

May 21, 2012

MEMORANDUM TO: Members
Citizens Commission for Performance Measurement
of Tax Preferences

FROM: William A. Longbrake
Chairman

SUBJECT: Consideration of 2013 Preferences for JLARC Audit
Staff Studies

Objective: Identify 22 of 68 preferences, which are scheduled for review in 2013, for JLARC Audit Staff studies

Recommendation:

In the table below, JLARC Audit Staff has identified 22 preferences for study based on estimated revenue impact.

- Study 14 of the 22
- Do not study 5 of the 22
- Determine whether to study any or all of the remaining 3 (preferences #1, 5 and 7) after considering additional information

If Commissioners determine not to study 5 of the 22 preferences, replace with preferences #23, 26, 27, 28, 29 (or possibly preference #25, depending upon additional information).

If Commissions determine not to study any or all of preferences #1, 5 and 7, choose replacements from among preferences #25, 30, 31, 33 or 34.

Question for JLARC Staff: Should the studies of preferences #19 and #28 be combined since both preferences deal with the same entities and were enacted in the same year?

2013 Tax Preferences – JLARC Staff Studies

Description	#	Tax Type	Year Enacted	Biennial Revenue Impact	Study
Health Maintenance Organizations	1	B&O	1993	\$336,000,000	?
Public & Nonprofit Hospitals	2	B&O	2002	\$224,000,000	Yes
Local Residential & Coin-Op Telephone Service	3	Sales & Use	1983	\$119,116,000	Yes
Medicare, GAU, and BHP Receipts	4	Ins Prem	1993	\$94,084,000	Yes
Competitive Telephone Service	5	Sales & Use	1981	\$65,596,000	?
Retailing	6	B&O	1983	\$52,191,000	Yes
Local Government Business Income	7	B&O	1983	\$40,080,000	?
Used Mobile Homes	8	Sales & Use	1979	\$39,270,000	No
Nonprofit Homes for the Aging	9	Property	1989	\$24,843,000	No
Dentistry	10	Ins Prem	1993	\$24,524,000	Yes
Fishing Boat Fuel	11	Sales & Use	1987	\$15,996,000	Yes
Nonprofit Youth & Local Govt Recreation Services	12	Sales & Use	1981	\$15,132,000	Yes
Medical Services	13	Sales & Use	1975	\$10,744,000	Yes
Tree Trimming Under Power Lines	14	Sales & Use	1995	\$10,326,000	Yes
Nonprofit Medical Research, Training Facilities	15	Property	1975	\$9,905,000	No
Artistic & Cultural Institutions	16	B&O	1981	\$7,974,000	Yes
Nonprofit Cancer Treatment Clinics	17	Property	1997	\$7,776,000	No
Performing Arts	18	Property	1981	\$7,398,000	No
Nonprofit Blood, Bone, and Tissue Banks	19	Sales & Use	1995	\$7,153,000	Yes
Insulin	20	Sales & Use	2004	\$6,082,000	Yes
Arts & Cultural Organizations	21	Sales & Use	1981	\$5,994,000	Yes
Fuel Use in Commercial Vehicles	22	B&O	1985	\$5,953,000	Yes
Use Tax on Rental Value	23	Sales & Use	1985	\$5,885,000	Yes
Nonprofit Emergency or Transitional Housing	24	Property	1983	\$5,704,000	No
Boats Under 16 Feet	25	Watercraft	1983	\$5,633,000	?
Customer-Generated Power	26	PUT	2005	\$4,078,000	Yes
Prescription Drug Administration	27	B&O	2007	\$3,000,000	Yes
Nonprofit Blood, Bone, and Tissue Banks	28	B&O	1995	\$2,214,000	Yes
Rural County and CEZ New Jobs	29	B&O	1986	\$2,032,000	Yes
Kidney Dialysis Equipment	30	Sales & Use	2003	\$1,584,000	Yes*
Dietary Supplements	31	Sales & Use	2003	\$1,579,000	Yes*
Nonprofit Dialysis Facilities	32	Property	1987	\$1,394,000	No
Nebulizers	33	Sales & Use	2004	\$1,182,000	Yes*
Drug Delivery Systems	34	Sales & Use	2003	\$1,156,000	Yes*

*Study only if needed to reach the budget constraint of 22 studies.

Questions and Comments:

#1 – Health Maintenance Organizations – purpose of preference is to avoid double taxation. **Question:** What is the revenue impact of the insurance premiums tax compared to the estimated foregone revenue under the B&O tax?

#5 – Competitive Telephone Service – purpose of preference is to avoid double taxation. **Question:** What is the revenue impact of the alternative taxes?

#7 – Local Government Business Income – purpose of preference is to implement legislative policy of not taxing government activities. **Question:** Would a study explore the impacts on local governments and taxpayers of reversing this “policy”?

#8 – Used Mobile Homes – purpose of preference is to avoid double taxation of used mobile homes to land which are subject to real estate excise tax, i.e., mobile homes attached to land are taxed in the same manner as any other residential real estate property. **Rationale for Not Conducting a Study:** It seems likely that a study would reach a conclusion of “Continue the Preference”. If that is not necessarily likely, then this preference should be the subject of a study.

#9 – Nonprofit Homes for the Aging – purpose of preference is to provide equity between senior citizens who own their own homes and qualify for the senior citizens tax exemption and those who reside in homes for the aging. **Rationale for Not Conducting a Study:** A broader, but not stated, purpose is to reduce the cost of providing housing to low-income senior citizens. Moreover, application of property taxes would redistribute the property tax burden but would not raise additional revenue.

#15 – Nonprofit Medical Research, Training Facilities – purpose of preference is to support nonprofit medical research and training facilities. **Rationale for Not Conducting a Study:** Unless there is question about the appropriateness/equity of the stated purpose of this preference, application of property taxes would redistribute the property tax burden but would not raise additional revenue.

#17 – Nonprofit Cancer Treatment Clinics – purpose of preference is to provide an exemption for nonprofit cancer clinics and centers; provides parity with nonprofit hospitals. **Rationale for Not Conducting a Study:** Unless there is question about the appropriateness/equity of the stated purpose of this preference, application of property taxes would redistribute the property tax burden but would not raise additional revenue.

#18 – Performing Arts – purpose of preference is to support nonprofit artistic, literary, musical, dance or dramatic organizations and recognize the educational and artistic contribution they make to society. **Rationale for Not Conducting a Study:** Unless there is question about the appropriateness/equity of the stated purpose of this preference, application of property taxes would redistribute the property tax burden but would not raise additional revenue.

#24 – Nonprofit Emergency or Transitional Housing – purpose of preference is to support services provided by such nonprofit organizations. **Rationale for Not Conducting a Study:** Unless there is question about the appropriateness/equity of the

stated purpose of this preference, application of property taxes would redistribute the property tax burden but would not raise additional revenue.

#25 – Boats Under 16 Feet – purposes: avoid an impermissible burden on interstate commerce, recognize prohibition of taxing the federal government, minimize administrative costs. **Questions:** Are the interstate commerce and federal government purposes for the preference unambiguous? If so, what is the remaining revenue impact on small watercraft? What is the nature of the administrative burden?

#28 – Nonprofit Blood, Bone, and Tissue Banks – purpose is to support activities of these entities. **Question:** Should study of this preference be combined with the study of #19 which covers the same entities?