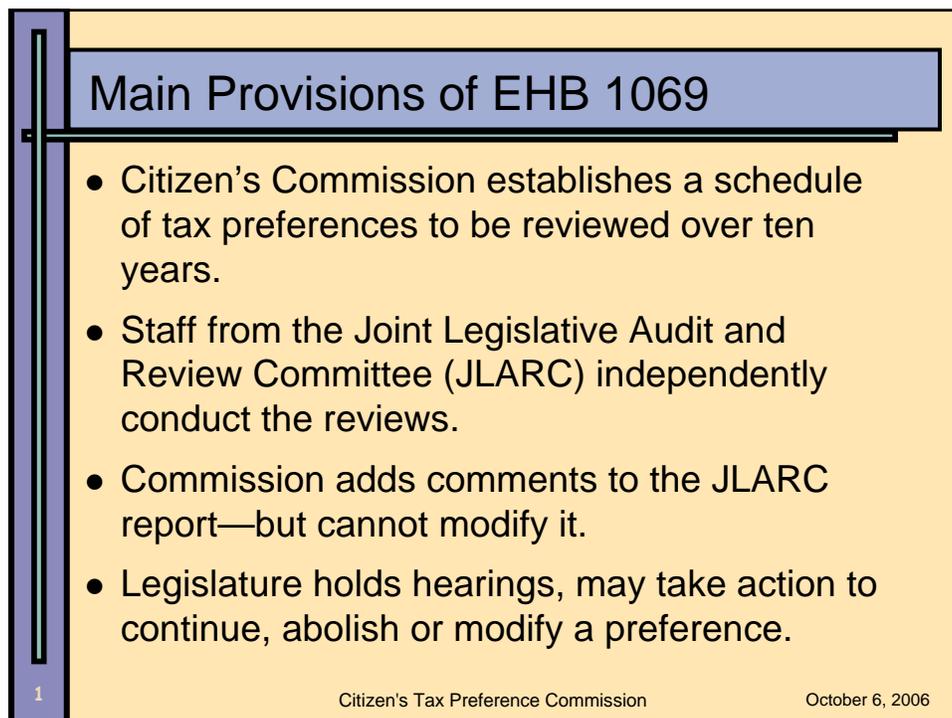


Role of the Citizen's Tax Preference Commission under EHB 1069

Citizen Commission for Performance Review of Tax Preferences

October 6, 2006



Main Provisions of EHB 1069

- Citizen's Commission establishes a schedule of tax preferences to be reviewed over ten years.
- Staff from the Joint Legislative Audit and Review Committee (JLARC) independently conduct the reviews.
- Commission adds comments to the JLARC report—but cannot modify it.
- Legislature holds hearings, may take action to continue, abolish or modify a preference.

1

Citizen's Tax Preference Commission

October 6, 2006

What is a State Tax Preference?

- EHB 1069 Definition Includes:
 - Exemptions, exclusions or deductions from the base of a tax
 - Credits against a tax
 - Deferrals of a tax
 - Preferential tax rates
- There are currently over 500 tax preferences enacted in state law.

2

Citizen's Tax Preference Commission

October 6, 2006

JLARC Reviews Must Include 12 Elements

- 1) Classes of individuals, organizations, or industries directly affected
- 2) Public policy objectives that may justify the preference
- 3) Evidence the preference contributed to the public policy objectives
- 4) Extent to which continuing the preference might contribute to the public policy objectives
- 5) Unintended benefits of the preference to those not intended by the Legislature

3

Citizen's Tax Preference Commission

October 6, 2006

JLARC Reviews Must Include 12 Elements

- 6) Extent to which terminating the preference will negatively impact the taxpayers who currently benefit, and extent to which resulting higher taxes may negatively impact employment and the economy
- 7) Feasibility to modify or recapture the preference if the intended public policy objectives are not fulfilled
- 8) Fiscal impacts of the tax preference, including past and future impacts on the overall state economy, effects on personal and business consumption and expenditures

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Citizen's Tax Preference Commission

October 6, 2006

JLARC Reviews Must Include 12 Elements

- 9) Impact that terminating the preference would have on the distribution of liability for payment of state taxes
- 10) Consideration of similar preferences in other states and whether benefits may be gained by adopting similar provisions for Washington
- 11) Recommendations to continue, modify, schedule for future review, or terminate the preference
- 12) Recommendations for future accountability standards for future reviews

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Citizen's Tax Preference Commission

October 6, 2006

Expedited Reviews: An Alternative Process

- Commission may recommend an expedited review process.
- Applies to any tax preference that has an estimated biennial impact of \$10 million or less.

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Citizen's Tax Preference Commission

October 6, 2006

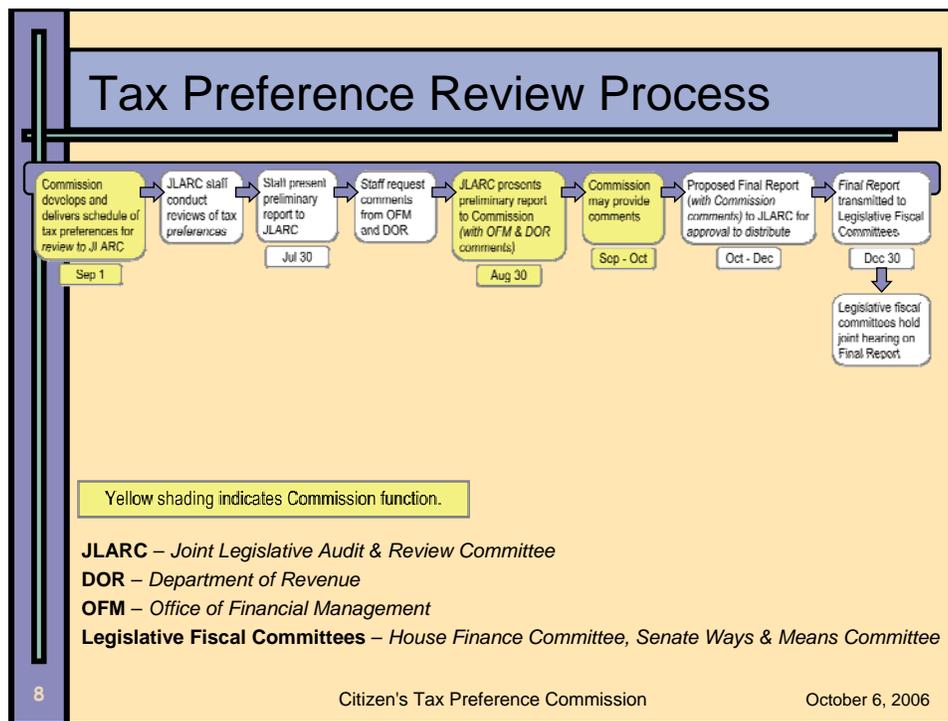
Tax Preferences Exempt from Review

- a) Tax preferences required by Constitutional law
- b) Sales and use tax exemption for machinery and equipment for manufacturing, research and development, or testing
- c) Small business B&O credit
- d) Sales and use tax exemption for food and prescription drugs
- e) Property tax relief for retirees
- f) Property tax valuations based on current use
- g) Any preference the commission determines is "a critical part of the structure of the tax system"

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Citizen's Tax Preference Commission

October 6, 2006



JLARC: Who We Are & What We Do

- The Joint Legislative Audit & Review Committee (JLARC) is a joint (bicameral), bi-partisan committee of 16 legislators.
- JLARC has been conducting performance audits, program evaluations, sunset reviews, and other studies for the Legislature since 1973.
 - Prior to 1996, JLARC was known as LBC (Legislative Budget Committee)

9 Citizen's Tax Preference Commission October 6, 2006

JLARC Members

Senators	Representatives
Brad Benson	Gary Alexander, Secretary
Jeanne Kohl-Welles	Glenn Anderson
Bob Oke	Kathy Haigh
Linda Evans Parlette, Vice Chair	Janéa Holmquist
Debbie Regala	Ross Hunter, Chair
Phil Rockefeller, Asst. Secretary	Fred Jarrett
Pat Thibaudeau	Kelli Linville
Joseph Zarelli	Deb Wallace

10 Citizen's Tax Preference Commission October 6, 2006

JLARC Gets Assignments in 3 Ways

- Committee-initiated studies
- Policy legislation (such as EHB 1069)
- Provisos in budgets

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JLARC's Study Process

- Studies are objective and independent.
- Study findings are confidential until staff present preliminary report to JLARC.
- Agency then submits a written response to the report that is included in the proposed final report.
- Comments by JLARC members may only be added as a separate addendum.
- Comments by Commission will be added to final report.

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Citizen's Tax Preference Commission

October 6, 2006

Next Steps for the Commission

Meeting #2:

- Review of Washington State's tax system
- Presentation of draft lists of preferences subject to review and preferences exempt from review

Meeting #3:

- Commission discussion and public comment on potential preferences to be reviewed

Meeting #4:

- Commission adoption of preferences to be reviewed and review schedule

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Citizen's Tax Preference Commission

October 6, 2006

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