PROPOSED STUDY QUESTIONS

2023 Tax Preference Performance Reviews

Upcoming reviews of tax preferences for interstate commercial transportation, jobs created in rural counties or CEZs, rehabilitated historic properties, historic vessels, agricultural crop protection products, and international services jobs.

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WASHINGTON JLARC

October 2022

PUBLIC UTILITY TAX

Interstate Commercial Transportation

Four tax preferences exempt certain portions of gross income of transportation businesses from public utility tax (PUT).

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Interstate Transportation - In-State Portion
RCW 82.16.050

Truck, **rail**, and **some water carriers** are not subject to PUT on the in-state portion of the interstate transportation.

Wholly in-state transportation is subject to PUT.

Interstate Transportation - Through Freight RCW 82.16.050(8)

PUT deduction for in-state portion of interstate shipments of commodities:

- Stop in WA for storage, processing, or manufacturing.
- Transported to final destination.

Interstate Transportation - Shipments to Ports RCW 82.16.050(9)

PUT deduction for transporting commodities that originate in Washington directly to a WA port.

Commodities are then transported by vessel out of state.

Shipping Farm Products to Port RCW 82.16.050(10)

Preference concerns transportation of WA agricultural commodities that are shipped by vessel out of state.

PUT exemption for shipment to interim storage facility in Washington.

Citizen Commission recommended economic impact study after previous JLARC reviews

2010 JLARC review of 3 preferences found they were no longer required by the U.S. Constitution.

Citizen Commission recommended an economic impact study.

To date, no state entity has completed this type of analysis.

Commission scheduled another review to understand the economic impacts of terminating these preferences.

Study will address 3 questions

1. Has there been any legislative action related to these preferences since 2010, and are the Legislative Auditor's previous conclusions and recommendations still applicable to current circumstances?
2. What are the potential economic impacts on taxpayers, related industries, and tax revenues if these activities were no longer tax exempt?
3. How does Washington's taxation of these transportation activities compare to other states, and how might this comparison change if these activities were no longer exempt?

BUSINESS & OCCUPATION (B&O) TAX

Rural County and CEZ New Jobs

B&O tax credit enacted in 1986 for certain businesses that add new jobs in rural counties or community empowerment zones.

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Manufacturing, R&D, and commercial testing businesses

- **$4,000 per job** if annual wages & benefits are *more than* $40,000.
- **$2,000 per job** if annual wages & benefits are *less than* $40,000.

Available in:
- **Rural counties**
- **Community empowerment zones**

- Businesses **apply** for credit and **report** employment to DOR.
- Must **increase employment at facility by 15%** to receive credit.

Legislature stated public policy objective in 1997

Assist rural distressed areas in the state to **address above average unemployment** and **below average job growth**.

Goals set to:

- Promote ongoing, new, and expanded business activity in rural distressed areas.
- Provide family-wage jobs to citizens in rural distressed areas.

Study will address 4 questions

1. To what degree has the preference been used and how many new jobs have been created?
2. What are the wages for those new jobs and where are they located?
3. Are the qualifying areas experiencing above average unemployment or below average employment growth?
4. What is the estimated economic impact of the reported new jobs compared to the estimated economic impact of foregone revenue?

PROPERTY TAX

Rehabilitated Historic Properties

Special property tax valuation enacted in 1985 with stated intent to promote revitalization of historic properties in the state.

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October 2022

Rehabilitated properties on national or local historic register eligible for special valuation

Eligible rehabilitation costs deducted from assessed value for 10 years.

- Costs must be at least 25% of property value.
- Local historic boards review applications.

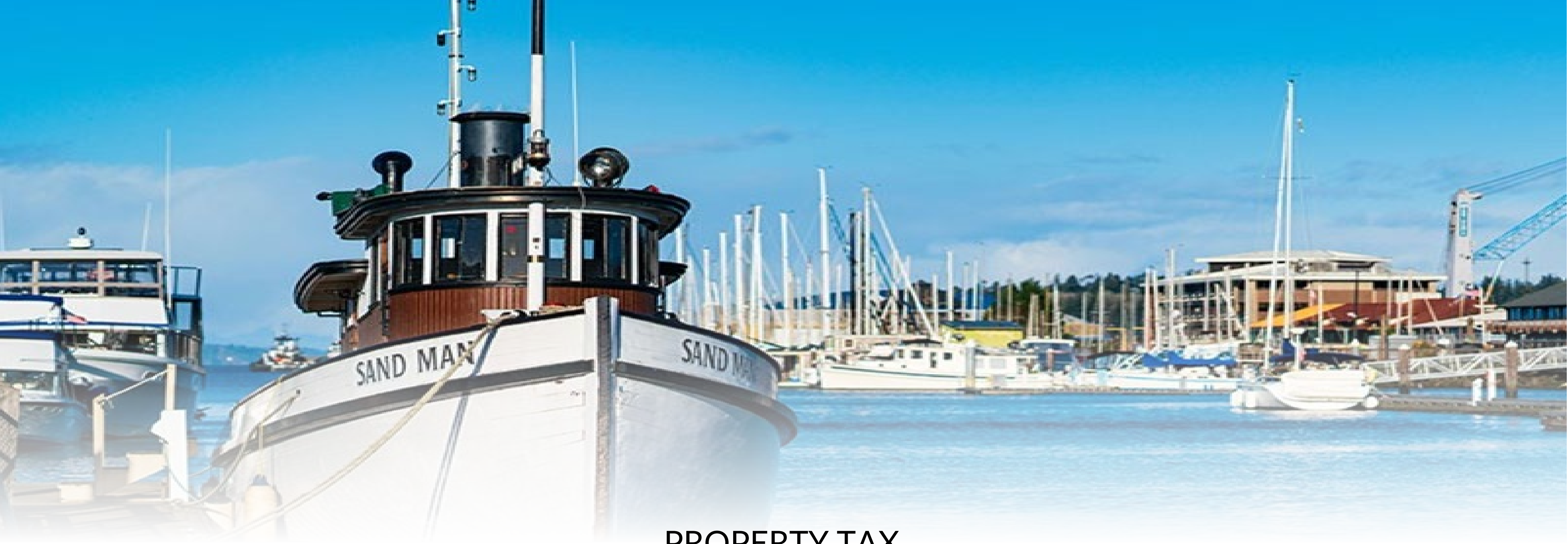
2020 Legislature expanded to add two 7-year extensions.

- Property must be in a city with population of less than 20,000 in a distressed county.

Closes to new applicants 1/01/2031. Expires 1/01/2057.

Study will address 4 questions

1. To what extent has the preference been used statewide and in each county?
2. What types of buildings do beneficiaries rehabilitate with the preference? Are there benefits to the public?
3. What are the estimated beneficiary savings?
4. How do costs to rehabilitate historic properties compare to the beneficiary savings? How much would property taxes have increased for rehabilitated properties without the preference?



PROPERTY TAX

Historic Ships and Vessels

Property tax exemption enacted in 1986 for ships and vessels registered on the state or national register of historic places.

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Inferred objective to encourage historic ship and vessel preservation

Study will address 4 questions:

1. To what extent has the preference been used? Has the number of ships and vessels listed on the national register increased since the preference was enacted?
2. Are there other state or federal incentives available to preserve historic ships?
3. Where are the ships and vessels using the preference located and are there benefits to the public?
4. What are the estimated beneficiary savings?

HAZARDOUS SUBSTANCE TAX

Agricultural Crop Protection Products

Hazardous Substance Tax (HST) preference enacted in 2015 exempts certain crop protection products - including pesticides, herbicides, and fungicides.

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Hazardous Substance Tax funds pollution prevention and mitigation

Tax on products that present a threat to human health or the environment:

- Petroleum products.
- Pesticides.
- Other chemicals.

HST revenue funds Ecology pollution prevention and cleanup activities.

Preference exempts certain products from HST

Crop protection products – including pesticides, herbicides, and fungicides:

- Only used as an agricultural crop protection product.
- Warehoused in Washington.
- Not otherwise used, manufactured, packaged for sale, or sold in Washington.

Products used in WA remain subject to HST.

Preference expires January 1, 2026.

Stated objective: incentivize storing products in WA, and increase HST revenue collection

Study will address 3 questions:

1. How many businesses claim the tax preference, how much crop protection product do they possess in the state, and how much HST do they pay?
2. How has total HST revenue collection changed since the preference was enacted?
3. How does Washington's tax treatment of hazardous substances compare to neighboring states?

BUSINESS & OCCUPATION TAX

International Services

B&O tax credit for businesses that create new jobs in eligible areas that provide services to international clients.

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$3,000 B&O tax credit for new job created

Provide professional services to international clients or outside the U.S.

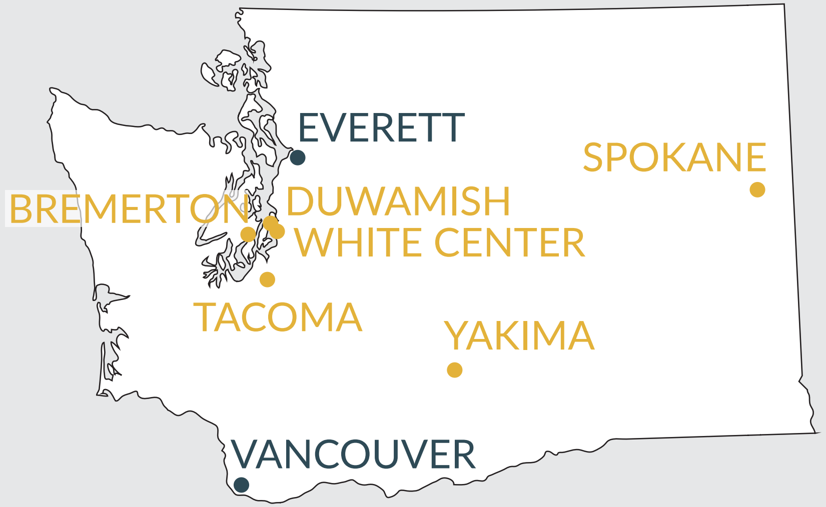
- Business receives credit for year job is created and four more years if job is maintained.

1998 Legislature stated intent:

- Attract and retain qualifying businesses and create new jobs in certain areas.

Qualifying areas limited to

6 Community Empowerment Zones (CEZs)
and
2 International Service Districts (ISDs)



CEZs and ISDs are areas within cities generally characterized as areas with high unemployment and low wages.

Study will address 4 questions

1. To what extent has the preference been used and what are the beneficiary savings?
2. Have subsequent tax policy changes for services provided to out-of-state customers changed the taxation of international services?
3. How has employment changed for businesses that claim the preference?
4. To what extent has the preference attracted businesses providing professional services to international clients in qualifying areas?

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