2025 tax preference review:

Agricultural Crop Protection Products

PRELIMINARY REPORT | JULY 2025

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Legislative Auditor's conclusion

Total hazardous substance tax revenue increased as intended. However, other performance metrics would more accurately reflect the preference's effect and inform the Legislature.

Key points

- The preference is for businesses that store agricultural crop protection products (pesticides) that are later sold out of state.
- Eight distinct businesses claimed the preference, saving a combined average of $168,000 per fiscal year (2020 through 2024). This is similar to the 2023 review.
- The preference improves industry competitiveness by offering tax relief. This finding is unchanged from JLARC's 2023 review.
- The statutory performance metric is to increase statewide hazardous substance tax (HST) revenue.
- The metric is not useful for evaluating the preference because beneficiaries contribute just 0.2% of total HST revenue.

About this preference

Estimated savings: $655,000 (2025-27 biennium)	**Tax type:** Hazardous substance	**Expiration date:** January 2028

Earlier JLARC reviews

The Joint Legislative Audit and Review Committee (JLARC) reviewed the preference in 2023. The 2024 Legislature extended the preference to January 1, 2028. It made no further changes to the tax preference, policy objective, or performance metric. The Citizen Commission for Performance Measurement of Tax Preferences scheduled a 2025 update to the previous review, two years before the new expiration date.

Report details

Washington's hazardous substance tax (HST) was established in 1988. The tax applies to the first possession of hazardous substances, including petroleum products, certain pesticides, and certain chemicals.

The preference exempts pesticides from the hazardous substance tax when the pesticides are stored in Washington and sold out of state

The 2015 Legislature enacted a tax preference to exempt agricultural crop protection products (pesticides) from the HST.

Eligible pesticides are:

- Chemicals used to prevent or control diseases, weeds, or other pests.
- Either warehoused in Washington or transported to or from Washington.
- Not manufactured, packaged, sold, or used in Washington.

The 2024 Legislature extended the expiration date of the preference to January 1, 2028.

The Legislature changed the tax rate for liquid petroleum products beginning in fiscal year 2020

When the Legislature passed the preference, the tax rate for any hazardous substance was 0.7% of its wholesale value. The 2019 Legislature changed the rate for liquid petroleum products from a value-based tax to a volume-based tax (i.e., per-barrel tax).

Figure 1: The HST rate and exemption depends on the type of substance

<table>
<tr><th></th><th>Fiscal Years 2015 – 2019</th><th>Fiscal Year 2020 – Present</th></tr>
<tr><td>Liquid petroleum</td><td rowspan="2">0.7%
of wholesale value</td><td>Per-barrel rate</td></tr>
<tr><td>All other hazardous substances</td><td>0.7% of wholesale value</td></tr>
<tr><td>Eligible pesticides</td><td>Exempt</td><td>Exempt</td></tr>
</table>

Note: Per-barrel rate is adjusted for inflation each year. It was $1.09 in fiscal year 2020 and $1.40 in fiscal year 2024.

Source: JLARC staff analysis.

The preference aims to increase pesticide storage and HST revenue

When the Legislature passed the preference in 2015, testimony in support of this legislation suggested that:

- The preference would encourage businesses to store more pesticides in Washington, including those that are not exempt.

- The storage of additional pesticides would generate more HST revenue.
- The additional revenue would offset the loss of HST revenue from the preference.

The Legislature set an increase in overall HST revenue as the performance metric for this preference.

JLARC review in 2023 found that the preference had a negligible effect on HST revenue

Liquid petroleum products generated the majority of HST revenue before fiscal year 2020. With the change in the tax rate for such products, their impact grew.

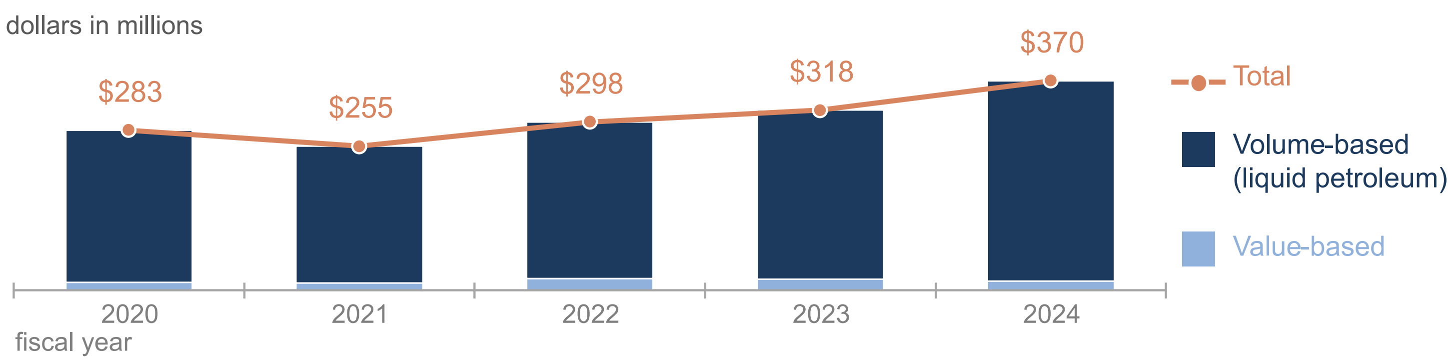
JLARC staff reviewed the preference in 2023. The review found that:

- By providing tax relief, the exemption made Washington a more competitive location for storing and distributing pesticides in the Pacific Northwest.
- Overall HST revenue increased because of the change from a value-based to a volume-based tax rate for liquid petroleum products. These products made up 94% of total HST revenue from fiscal year 2020 through 2022.
- The increase in revenue is not due to the preference.

From fiscal year 2020 through 2024:

- Annual HST revenue rose from $283 million to $370 million.
- The volume-based taxes accounted for an average of 94% of total HST revenue each year.

Figure 2: HST revenue increased with the introduction of a volumetric tax rate for liquid petroleum products



Note: Revenue amounts are tax due reported without adjustment for credits.

Source: JLARC staff analysis of Department of Revenue (DOR) data, fiscal years 2020-2024.

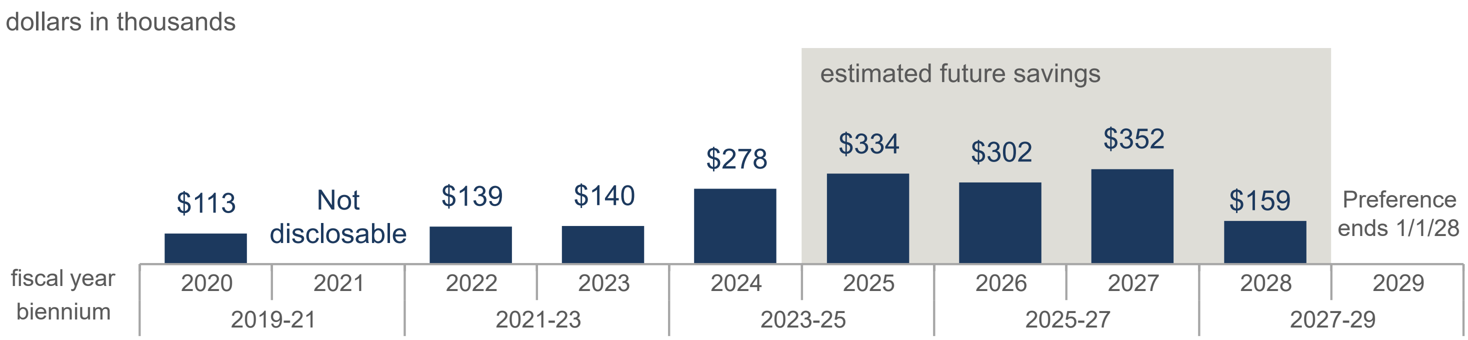
Use and savings have been consistent with previous review

The previous review found that seven distinct businesses claimed the preference at least once between fiscal years 2016 and 2022. Total beneficiary savings averaged $305,000 per year.

In the current review, JLARC staff found that eight distinct businesses claimed the preference between fiscal years 2020 and 2024. Total beneficiary savings averaged $168,000 per year. These figures, and those for the previous review, exclude fiscal year 2021 when there were fewer than three beneficiaries, making data non-disclosable.

In 2024, beneficiary savings increased to $278,000. JLARC staff estimate that beneficiary savings will continue to increase until the preference expires halfway through fiscal year 2028.

Figure 3: Beneficiary savings will likely increase until the expiration date



Notes: 2021 data is not disclosable due to fewer than three beneficiaries claiming the preference. To estimate future beneficiary savings, JLARC staff used projected revenue growth data from DOR.

Source: JLARC staff analysis of DOR tax return data for fiscal years 2020 through 2024 and DOR forecast for the Model Toxics Capital Account.

Increase in beneficiaries' value-based HST payments continues to have minimal effect on overall HST increase

Both overall HST revenues and beneficiaries' HST payments grew from fiscal year 2020 to 2024. The majority of the revenue comes from businesses that are not claiming the preference.

The tax paid by preference beneficiaries ($703,000) makes up a negligible portion of overall revenues. For example, in fiscal year 2024, it represents:

- 4.2% of the total $16.6 million in value-based HST payments.
- 0.2% of the $370 million in total HST revenue.

Therefore, any changes to HST revenue are independent of this tax exemption.

Figure 4: HST revenues increased from fiscal year 2020 to 2024, but HST revenue paid by beneficiaries was a small portion of the total

	2020	2024	$$ Change	% Change
Value-based HST revenue: Beneficiaries	$591,000	$703,000	$112,000	19%
Value-based HST revenue: Total	$14,300,000	$16,600,000	$2,300,000	16%

	2020	2024	$$ Change	% Change
All HST revenue: Total	$283,000,000	$370,000,000	$87,000,000	31%

Note: All HST revenue includes value- and volume-based tax payments. Revenue amounts are tax due reported without adjustment for credits. JLARC staff can disclose only the amount of value-based HST revenue paid by beneficiaries because fewer than three paid volume-based HST in these years.

Source: JLARC staff analysis of DOR data.

The stated performance metric does not measure the public policy objective

The preference is intended to improve industry competitiveness by incentivizing pesticide storage in Washington when these products are sold out of state.

Statute directs JLARC staff to measure whether the objective is met by evaluating increases in HST revenue. Because users of the tax preference contribute only a small share of total HST revenue, this performance metric is not a good indicator of the impact of the tax preference.

Recommendations

The Legislative Auditor makes two recommendations.

Recommendation #1:
The Legislature should extend the preference's January 1, 2028 expiration date.

The preference improves industry competitiveness by providing tax relief to Washington businesses that store or transport pesticides sold out of state.

Legislation required: Yes

Fiscal impact: If the Legislature continues the preference, beneficiaries would likely save $655,000 in the 2027-29 biennium.

Implementation date: 2027 legislative session.

Recommendation #2:
The Legislature should either consider new metrics to evaluate the preference or recategorize the preference as one intended to provide tax relief.

The Legislature may wish to consider alternative metrics to better evaluate effect of the preference on its stated public policy objectives. Alternatives could include:

- The amount of agricultural pesticides stored in Washington.
- The number of beneficiaries and/or beneficiary savings.
- Value-based HST paid by beneficiaries.
- Statewide value-based HST revenue.

If the preference were categorized as one intended to provide tax relief, then future reviews would consider only whether the preference provided tax savings to eligible beneficiaries.

Legislation required: Yes

Fiscal impact: None

Implementation date: 2027 legislative session.

Letter from commission chair

To be included in proposed final report.

Commission recommendation

To be included in proposed final report.

Current recommendation status

JLARC staff review whether the agency acted on the recommendation for four years. The first review typically happens about a year after we issue the report. The most recent responses from agencies and status of the recommendations in this report can be viewed on our **legislative auditor recommendations page**.

Appendices

Appendix A: Applicable statutes | **Appendix B: Study questions & methods** | **Appendix C: Audit authority** | **Appendix D: Study Process**

Appendix A: Applicable statutes

Chapter 82.21 RCW, sections 010 through 050.

Appendix B: Study questions

By law, tax preference reviews must address these study questions

Study questions define the scope of the audit. These reviews will consider the study questions as they relate to each preference, which were presented to JLARC in September 2024 (**view here**).

- **Public policy objectives:** What did the Legislature intend to accomplish? Has the preference achieved those goals?
  - The Legislature defined specific performance metrics for some tax preferences.
  - For others, JLARC staff infer objectives and metrics.

- **Beneficiaries:** Who does the preference benefit, either directly or indirectly? How much have they saved?
- **Revenue and economic impacts:** What are the impacts to the taxpayers and the state?
- **Other states:** Do other states have a similar tax preference?
- **Racial equity:** Are there racial equity considerations associated with the tax preferences?

Methods

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.
- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

Appendix C: 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.

Appendix D: Study process

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

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