

## Citizen Commission for Performance Measurement of Tax Preferences

### Commission Comments Adopted on 10/10/17

<b>1. <a href="#">Alternative Fuel Vehicles (Sales and Use Tax)</a></b>		
<b>Legislative Auditor recommendation: Review</b> The Legislature should review the sales and use tax preference for clean alternative fuel vehicles in the 2019 legislative session if the number of qualifying vehicles titled in Washington has not reached 7,500.		
<b>Commission Comment</b>	Endorse with comment.	The Legislature should review this preference and revisit its expectations for the number of qualifying vehicles.
<b>2. <a href="#">Automotive Adaptive Equipment for Veterans and Service Members with Disabilities (Sales and Use Tax)</a></b>		
<b>Legislative Auditor recommendation: Clarify</b> The Legislature should clarify the sales and use tax exemption for veterans and service members with disabilities who purchase adaptive automotive equipment because the estimated beneficiary savings have exceeded the 2013 fiscal note estimate for the past three fiscal years.		
<b>Commission Comment</b>	Endorse with comment.	The commission accepts JLARC staff's clarify recommendation with the understanding that the tax preference should be continued. The clarification should be narrowly focused on updating the fiscal note estimate. The JLARC staff analysis indicates the preference's objectives are being met and the benefits are being received by the intended recipients. Because beneficiary savings consistently exceed the fiscal note estimate, this reinforces the need to continue this tax preference. The higher-than-expected beneficiary savings may reflect the significant increase in the number of U.S. veterans with disabilities.
<b>3. <a href="#">Coal-Fired Power Plant Preferences (Multiple Taxes)</a></b>		
<b>Legislative Auditor recommendation: Continue</b> The Legislature should continue the three tax preferences until the coal-fired boilers at the plant are decommissioned. The tax preferences are meeting the stated public policy objectives of helping Washington's only coal-fired power plant to update air pollution control equipment/facilities, abate pollution, and play an economic role in its community through 2025.		
<b>Commission Comment</b>	Endorse without comment.	

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<b>4. <a href="#">Cogeneration Facilities and Renewable Resources (Public Utility Tax)</a></b>		
<b>Legislative Auditor recommendation: Terminate</b> The Legislature should add an expiration date to terminate this preference because it is not currently being used and there will be no remaining eligible utilities within a few years.		
<b>Commission Comment</b>	Endorse without comment.	
<b>5. <a href="#">Electric Power Sold in Rural Areas (Public Utility Tax)</a></b>		
<b>Legislative Auditor recommendation: Continue</b> The Legislature should continue the preference because it is meeting its inferred objective of providing tax relief to rural utilities with higher electricity costs and their customers. In continuing the preference, the Legislature should consider stating the public policy objective in statute.		
<b>Commission Comment</b>	Do not endorse. Review and clarify.	The Legislature should review and clarify the public policy objective of the preference.
<b>6. <a href="#">Electric Vehicle Batteries and Charging Stations (Multiple Taxes)</a></b>		
<b>Legislative Auditor recommendation: Clarify</b> Before the January 1, 2020, expiration date, the Legislature should: <ul style="list-style-type: none"> <li>Review and clarify the electric vehicle battery tax preference to determine if the use matches legislative expectations for the preference.</li> <li>Review and clarify the electric vehicle charging station components, construction, installation, and repair tax preference to set a target for the number of new EV charging stations.</li> </ul> Clarify the leasehold excise tax preference for private use of publicly owned property for electric vehicle infrastructure to require direct beneficiaries to report their use of the preference.		
<b>Commission Comment</b>	Endorse with comment.	The Legislature should set clearer targets to measure the impact of this preference. The JLARC staff presentation relating to this preference suggested it is achieving its policy goals of building out electric vehicle (EV) infrastructure and encouraging consumers to transition to EVs. At the same time, the evidence suggests the preference's impact is concentrated in a few geographic areas within the state. This is an important finding because the continued growth of EVs will require more widely dispersed charging stations. Finally, because public and private entities are showing interest in providing charging stations, reporting standards for both entities will be important in evaluating this preference in the future.

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<b>7. <a href="#">Electricity for Electrolytic Processors (Public Utility Tax)</a></b>		
<b>Legislative Auditor recommendation: Clarify</b> The Legislature should clarify the tax preference because the law no longer includes public policy objectives and the metric for jobs may not reflect current employment levels in the industry.		
<b>Commission Comment</b>	Do not endorse. Continue.	The tax preference is consistent with other similar exemptions where electricity is a prime raw material component in the processing. It is also clearly meeting inferred objectives, which are based on fairly recent legislative pronouncements. In addition, testimony surrounding this preference suggested the metric for jobs does, in fact, reflect current employment levels and is an adequate indicator of this preference's policy success.
<b>8. <a href="#">International Banking Facilities (B&amp;O Tax)</a></b>		
<b>Legislative Auditor recommendation: Review and clarify</b> The Legislature should review and clarify the B&O tax exemption for international banking facilities (IBFs) to provide an explicit public policy objective and metrics to determine if the objective has been achieved. The Legislature may also want to review the relevance of the preference given changes to Washington's apportionment laws.		
<b>Commission Comment</b>	Endorse without comment.	
<b>9. <a href="#">Sales of Manufactured and Mobile Home Communities (Real Estate Excise Tax)</a></b>		
<b>Legislative Auditor recommendation: Continue</b> The Legislature should continue the real estate excise tax exemption on qualifying sales of manufactured and mobile home communities because it is meeting its stated public policy objective of facilitating their preservation. However, such communities continue to be sold and closed across the state. In extending the preference, the Legislature should consider adding a performance statement creating metrics for future reviews.		
<b>Commission Comment</b>	Endorse without comment.	

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<b>10. <a href="#">Standard Financial Information (Sales and Use Tax)</a></b>		
<p><b>Legislative Auditor recommendation:</b> Clarify</p> <p>The Legislature should clarify the sales and use tax exemption for standard financial information because, while the preference is meeting the stated objective of exempting sales of standard financial information, it is unclear if the actual fiscal impact reasonably conforms to the 2013 fiscal estimate.</p>		
<b>Commission Comment</b>	Endorse with comment.	Many enterprises, not just international investment management companies (IIMCs), use some form of digital products as described by Washington’s Department of Revenue. Therefore it is unclear why the potential beneficiaries of this preference are so narrowly defined. The Legislature should clarify the rationale for so narrowly restricting this preference to IIMCs.
<b>11. <a href="#">State-Chartered Credit Unions (B&amp;O Tax)</a></b>		
<p><b>Legislative Auditor recommendation:</b> Clarify</p> <p>The Legislature should clarify the B&amp;O tax exemption for state-chartered credit unions to identify public policy objectives because none are stated in statute. As part of the clarification, the Legislature should provide a performance statement that provides targets and metrics to measure whether the public policy objectives have been achieved.</p>		
<b>Commission Comment</b>	Endorse with comment.	The Legislature should define the policy objectives for this preference. Representatives from the credit union (CU) industry shared compelling testimony that showed this preference allows many CUs to remain state-chartered, and it preserves their non-profit character. However, both of those goals are derived from the industry’s interpretation of its state authorizing legislation, and not from legislation that authorized this preference. Because of that ambiguity, staff inferred a third policy objective – serving underserved populations – that the industry supports but does not consider one of the main goals for this preference. It is in both the Legislature’s and industry’s interest to clarify the public policy objectives and performance metrics for this preference going forward.

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**12. [Vessel Deconstruction \(Sales and Use Tax\)](#)**

**Legislative Auditor recommendation: Review and Clarify**

The Legislature should review and clarify the preference because:

- The average cost is lower, but it is unclear if it leads to an increase in vessel removals.
- Other factors, such as available DVRP funds, removal costs, and size and condition of the vessel, may impact vessel removals as much or more than reduced deconstruction costs.

When reviewing the preference, the Legislature may want to consider:

- Adopting a metric other than the number of vessels removed to measure if the public policy objective has been achieved.
- Re-categorizing the purpose of the preference as intended to provide tax relief rather than intended to induce a certain behavior.

<p><b>Commission Comment</b></p>	<p>Do not endorse. Clarify only.</p>	<p>The commission accepts JLARC staff’s conclusion for clarification, with the understanding that the tax preference should be continued. Testimony from the Department of Natural Resources (DNR) demonstrated this preference has a beneficial impact on managing problem vessels by increasing the DNR’s ability to purchase more deconstruction services. As result, the clarification relates to the preference’s current evaluation metric, which is a count of vessels. This metric is insufficient for capturing the total benefits of vessel removal. For example, the DNR indicated reduced environmental and safety hazards are important benefits from removing vessels. These benefits can be significant even if only one large vessel is removed in a given year. Therefore we agree with the JLARC staff recommendation to clarify the objective to focus on reducing the cost of removing vessels, rather than counting the number of vessels removed.</p>
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#### 13. [Wood Biomass Fuel Manufacturing \(B&O Tax\)](#)

**Legislative Auditor recommendation: Terminate**

The Legislature should terminate the tax preference because the preference is not being used and other tax preferences directed at wood biomass fuel manufacturing are no longer in effect.

The preference was initially enacted in 2003 with other wood biomass fuel tax preferences. While this package of preferences was in effect, none appears to have been claimed. Because only one tax preference directed toward manufacturers of wood biomass fuel remains, it may not provide sufficient incentive to meet the inferred public policy objectives.

<b>Commission Comment</b>	Endorse without comment.	
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