449

Legislative Auditor’s recommendations

1. The Legislature should extend the preference’s July 1, 2026, expiration date.
   - The preference met the target metric that at least 75% of participating businesses complete their training and repay their loans to the SBCTC.
2. The SBCTC should determine how to increase training program and preference use.
   - The SBCTC should also report its implementation and progress to relevant legislative committees before the 2026 legislative session.

Commissioner's Recommendations

1. Regarding recommendation #1: The commission endorses the Legislative Auditor's recommendation with comment. The Legislature may want to consider a capital injection into the revolving fund that supports this program.
2. Regarding recommendation #2: The commission endorses the Legislative Auditor's recommendation without comment.

Aluminum

Legislative Auditor's conclusion

The preferences are no longer being used. All aluminum smelters in Washington have closed. Six preferences cannot be used if a new smelter opened, and two are unlikely to be used again.

Key points

- The Legislature enacted eight tax preferences benefitting aluminum smelters and related manufacturing activities between 1996 and 2004. The four preferences for aluminum smelters expire January 1, 2027.
- None of the preferences have been used since fiscal year 2021. They are unlikely to be used again.
- No aluminum smelters have operated in Washington since August 2020. Employment in Washington's aluminum manufacturing industry fell by 49% when the smelters closed. The industry still employs approximately 1,100 people.
- The decline of Washington's aluminum smelting industry is consistent with a decline nationally.

About these preferences

Estimated savings: $0 (2025-27 Biennium)

Expiration date: Four preferences: January 1, 2027
Four preferences: No expiration date.

Tax type: Multiple taxes

Applicable statute(s): **Multiple**

Legislative Auditor's recommendations

The Legislature should allow four preferences to expire and terminate four others:

1. Allow the four tax preferences for aluminum smelters to expire on January 1, 2027.
2. Terminate the two tax preferences for power companies selling to aluminum smelters.
3. Terminate the tax preferences for aluminum anodes and cathodes and aluminum master alloy producers.

Commissioners' recommendation

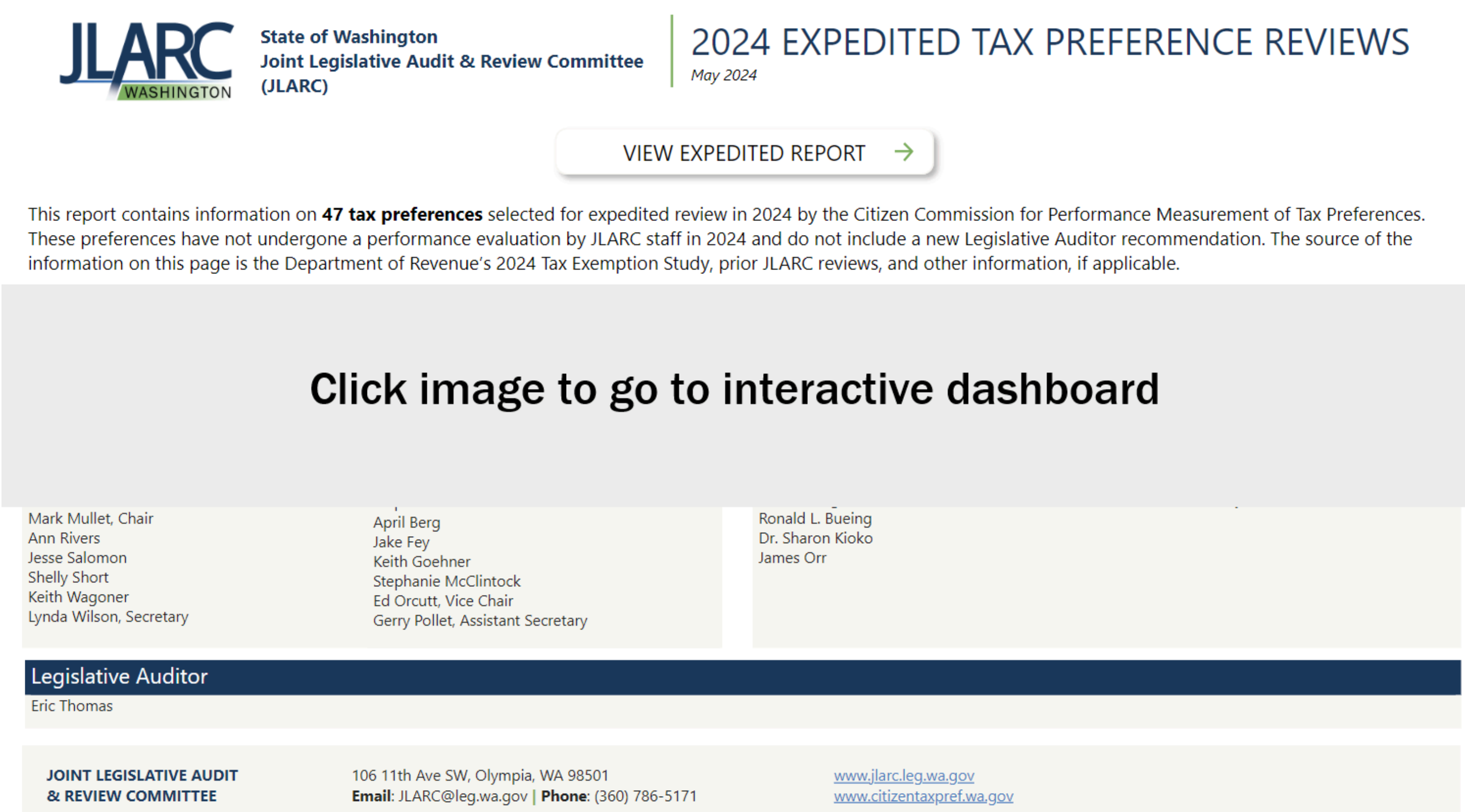
The commission endorses the Legislative Auditor's recommendations without comment.

Appendices

2024 expedited preference review | **Audit authority** | **Study process** | **Study questions**

2024 expedited preference review

The Commission opted to consider the following tax preferences, using an expedited process. The expedited process is primarily based on information published by the Department of Revenue in its most recent statutorily required tax exemption study. View the **2024 expedited preference review**.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2024 EXPEDITED TAX PREFERENCE REVIEWS
May 2024

VIEW EXPEDITED REPORT

This report contains information on **47 tax preferences** selected for expedited review in 2024 by the Citizen Commission for Performance Measurement of Tax Preferences. These preferences have not undergone a performance evaluation by JLARC staff in 2024 and do not include a new Legislative Auditor recommendation. The source of the information on this page is the Department of Revenue's 2024 Tax Exemption Study, prior JLARC reviews, and other information, if applicable.

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Audit authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's nonpartisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in **Chapter 44.28 RCW**, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Study process

View guide to JLARC Tax Preference Reviews **here**.

Study questions

The Citizen Commission for the Performance Measurement of Tax Preferences selected the following tax preferences for a performance review by JLARC staff in 2024:

- **Aerospace**
- **Aluminum**
- **Customized Workforce Training**
- **Public Utility Tax Credit for Home Energy Assistance**
- **Precious Metals & Monetized Bullion**

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