

# 2016 Tax Preference Performance Reviews

## JLARC Staff Presentation to the Citizen Commission for Performance Measurement of Tax Preferences

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Joint Legislative Audit & Review Committee

August 2016



# 2006 legislative mandate: conduct performance audits of tax preferences

## Legislature (Chapter 43.136 RCW):

- **Created** the Citizen Commission for Performance Measurement of Tax Preferences
- **Specified** JLARC to review preferences over 10-year cycle
- **Outlined** specific questions for JLARC staff to answer
- **Required** audit recommendation
- Key question: is public policy objective stated?  
Achieved?

# Steps in process repeated each year

In 2015, Commission determined 10-year review schedule and preferences for JLARC staff review.

**July 2016:** Staff presented to JLARC Committee

**Aug:** Staff present to Commission

**Sept:** Commission will take public testimony

**Oct:** Commission will adopt comments

**Dec:** JLARC will hear final report

**Jan 2017:** Joint fiscal committee hearing

# 2016 reviews covered a diversity of preferences, industries, and tax types

Preferences	Auditor Recommendation
Syrup tax B&O credit	Eliminate underlying tax
Customer-generated power	Review/clarify
Timber B&O	Review/clarify
Standing timber sales REET	Continue
Data centers	Continue
Trade-ins	Review/clarify
Semiconductors	Review/clarify & terminate
Flavor-imparting items	Review/clarify

# 2016 reviews covered a diversity of preferences, industries, and tax types (continued)

Preferences	Auditor Recommendation
Fuel used by mint growers	Allow to expire
Solar energy/silicon manf.	Review/clarify
Clay targets	Review/clarify
Rural electric finance orgs.	Modify
Custom software	Continue
Nonresident private airplanes	Allow to expire
Self-service laundry	Continue

# 2013's new accountability mechanisms? Mixed results

**Legislature established requirement for enhanced tax-payer reporting: includes new lines on return and sales tax buyer addenda**

5

**However: estimated beneficiary savings unknown or not disclosable**

3

**And, buyers of sales tax-exempt items under- or misreported on buyer addenda**

4

**JLARC staff will continue work with other legislative staff and DOR to seek improvements**

# Syrup Tax Paid

B&O Tax



# Syrup tax paid (B&O tax)

**B&O tax credit** for \$1/gallon syrup tax paid by businesses that **buy carbonated drink syrup** and **use to make drinks** they **sell** to customers (e.g., restaurants, convenience stores)



2017-19  
Estimated beneficiary savings

**\$10<sub>M</sub>**

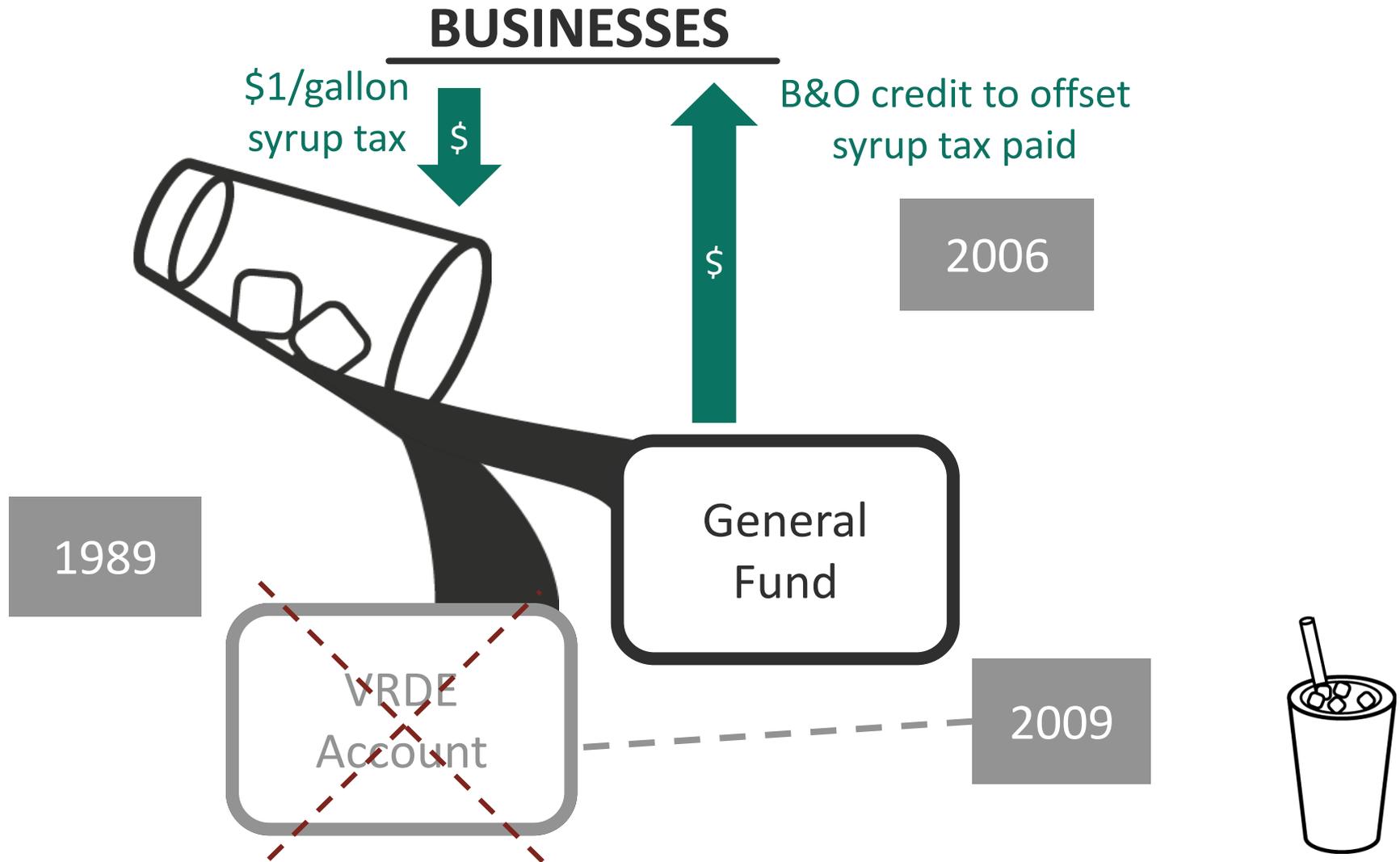
Beneficiaries

2,326 in FY 2015

**Legislative Auditor recommends:**

**Repeal the syrup tax  
Terminate this tax preference**

# Syrup tax created in 1989 to fund drug and alcohol abuse programs (VRDE account)



# Public policy objective not stated

Inferred objective	Objective met?
<p><b>Provide tax relief to the restaurant industry while maintaining funding for the Violence Reduction and Drug Enforcement (VRDE) account</b></p>	<p><b>— No</b></p> <ul style="list-style-type: none"><li>• Preference <b>not providing tax relief to all eligible businesses</b> that pay syrup tax<ul style="list-style-type: none"><li>○ 40% of B&amp;O credit available not claimed each year</li></ul></li><li>• Objective to maintain VRDE funding <b>no longer relevant</b><ul style="list-style-type: none"><li>○ VRDE account eliminated in 2009</li></ul></li></ul>



# Larger restaurants more likely to claim B&O tax credit

FY 2015 Gross Income	How Many Restaurants/ Drinking Establishments are there?	How Many Establishments Claimed Syrup Tax Paid B&O Credit?	What % of the Total Establishments Claimed the B&O Credit?
<b>All Establishments</b>	<b>15,521</b>	<b>1,803</b>	<b>12%</b>
Under \$250,000	7,646 (49% of all establishments)	202	2%
\$250,000 - \$999,999	5,505 (35%)	745	13%
\$1 million - \$4,999,999	2,103 (14%)	718	34%
\$5 million or more	267 (2%)	138	51%

Source: DOR FY15 tax return detail

# Recommendation: Repeal syrup tax and associated B&O tax credit

## Eliminate syrup tax

Would achieve objective of **providing tax relief**

Since 2009, syrup tax revenues **no longer fund violence & drug enforcement account**

## Repeal preference

B&O preference unnecessary if syrup tax repealed. Preference **not providing all the intended tax relief** to businesses paying syrup tax



# Customer-Generated Power

## Public Utility Tax



# Customer-generated power (public utility tax)

Current  
expiration  
date: 2021

\$55M

2017-19  
Estimated  
beneficiary  
savings

39 utilities claimed  
Beneficiaries

Legislative Auditor recommends:

Review and clarify this tax  
preference



Customer  
generates  
power



Utility **pays**  
**customer** based  
on the power  
generated



State gives  
utility a **tax**  
**credit**

**Public utility tax  
credit** for payments  
utilities make to their  
customers who  
generate own  
renewable energy

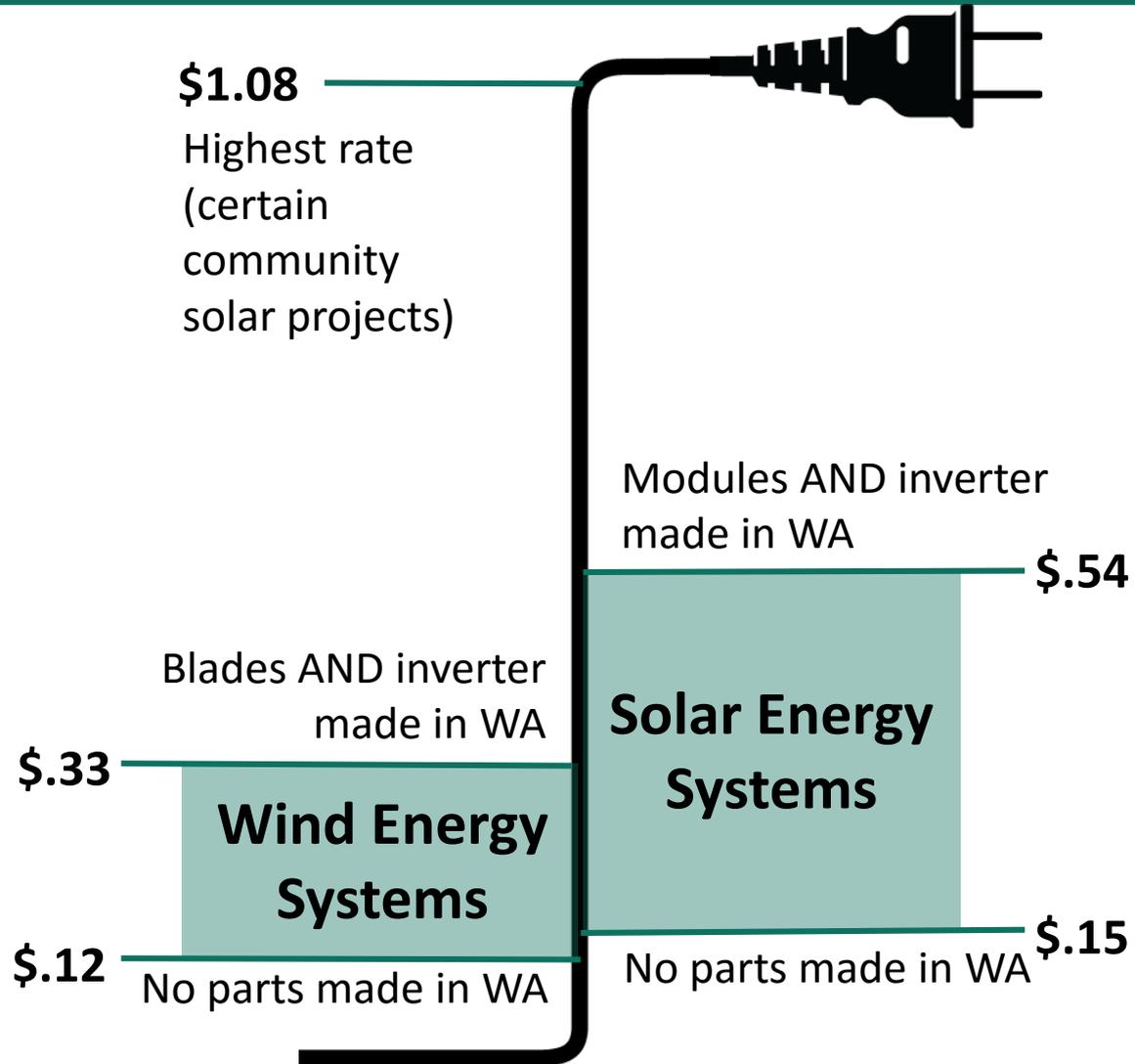
# Incentive amounts depend on type of system and where it was made

Three types of systems qualify:

- Solar
- Wind
- Anaerobic digester

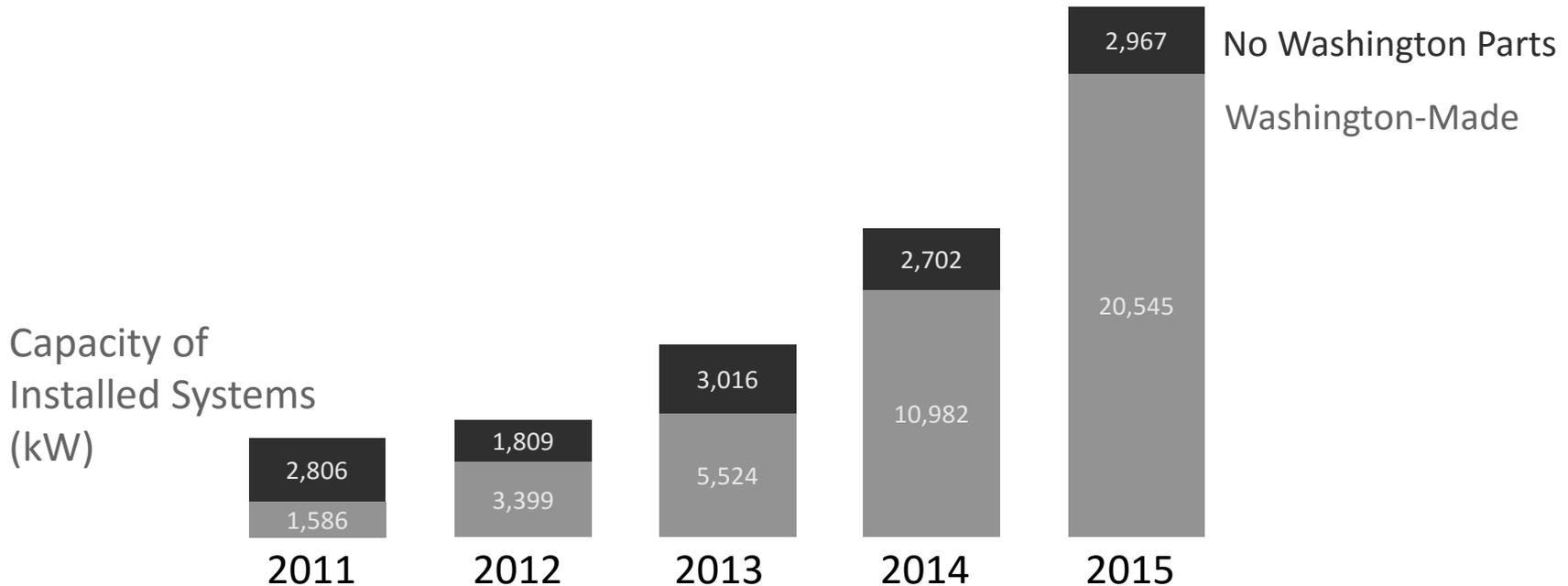
Higher incentive rates for some Washington-made components

Higher incentive rates for community solar



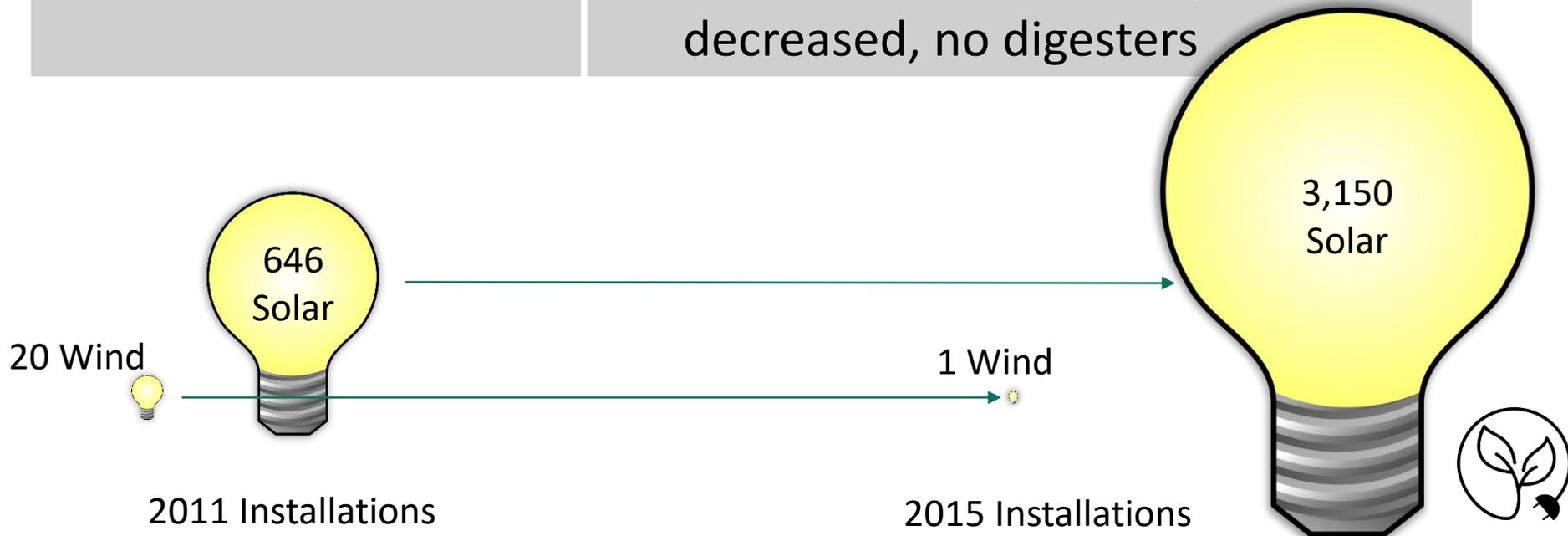
# Two public policy objectives

Stated objective	Objective met?
Greater use of locally created renewable energy technologies	 <b>Yes</b> <ul style="list-style-type: none"> <li>More systems installed, more of those systems made in Washington</li> </ul>



# Two public policy objectives

Stated objective	Objective met?
Greater use of locally created renewable energy technologies	<p>✓ <b>Yes</b></p> <ul style="list-style-type: none"><li>• More systems installed, more of those systems made in Washington</li><li>• Growth is all from solar; wind has decreased, no digesters</li></ul>



# Two public policy objectives

Stated objective	Objective met?
Greater use of locally created renewable energy technologies	 <b>Yes</b> <ul style="list-style-type: none"><li>• More systems installed, more of those systems made in Washington</li><li>• Growth is all from solar, wind has decreased</li></ul>
Support and retain existing local industries, create new opportunities for industries	 <b>Unclear</b> <ul style="list-style-type: none"><li>• Installation of Washington-made systems has increased</li><li>• Growth concentrated in solar, three companies</li></ul>



# Sixteen utilities reaching their caps in 2016

Each utility **capped** at \$100,000 or 0.5% of taxable power sales

- Some **cutting off programs** to new customers, others **reducing rate** for all
- Serve **71%** of WA customers



# Recommendation: Review and clarify

## Clarify

Use of locally made systems has grown

**Growth is concentrated** in solar, small number of manufacturers

## Inform

**Include targets** for number of systems, how much power generating capacity, specify which local industries



# Timber and Wood Products

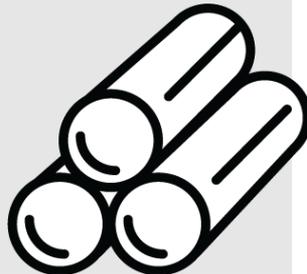
## B&O Tax



# Timber and wood products (B&O Tax)

Current  
expiration  
date: 2024

**Reduced B&O Tax rate (0.3424%)** for extracting, timber and wood product manufacturing and wholesaling, and standing timber sales



2017-19  
Estimated beneficiary  
savings

**\$30.6M**

Beneficiaries

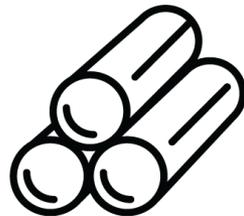
1,129 timber  
industry  
businesses (FY15)

**Legislative Auditor recommends:**

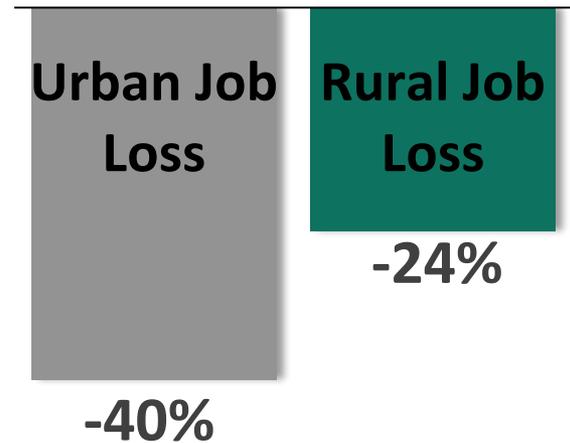
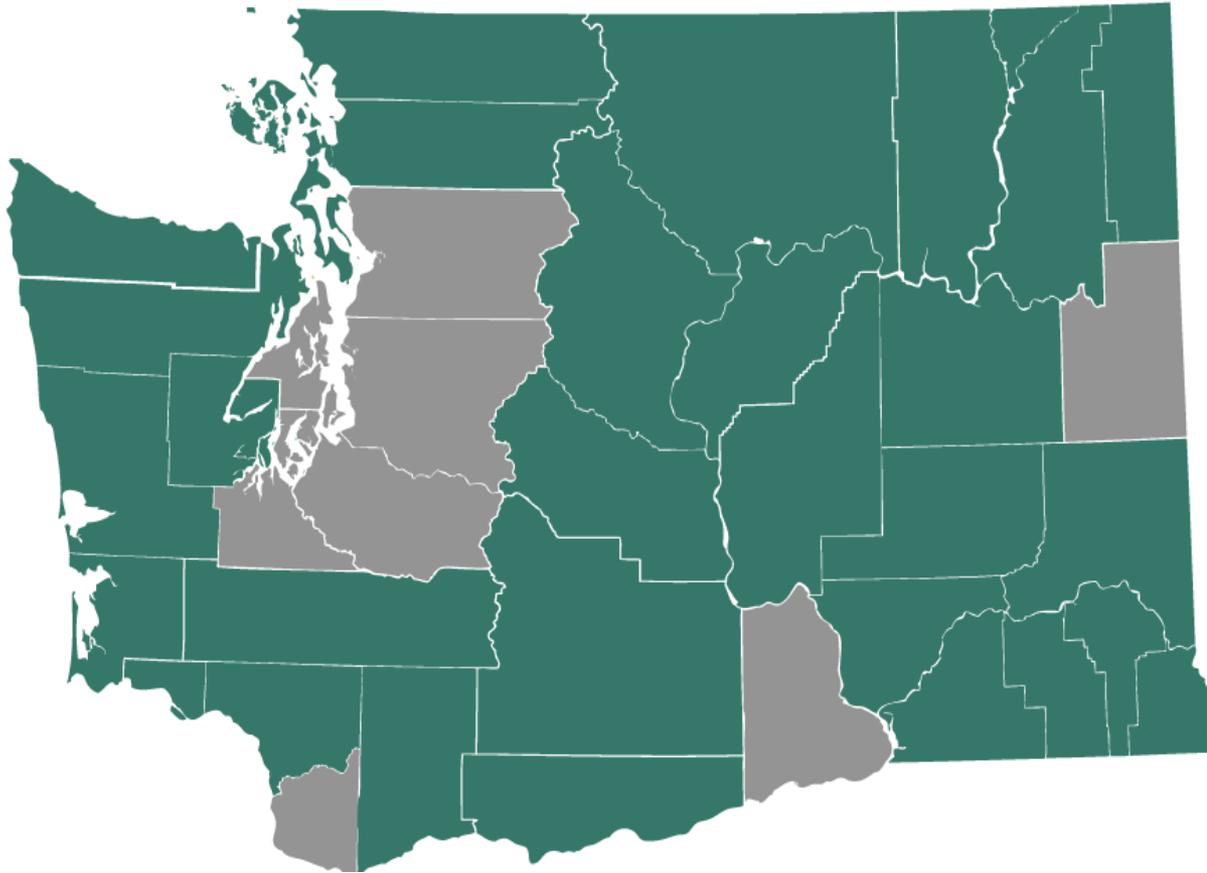
**Review and clarify**

# Public policy objectives not stated

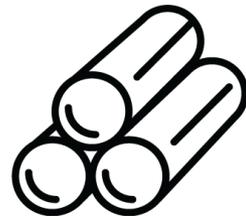
Inferred objective	Objective met?
<b>Reduce cost of doing business</b> for the timber industry	 <b>Yes</b> <ul style="list-style-type: none"><li>• 0.3424% applicable rate vs. 0.484% general rate</li></ul>
<b>Help retain good paying jobs in rural areas</b> (especially manufacturing jobs)	 <b>Unclear</b> <ul style="list-style-type: none"><li>• 31% overall drop in WA timber industry jobs 2006 to 2014</li><li>• Rural counties had less job loss than non-rural counties</li></ul>



# Since 2006, timber industry jobs decreased less in rural counties

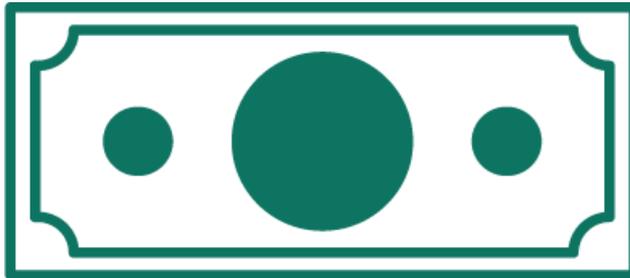
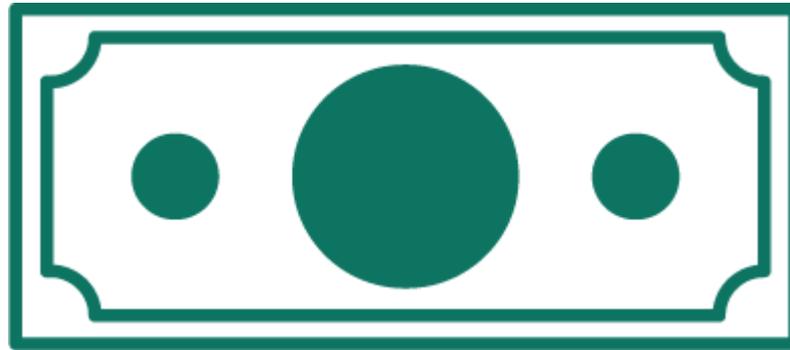


Source: ESD data, 2006-14



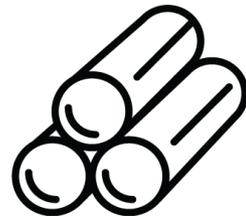
# In rural counties, average timber industry wage are higher than average job wage

**\$58K**  
Timber Job



**\$37K**  
Average Job

Source: ESD data, 2014



# Public policy objectives not stated

Inferred objective	Objective met?
<b>Reduce cost of doing business</b> for the timber industry	 <b>Yes</b> 0.3424% applicable rate vs. 0.484% general rate
<b>Help retain good paying jobs in rural areas</b> (especially manufacturing jobs)	 <b>Unclear</b> <ul style="list-style-type: none"><li>• 31% overall drop in WA timber industry jobs 2006 to 2014</li><li>• Rural counties had less job loss than non-rural counties</li></ul>
<b>Help timber industry compete</b> nationally and internationally	 <b>Unclear</b> Evidence is mixed



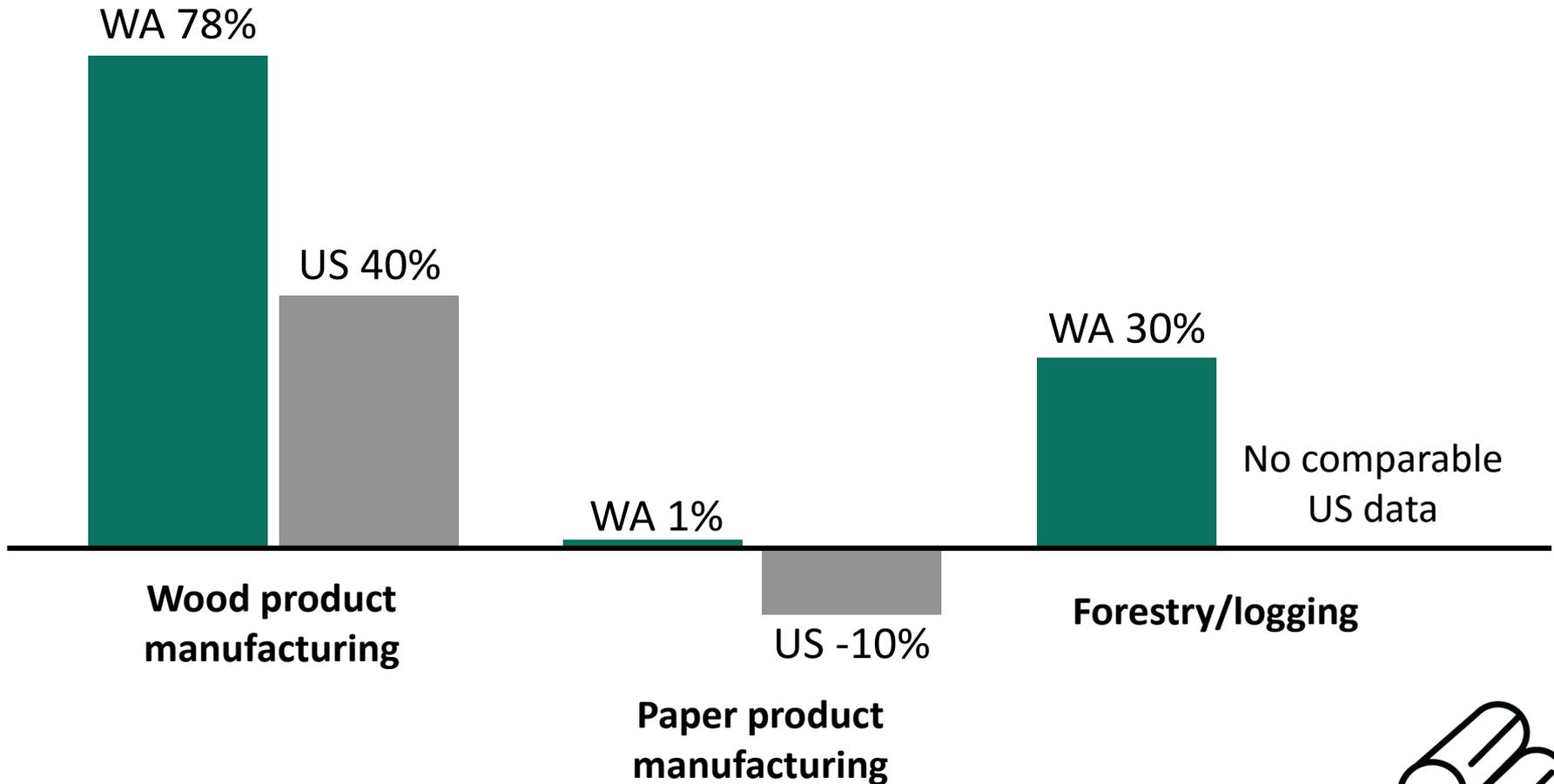
# Since 2006, WA's national ranking for share of timber industry jobs has declined

Industry	State Rank	
	2006	2015
Wood product manufacturing	13 <sup>th</sup>	16 <sup>th</sup>
Paper product manufacturing	17 <sup>th</sup>	21 <sup>st</sup>
Forestry/logging	8 <sup>th</sup>	9 <sup>th</sup>

Source: U.S. BLS data, 2006-15



# Productivity per job has increased in WA, 2006-2013



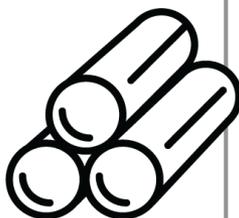
Source: ESD data and BLS data, DNR harvest data, 2006-2013



# Recommendation: Review and clarify

## Review

While it is **reducing the cost of business**, it is **unclear** how the preference is **impacting employment and competitiveness**



## Clarify

Legislature should provide a **performance statement identifying the public policy objectives** and **providing targets and metrics** to measure if objectives achieved

# Standing Timber Sales

## Real Estate Excise Tax



# Standing timber sales (REET)

Provides a REET exemption for **sales of standing timber** (but not land) to be cut within 30 months of sale  
Sellers instead pay timber B&O tax rate (0.3424%)

2017-19  
Estimated beneficiary savings

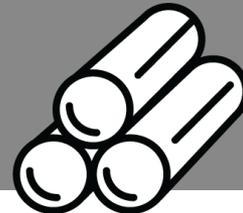
**\$978,000**

Beneficiaries

Businesses selling standing timber  
(51 in FY15)

Legislative Auditor recommends:

**Continue**



# Public policy objective not stated

Inferred objective	Objective met?
Help WA's wood products/timber industry <b>adjust to structural changes</b> in the industry due to federal tax and stock market changes	 <b>Yes</b> Preference continued prior tax treatment



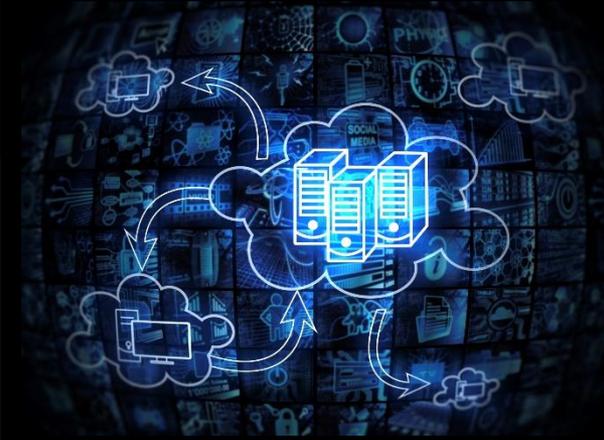
# Recommendation: Continue

## Continue

The preference is **achieving** the inferred objective of **helping Washington's timber and wood products businesses adjust** to structural changes in the industry



# Data Center Equipment



## Sales & Use Tax



# Data center equipment (sales & use tax)

**Sales & use tax exemption** for purchases of eligible server equipment and power infrastructure



2017-19  
Estimated Beneficiary  
Savings

**\$111.6M**

Beneficiaries

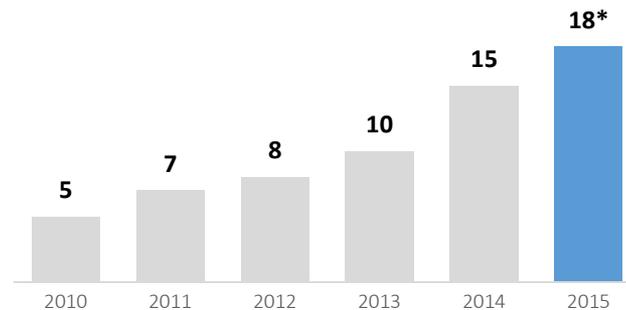
15 in 2014

**Legislative Auditor recommends:**

**Continue**

# Public policy objectives stated

Stated Objective	Objective Met?
Improve industry competitiveness through increased investment in data centers	 <b>Yes</b> <ul style="list-style-type: none"><li>• More businesses invest in data centers &amp; claim exemption</li></ul>



\* Potential, estimated by JLARC staff based on exemption certificates issued.



# Public policy objectives stated

Stated Objective	Objective Met?
<p>Improve industry competitiveness through increased investment in data centers</p>	<p> <b>Yes</b></p> <ul style="list-style-type: none"> <li>• More businesses invest in data centers &amp; claim exemption</li> <li>• Beneficiaries: assessed values grew \$1.2 billion, property taxes paid grew \$13 million during 2011-2015</li> </ul>

FY 16 estimated property tax gain: \$22M

State Share: \$4M  
Grant & Douglas County Share: \$18M

All Local Government Share: -\$12M

FY 16 estimated sales tax loss: -\$57M

State Share: -\$45M



# Public policy objectives stated

Stated Objective	Objective Met?
Improve industry competitiveness through increased investment in data centers	 <b>Yes</b> <ul style="list-style-type: none"><li>• More businesses invest in data centers &amp; claim exemption</li><li>• Beneficiaries: assessed values grew \$1.2 billion, property taxes paid grew \$13 million during 2011-2015</li></ul>
Create family-wage jobs <ul style="list-style-type: none"><li>• Permanent/full-time</li><li>• At the data center</li><li>• 150% of county per-capita income</li></ul>	 <b>Too early to tell</b> <ul style="list-style-type: none"><li>• Beneficiaries have 6 years to meet job creation requirements</li><li>• Only one beneficiary has reached the deadline by May 2016</li></ul>



# Tax savings are contingent on job creation

- Preference includes a **claw-back provision** requiring tax savings be **repaid** if beneficiaries **do not meet** job targets
- Department of Revenue verifies job creation



# Recommendation: Continue

## Continue

Tax preference performance statement:

“[T]he Legislature **intends to extend** the expiration date of the tax preference if a review finds that the rural county tax base is increased as a result of the construction of data centers eligible for the tax preference.”

The review finds that **the rural county tax base has increased**



# Trade-Ins



## Sales and Use Tax



# Trade-ins (sales and use tax)

People with **like-kind trade-ins pay less sales or use tax** because the trade-in value **reduces the sale price used to calculate** the sales or use tax

2017-19  
Estimated beneficiary savings

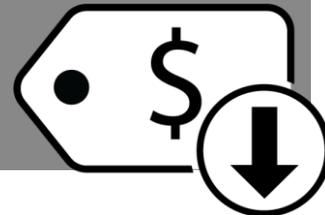
**\$591.4M**

Beneficiaries

Unknown; 82% of FY15 value from vehicle trade-ins

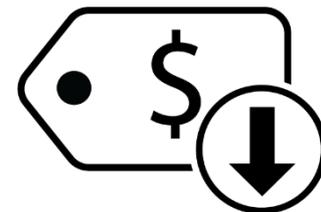
Legislative Auditor recommends:

**Review and clarify**



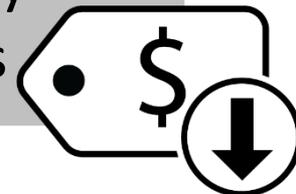
# Trade-in preference reduces the sale price used to calculate the sales/use tax on purchases

<b>Without Preference</b>	 New Car	\$30K
	 Trade In	(Sales price not subtracted)
		<hr/>
		<b>\$30K</b>
		x 9.3%
		<hr/>
	<i>Sales Tax Due</i>	\$2,790 tax
<b>With Preference</b>	 New Car	\$30K
	 — Trade In	(10K)
		<hr/>
		<b>\$20K</b>
		x 9.3%
		<hr/>
	<i>Sales Tax Due</i>	\$1,860 tax
	<b>Tax Savings</b>	<b>\$930</b>



# Preference is mixed in achieving stated and inferred objectives

Stated objective	Objective met?
Reduce amount on which sales tax paid by excluding trade-in value	 Yes
Inferred objectives	Objectives met?
Make WA consistent with other states	 Yes 30 states have broad exemptions, 11 limit trade-ins in some way
Stimulate sales to offset loss of revenue due to the preference	 No Additional sales generated by preference do not offset loss



# Taxes collected on additional **vehicle sales** not large enough to offset preference

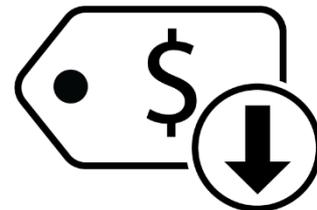
JLARC staff estimated **range** of how much **vehicle sales** and **related economic activity** would increase due to preference

**\$31M**

With most optimistic estimate of vehicle sales, increase in tax revenue not enough to offset losses

**-\$182M**

Preference causes overall decrease in sales tax revenue from vehicles

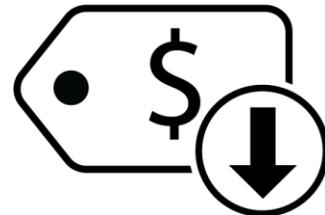


Source: JLARC staff estimate of FY16 vehicle sales using DOR historic data

# Recommendation: Review and clarify

## Clarify

While the preference is reducing consumers' taxes and making Washington's tax treatment consistent with other states, it is **not achieving** the inferred objective of **stimulating enough additional sales to replace lost revenue**



# Solar Energy and Silicon Product Manufacturers

B&O Tax



# Solar energy and silicon product manufacturers (B&O tax)

Current  
expiration  
date: 2017

**Preferential B&O  
tax rate** of .275%  
for manufacturing  
certain solar energy  
systems and their  
components

**\$1.1M**

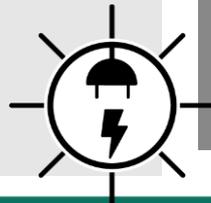
2015-17  
Estimated beneficiary  
savings

**5 in 2014**

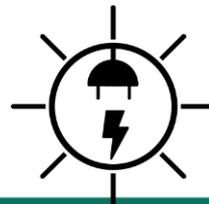
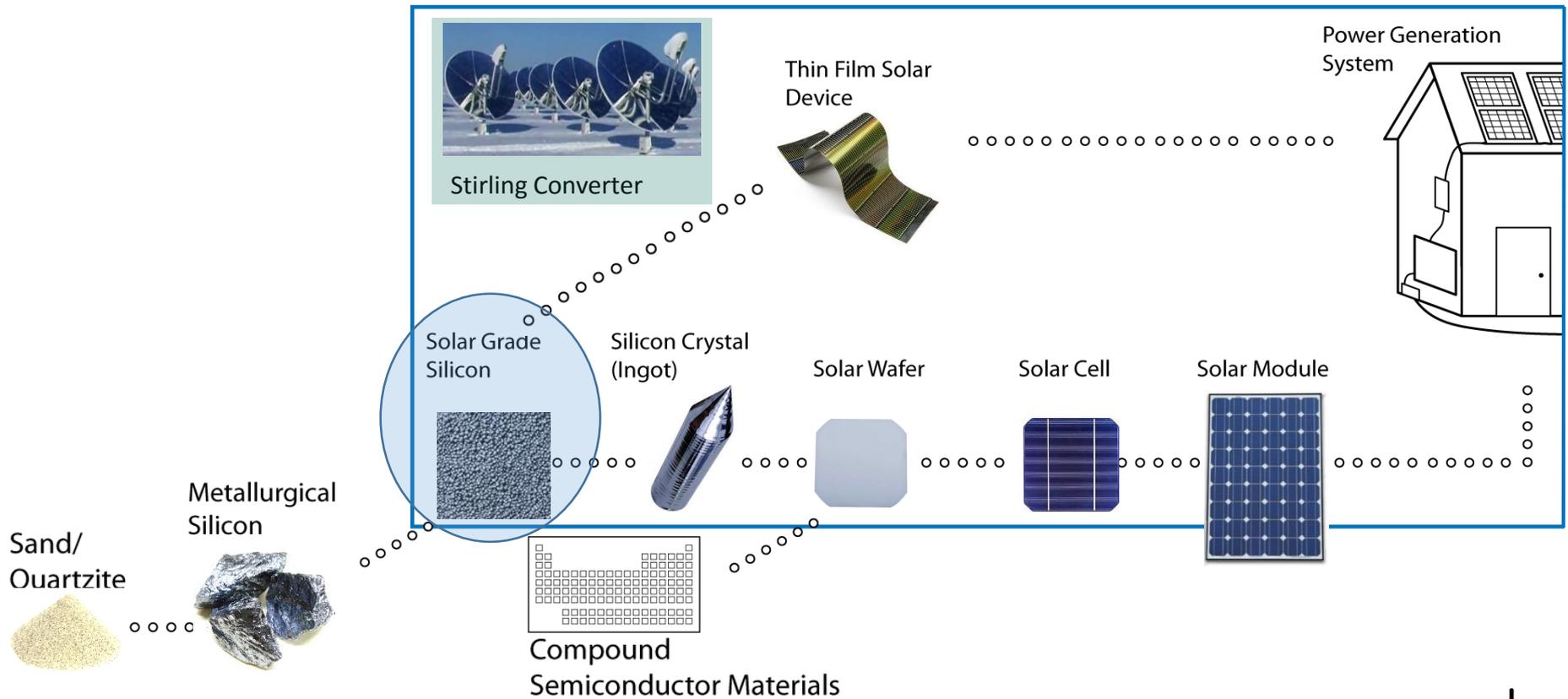
Beneficiaries

Legislative Auditor recommends:

**Review and clarify**

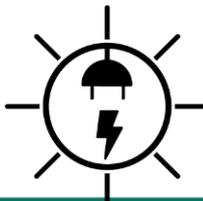
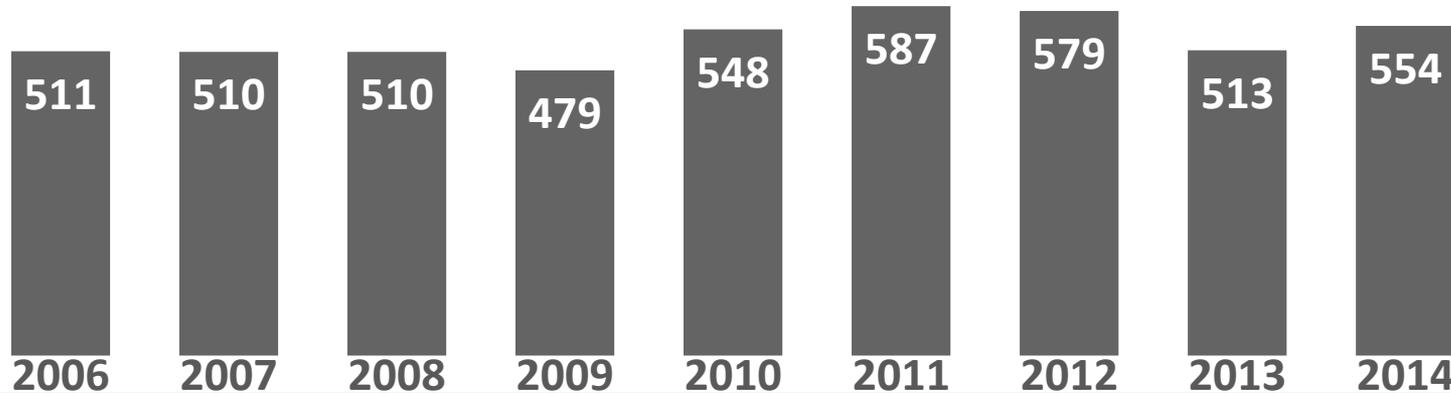


# Preference applies to a broad range of activities



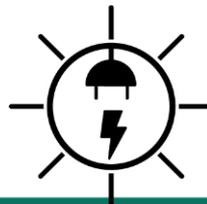
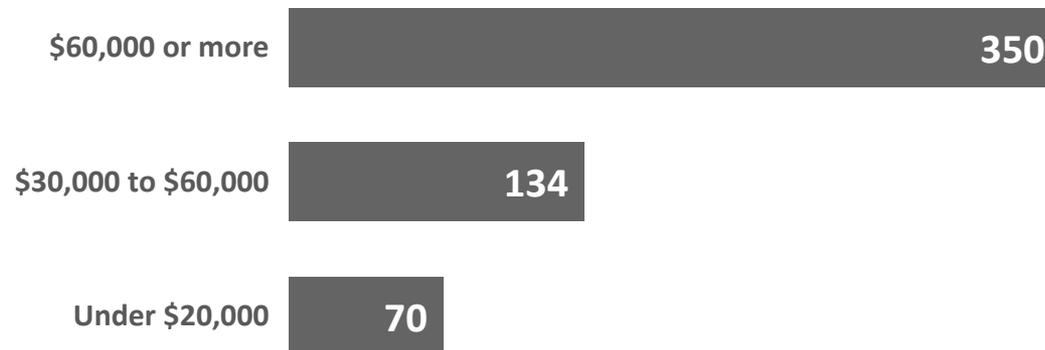
# Unclear if stated objective is being met

Stated objective	Objective met?
<b>Maintain and grow jobs</b> in the solar silicon industry	<b>? Unclear</b> <ul style="list-style-type: none"><li>• “Solar silicon industry” not defined<ul style="list-style-type: none"><li>○ Narrower than qualifying businesses</li></ul></li><li>• No job or wage targets<ul style="list-style-type: none"><li>○ Employment has fluctuated</li></ul></li></ul>



# Unclear if stated objective is being met

Stated objective	Objective met?
<b>Maintain and grow jobs</b> in the solar silicon industry	<b>? Unclear</b> <ul style="list-style-type: none"><li>• “Solar silicon industry” not defined<ul style="list-style-type: none"><li>○ Narrower than qualifying businesses</li></ul></li><li>• No job or wage targets<ul style="list-style-type: none"><li>○ Employment has fluctuated</li><li>○ 63% of employees over \$60,000</li></ul></li></ul>

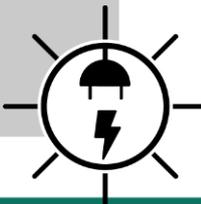


# Legislature cited concerns about global conditions in 2013 extension

Since 2012, a **trade dispute** between the United States and China has impacted sales of solar energy systems and their components

Tariffs on U.S. **solar grade silicon**

WA silicon manufacturer **stopped production** for part of 2016



# Recommendation: Review and clarify

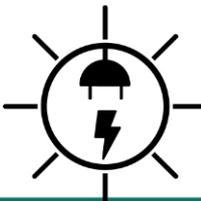
## Clarify

Intent statement appears narrower than businesses that qualify

Unclear whether jobs have been retained and expanded

## Inform

**Provide performance statement** and relevant metrics such as a jobs target



# Flavor-Imparting Items

## Sales and Use Tax



# Flavor-imparting items (sales and use tax)

Current  
expiration  
date: 2017

Sales and use tax  
exemption on  
**flavor-imparting  
items** purchased by  
restaurants that are  
**consumed during  
cooking** process

2015-17  
Estimated beneficiary  
savings

**Unknown**  
(\$78,000 in FY14)

Beneficiaries

Restaurants  
(at least 33 in  
FY15)

Legislative Auditor recommends:

**Review and clarify**



# Legislature stated public policy objective

Stated objective	Objective met?
<p><b>Provide tax relief</b> to restaurants for certain nonreusable inputs consumed in cooking</p>	<p>✓ <b>Yes</b> 25 reported using in FY14, 33 in FY15</p>
Add'l legislative intent	Intent met?
<p>Provide in <b>fiscally responsible manner</b> that <b>substantially conforms</b> to DOR fiscal estimate</p>	<p>⚠ <b>Unclear – 2 potential data sources</b></p> <ul style="list-style-type: none"> <li>• <b>Seller data</b> not disclosable for FY15               <ul style="list-style-type: none"> <li>○ FY14 90% above \$41,000 DOR estimate</li> </ul> </li> <li>• <b>Buyer addenda</b> appear under-rptd</li> </ul>
<p>Restaurants use qualifying items as <b>ingredients</b></p>	<p>⚠ <b>Unclear – To date, DOR has no detail on use</b></p>



# Recommendation: Review and clarify

## Review

While the preference is **achieving** the stated public policy objective of **providing tax relief** to restaurants, it is **unclear** if the actual fiscal impact **substantially conforms** with the fiscal estimate



# Fuel Used by Mint Growers

Sales and Use Tax



# Fuel used by mint growers (sales and use tax)

Current  
expiration  
date: 2017

Sales and use tax  
exemption for  
**propane or natural  
gas** purchased by  
**mint growers** for  
**distilling mint** on a  
farm

2015-17  
Estimated beneficiary  
savings

**\$210,000**

Beneficiaries

Mint growers  
using propane to  
distill (12 in FY15)

Legislative Auditor recommends:

**Allow to expire**

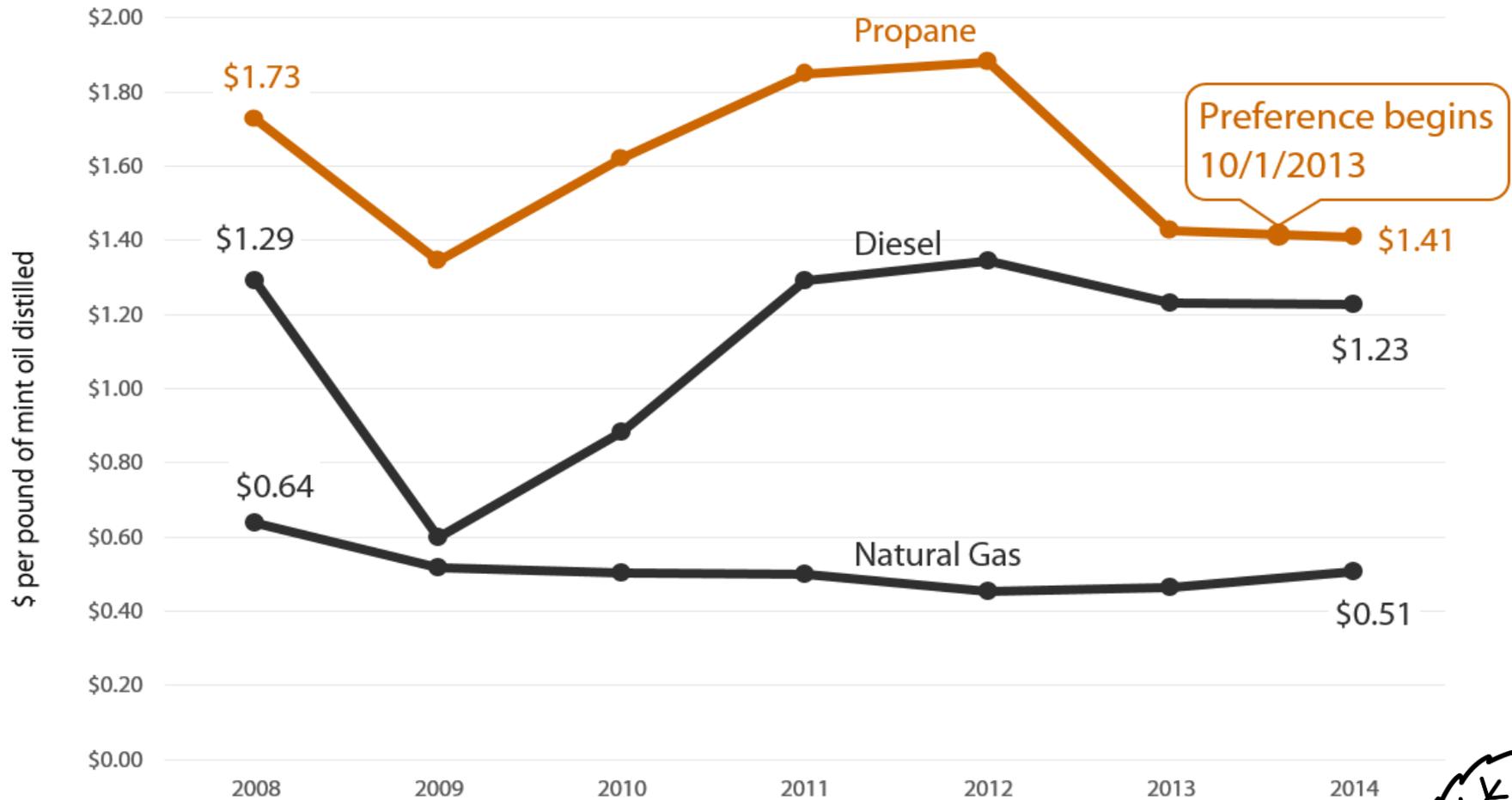


# Legislature stated public policy objective

Stated objective	Objective met?
Incentivize mint growers to <b>transition from diesel to cleaner burning fuels</b>	<p><b>? Unclear</b></p> <ul style="list-style-type: none"><li>• 7 stills converted after preference enacted; 6 continue to use diesel</li><li>• 22 of 28 stills use cleaner fuels</li><li>• Growers using natural gas <b>do not benefit</b> from preference</li></ul>



# Evidence unclear if preference provides enough incentive for mint growers to convert to propane



Source: EIA BTU conversion data, historic farm WA fuel prices - 2014, 2015 Ag bulletins



# Legislature stated additional policy intent

Stated objective	Objective met?
Incentivize mint growers to <b>transition from diesel to cleaner burning fuels</b>	<p><b>? Unclear</b></p> <ul style="list-style-type: none"><li>• 7 stills converted after preference enacted; 6 continue to use diesel</li><li>• 22 of 28 stills use cleaner fuels</li><li>• Growers using natural gas do not benefit from preference</li></ul>
Add'l legislative intent	Intent met?
<b>Improve air quality</b>	<p><b>✓ Yes</b></p> <p>Air quality officials note diesel conversions reduce pollutants</p>



# Recommendation: Allow to expire

## Expire

The preference is **likely not providing enough of an incentive** for mint growers **to convert** the remaining six stills from diesel fuel

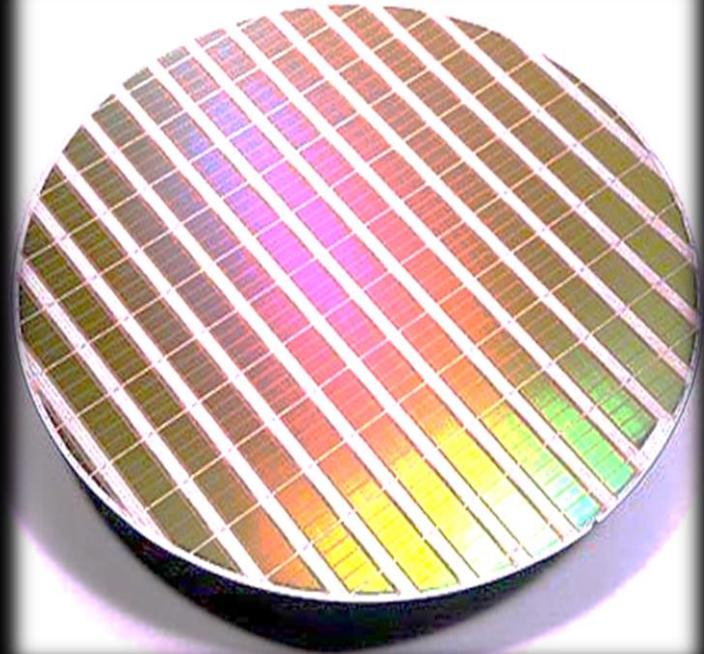
## Consider

If Legislature wants to incentivize remaining 6 stills to convert, it may want to consider a **different preference** that applies to **both propane and natural gas**



# Semiconductor Materials Manufacturing

## Multiple Taxes



# Semiconductor materials manufacturing (preferences not in effect)

Current  
expiration  
date: None

## Six preferences

reduce B&O, property,  
sales and use taxes for  
businesses

manufacturing  
semiconductor  
materials

Require **\$1 billion**  
**investment** to take  
effect

**\$0**

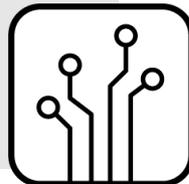
2015-17  
Estimated beneficiary  
savings

**0**

Beneficiaries

Legislative Auditor recommends:

**Terminate**



# Semiconductor materials manufacturing (preferences in use)

## Reduced B&O tax

**rate** of .275% for manufacturing semiconductor materials

## Sales and use tax

**exemption** on gases and chemicals

Legislative Auditor recommends:

**Review and clarify**

**Current expiration date: 2018**

Not disclosable

Beneficiaries and savings

**\$3.2M**

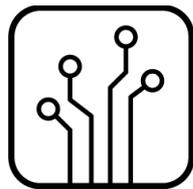
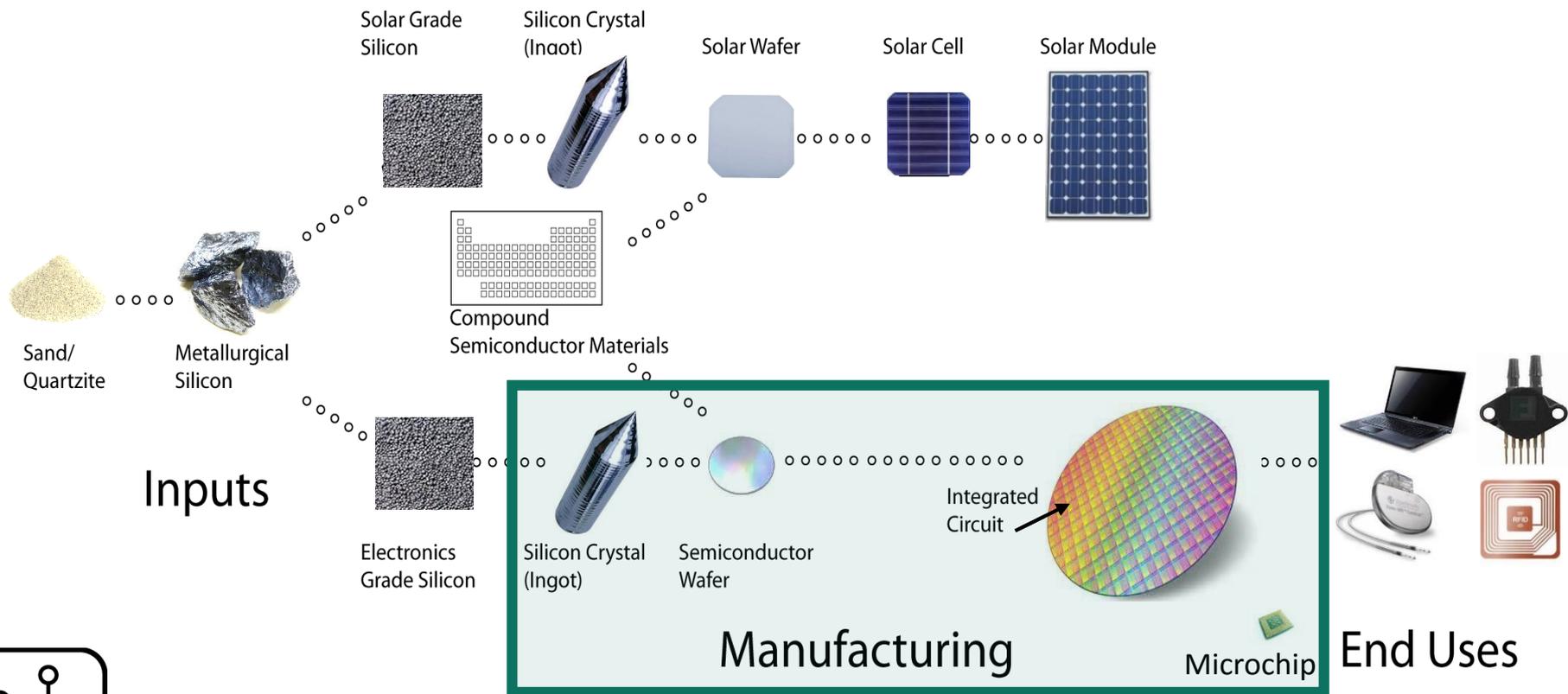
2015-17  
Estimated beneficiary savings

**4 businesses**

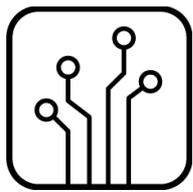
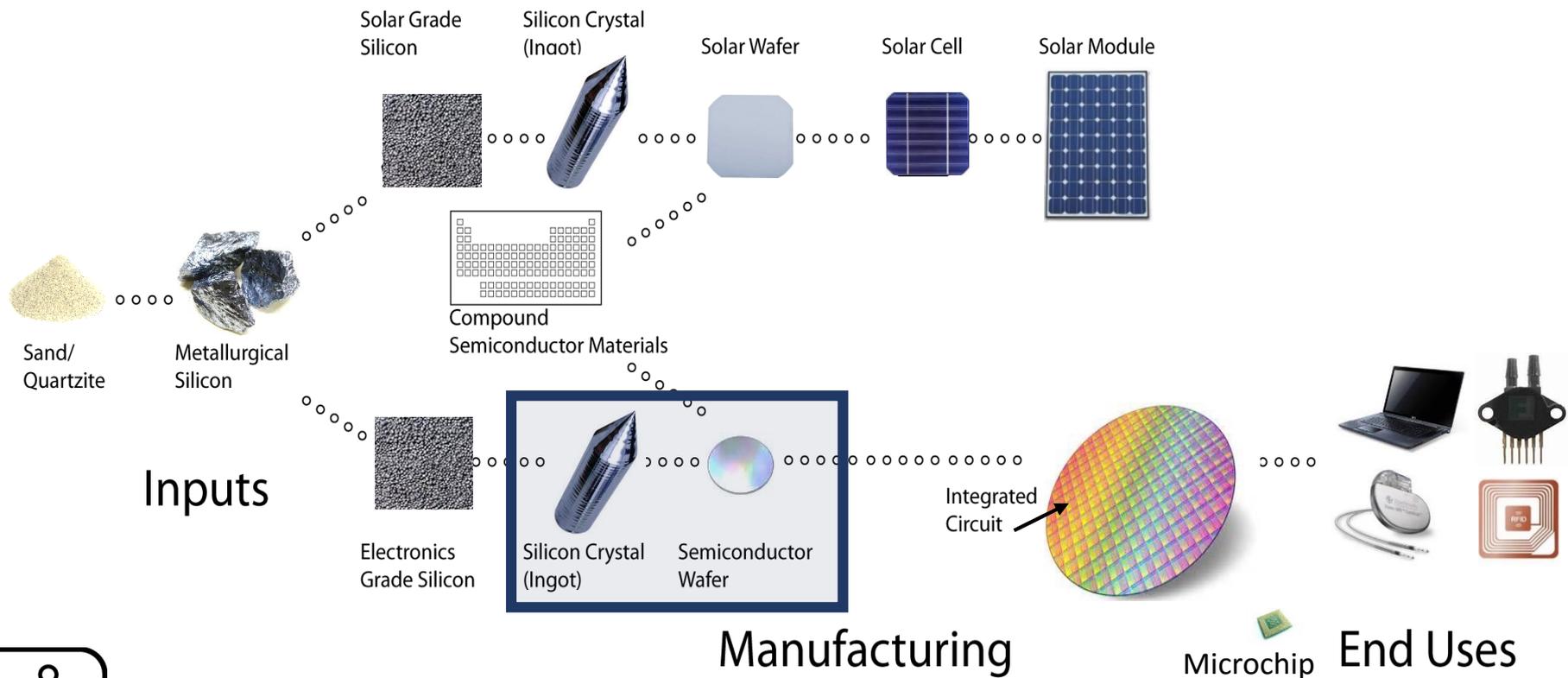
Beneficiaries



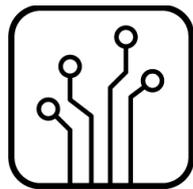
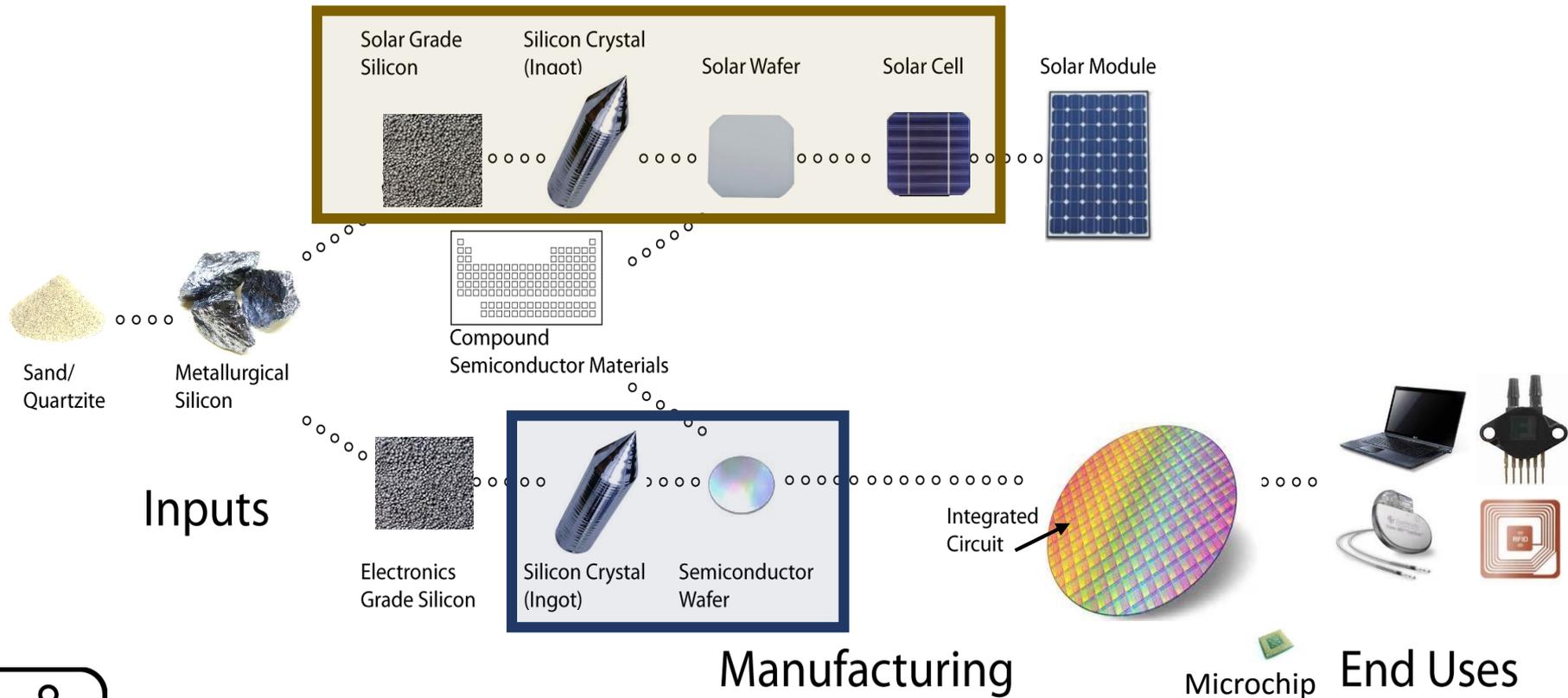
# Definition of semiconductor materials – preferences not in effect



# Definition of semiconductor materials – reduced B&O rate

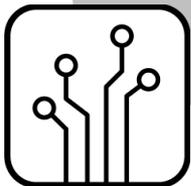


# Definition of semiconductor materials – sales and use tax exemption



# Public policy objectives stated (preferences in use)

Stated objective	Objective met?
Induce significant construction projects	 <b>Yes</b> <ul style="list-style-type: none"><li>• At least one significant construction project in 2006</li></ul>
Retain, expand and attract semiconductor businesses	 <b>Unclear</b> <ul style="list-style-type: none"><li>• Businesses in the sector have increased, <b>beneficiary businesses have decreased</b></li></ul>
Create family wage jobs	 <b>Unclear</b> <ul style="list-style-type: none"><li>• Sector employment increased, <b>beneficiary employment decreased</b></li><li>• 53% of employees <b>below \$20 per hour</b></li></ul>



# Recommendation: Review and clarify

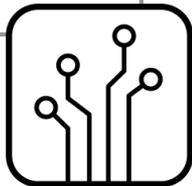
## Clarify

Unclear what **employment outcomes** the Legislature wants to achieve

Number of beneficiary businesses and employees has decreased

## Inform

Add **uniform reporting requirements** and targets for employment growth and wages



# Clay Targets

## Sales and Use Tax



# Clay targets (sales and use tax)

Current  
expiration  
date: 2017

Sales and use tax exemption for purchases of **clay targets** by **nonprofit gun clubs** for use in providing target shooting

2015-17  
Estimated beneficiary savings

**Unknown**  
\$48,000 to  
\$144,000

Beneficiaries

36 nonprofit gun clubs (estimated)

Legislative Auditor recommends:

**Review and clarify**



# Legislature did not state public policy objective, added fiscal intent detail

Inferred objective	Objective met?
Provide tax relief to nonprofit gun clubs on clay target purchases	 <b>Yes</b> At least 11 nonprofit gun clubs have used the preference
Add'l legislative intent	Intent met?
Be temporary to assess if reasonably conforms with DOR fiscal estimate (\$21,000 in FY15)	 <b>Unclear – 2 potential data sources</b> <ul style="list-style-type: none"><li>• <b>Buyer Addenda data</b> shows \$21,000 with less than 1/3 eligible gun clubs reporting</li><li>• <b>Seller data</b> not disclosable (less than 3 sellers reporting)</li></ul>



# Recommendation: Review and clarify

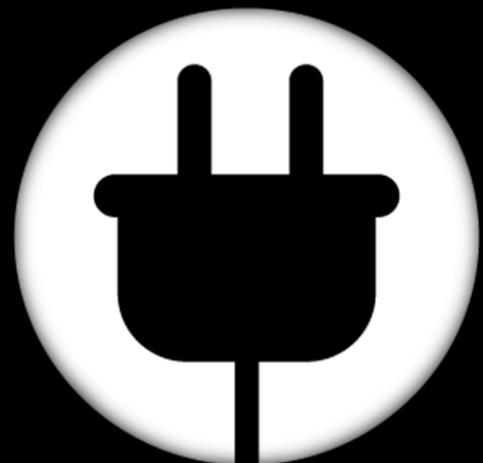
## Review

While the preference is **meeting inferred objective** of **providing tax relief** to nonprofit gun clubs, it is **unclear** if the **actual fiscal impact reasonably conforms** to the fiscal estimate



# Rural Electric Cooperative Finance Organizations

B&O Tax



# Rural electric finance co-op organizations (B&O tax)

**B&O tax deduction** for **cooperative finance orgs** on **interest income** from **loans to rural electric co-ops** or other nonprofit or government utility providers

2015-17  
Estimated beneficiary savings

Beneficiaries

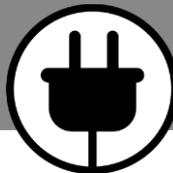
Current expiration date: 2017

**\$402,000**

Rural electric cooperative finance orgs

Legislative Auditor recommends:

**Modify**



# Legislature stated preference objective

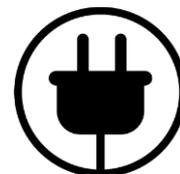
Stated objective	Objective met?
Provide tax relief to customers of WA rural electric cooperatives	<b>? Unclear</b> Tax relief provided to finance co-op; no evidence that relief was seen by rural electric customers
Add'l legislative intent	Intent met?
Actual revenue impact substantially conform with DOR fiscal estimate	<b>? Unclear</b> <ul style="list-style-type: none"><li>• DOR fiscal estimate not disclosable</li><li>• Actual FY15 fiscal impact 27% above \$ amount industry rep provided in 2013 legislative hearings</li></ul>



# Recommendation: Modify the preference

## Modify

As currently structured, there is **no guarantee** that the **savings realized by finance organizations** will be **passed on** to Washington rural electric **cooperatives** and their **customers**, as the Legislature intended



# Custom Software



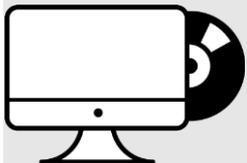
## Sales & Use Tax

```
settings[0].compareTo("");  
if (name.compareTo("") == 0) {  
    name += "-";  
}  
name += etr.getString(settings[1]);  
else if (settings[0].compareTo("d") == 0) {  
    if (name.compareTo("") != 0) {  
        name += "-";  
    }  
    name += DateUtils.format(etr.getDate(settings[1]));  
} else if (settings[0].compareTo("n") == 0) {  
    if (name.compareTo("") != 0) {  
        name += "-";  
    }  
    comSysNumber = etr.getDouble(settings[1]);  
    f = NumberFormat.getInstance().format(comSysNumber);  
    name += f;  
}
```



# Custom software (sales & use tax)

**Sales & use tax exemption** for purchases of custom software and customized prewritten software



2017-19  
Estimated Beneficiary  
Savings

**\$269.3M**

Beneficiaries

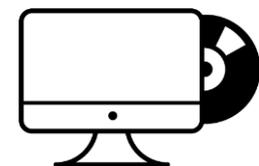
Unknown

**Legislative Auditor Recommends:**

**Continue**

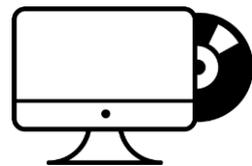
# Public policy objective stated

Stated Objective	Objective Met?
Make the tax treatment of software clear and certain for developers, programmers, and consumers	<p>✓ <b>Yes</b></p> <ul style="list-style-type: none"><li>• Both custom software and customization of prewritten software excluded from the definition of “sale at retail”</li><li>• DOR: few incidences of misinterpretation or misclassification of custom or customized prewritten software</li></ul>



# Custom software subject to service B&O tax

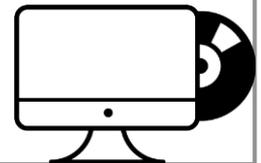
- While buyers of custom software **pay no sales tax**, sellers **pay a higher B&O tax**
- Because custom software is considered **tangible evidence of a service**, sellers pay the higher B&O service rate of **1.5 %** rather than the retailing rate of **0.471%**



# Recommendation: Continue

## Continue

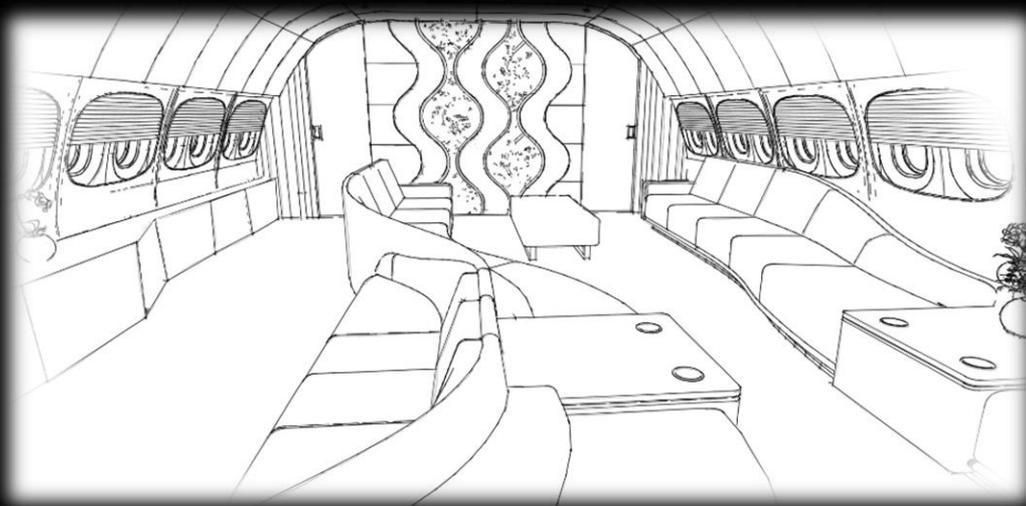
The Legislature should continue the custom software tax preference because it is **achieving** the stated public policy objective of making the tax treatment of software **clear and certain** for **developers, programmers, and consumers**



# Nonresident Large, Private Airplanes



## Sales and Use Tax



# Nonresident large, private airplanes (sales and use tax)

Current  
expiration  
date: 2021

## Sales and use tax exemption for nonresidents on:

- Large, private airplane purchases
- Labor/services to repair, clean, alter, improve large, private airplanes

2017-19  
Estimated beneficiary  
savings

**\$0**

Beneficiaries

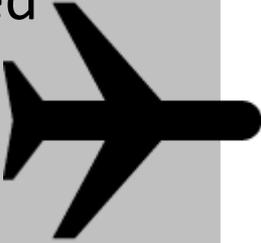
None

Legislative Auditor recommends:

**Allow to expire**



# Legislature stated public policy objective

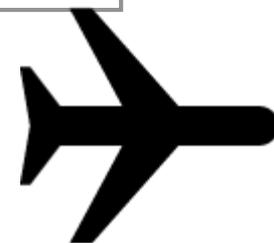
Stated objective	Objective met?
<p><b>Promote economic dev.</b> of WA aerospace cluster and <b>increase tax revenues</b> by promoting <b>competitive marketplace</b> to store and modify private aircraft</p>	<p><b>— No</b> As of March 2016, no evidence that anyone has used the preference</p>
Add'l legislative directive	Results?
<ul style="list-style-type: none"><li>• <b>Estimate net impact</b> of tax preference</li><li>• <b>Estimate job growth</b> resulting from tax preference</li></ul>	<p><b>— None</b> No evidence anyone has used the preference</p> 

# Recommendation: Allow to expire

## Expire

If the preference is still not achieving the stated public policy objective by the scheduled July 1, 2021, expiration date

JLARC staff will review several aerospace-related preferences in 2019 and may include an update on this preference at that time



# Self-Service Laundry Facilities



## Sales and Use Tax



# Self-service laundry facilities (sales and use tax)

**Sales and use tax exemption** for people that use self-service/coin-operated laundry facilities

2017-19  
Estimated beneficiary savings

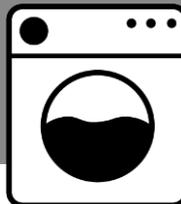
**\$11.9M**

Beneficiaries

Individuals and families

Legislative Auditor recommends:

**Continue**



# Legislature did not state objectives

Inferred objective	Objective met?
<b>Provide consistent tax treatment</b> for all self-service laundries, regardless of location	 <b>Yes</b> All self-service laundries exempt from sales tax
Inferred objective	Objective met?
<b>Help people with lower incomes</b> , who may be more likely to use these facilities	 <b>Yes</b> Federal data shows lower income people more likely to do their laundry outside their home



# Recommendation: Continue

## Continue

Because it is achieving the inferred public policy objectives of **providing consistent tax treatment** to all self-service laundry facilities and **helping people with low incomes** who may be more likely to use these facilities



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<http://leg.wa.gov/jlarc/taxReports/2016/default.htm>

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