

State of Washington
Joint Legislative Audit & Review Committee (JLARC)

2019 Expedited Tax Preference Reviews

May 2019

Updated: May 7, 2019

This report contains information on 41 tax preferences selected for expedited review by the Citizen Commission for Performance Measurement of Tax Preferences. Expedited Reviews have not undergone a performance evaluation by JLARC staff and do not include a Legislative Auditor recommendation. The source of the information is Department of Revenue Tax Exemption Reports, fiscal notes, and prior years' JLARC reviews, as appropriate.

Upon request, this document is available in alternative formats for persons with disabilities.

Joint Legislative Audit and Review Committee

106 11th Ave SW

PO Box 40910

Olympia, WA 98504

(360) 786-5171

(360) 786-5180 Fax

www.jlarc.leg.wa.gov

Committee Members

Senators

Bob Hasegawa

Mark Mullet, *Assistant Secretary*

Rebecca Saldaña

Shelly Short

Dean Takko

Lynda Wilson, *Vice Chair*

Representatives

Jake Fey

Christine Kilduff

Vicki Kraft

Ed Orcutt, *Secretary*

Gerry Pollet

Derek Stanford, *Chair*

Drew Stokesbary

Legislative Auditor

Keenan Konopaski

Audit Authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

Table of Contents

Expedited Reviews

<i>Academic Transcripts (B&O Tax)</i>	1
<i>Academic Transcripts (Sales and Use Tax)</i>	2
<i>Aircraft Testing or Crew Training (Aircraft Fuel Tax)</i>	3
<i>Cargo Containers (Property Tax)</i>	4
<i>Child Care (B&O Tax)</i>	5
<i>Child Care Resource and Referral (B&O Tax)</i>	6
<i>Church Child Care (B&O Tax)</i>	7
<i>Commercial Air Operations (Aircraft Fuel Tax)</i>	8
<i>Computers Donated to Schools (Use Tax)</i>	9
<i>Driver Training Vehicles (Use Tax)</i>	10
<i>International Charter and Freight Brokers (B&O Tax)</i>	11
<i>Interstate Transportation Equipment (Sales Tax)</i>	12
<i>Interstate Transportation - In-State Portion (Public Utility Tax)</i>	13
<i>Interstate Transportation - Shipments to Ports (Public Utility Tax)</i>	14
<i>Interstate Transportation - Through Freight (Public Utility Tax)</i>	15
<i>Items Used in Interstate Commerce (Sales Tax)</i>	16
<i>Log Transportation Businesses (Public Utility Tax)</i>	17
<i>Motorcycles Used for Rider Training (Sales and Use Tax)</i>	18
<i>Nonprofit Educational Foundations (Property Tax)</i>	19
<i>Nonresident Keeping Aircraft In-State (Aircraft Excise Tax)</i>	20
<i>Nonresidents' Rental Cars (Sales Tax)</i>	21
<i>Private Kindergartens (B&O Tax)</i>	22
<i>Returned Motor Vehicles (Sales Tax)</i>	23
<i>Student Loan Organizations (B&O Tax)</i>	24
<i>Student Loan Organizations (Property Tax)</i>	25
<i>Tuition and Fees (B&O Tax)</i>	26
<i>Tuition Fees - Foreign Degree-Granting Institutions (B&O Tax)</i>	27
<i>Urban Transportation (Public Utility Tax)</i>	28
<i>Vehicles Used in Interstate Commerce (Use Tax)</i>	29
<i>Vehicles in Interstate Commerce (Sales Tax)</i>	30
<i>Vehicles Sold to Nonresidents (Sales Tax)</i>	31
<i>Wholesale Auto Auctions (B&O Tax)</i>	32

Preferences Identified as Critical to Tax Structure by Commission

<i>Aircraft Held for Sale (Aircraft Excise Tax)</i>	33
<i>Aircraft Testing or Crew Training (Aircraft Excise Tax)</i>	34
<i>Commercial Aircraft (Aircraft Excise Tax)</i>	35
<i>General Aviation (Property Tax)</i>	36
<i>Motor Vehicles, Travel Trailers, and Campers (Property Tax)</i>	37
<i>Nonprofit Day Care Centers (Property Tax)</i>	38
<i>Nonprofit Private Colleges (Property Tax)</i>	39
<i>Nonprofit Private K-12 Schools (Property Tax)</i>	40
<i>Nonresident Aircraft (Aircraft Excise Tax)</i>	41

ACADEMIC TRANSCRIPTS (B&O TAX)

Current statute: RCW 82.04.399

Department of Revenue 2016 Tax Exemption Report (page 107)

Description: Educational institutions are exempt from B&O tax on income from sales of academic transcripts.

Purpose: Educational institutions which are considered departments and institutions of the state of Washington (e.g., The University of Washington) are not subject to B&O tax and would not be subject to sales of transcripts regardless of this exemption. Private institutions, however, would be subject to B&O tax on such sales.

This exemption provides that all educational institutions, public or private, are exempt from B&O tax on amounts received for sales of transcripts, and thus levels the playing field for public and private educational institutions with respect to these sales.

Category/Year Enacted: 1996

Primary Beneficiaries: Public and private educational institutions.

Possible Program Inconsistency: None

Taxpayer Savings: \$20,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.01	\$0.01	\$0.01	\$0.01
Local taxes	0	0	0	0

ACADEMIC TRANSCRIPTS (SALES AND USE TAX)

Current statutes: RCWs 82.08.02537; 82.12.0347

Department of Revenue 2016 Tax Exemption Report (page 669)

Description: Fees charged by public and private educational institutions for providing copies of academic transcripts to current and former students are exempt from retail sales and use tax.

Purpose: To provide tax relief for students charged for copies of academic transcripts sent on their behalf to other schools, prospective employers, etc.

Category/Year Enacted: 1996

Primary Beneficiaries: Students

Possible Program Inconsistency: None

Taxpayer Savings: \$383,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.138	\$0.138	\$0.138	\$0.139
Local taxes	\$0.052	\$0.052	\$0.053	\$0.053

AIRCRAFT TESTING OR CREW TRAINING (AIRCRAFT FUEL TAX)

Current statutes: RCW 82.42.030(9)-(10); 82.42.230(2)-(3)

Previously reviewed by JLARC: 2011 Tax Preference Reviews ([page 23](#))

Description: Provides an aircraft fuel tax exemption for fuel used for testing purposes or for training air carrier crews.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to structure the preference so the parties that benefited from the expenditure of aircraft fuel tax receipts were the ones that paid the tax.

Year Enacted: 1967

2011 Legislative Auditor Recommendation: Review and clarify because parties that currently are exempt from paying the aircraft fuel tax benefit from the expenditures of fuel tax receipts.

2011 Citizen Commission Comment: Endorses with comment. The Commission encourages the Legislature to state the public policy objectives of the preference and narrow the scope of the preference commensurate with the stated public policy objectives.

Taxpayer Savings: Not separately stated in the 2017-19 Biennium.

Legislative Response: The Legislature made a different choice.

CARGO CONTAINERS (PROPERTY TAX)

Current statute: RCW 84.36.105

Department of Revenue 2016 Tax Exemption Report (page 465)

Description: Cargo containers principally used in ocean commerce are exempt from property tax.

Purpose: To help Washington ports compete with other West Coast ports.

Category/Year Enacted: 1975

Primary Beneficiaries: Owners of cargo containers.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$4,015,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.391	\$0.375	\$0.356	\$0.345
Local taxes	\$1.764	\$1.737	\$1.672	\$1.642

CHILD CARE (B&O TAX)

Current statute: RCW 82.04.2905

Department of Revenue 2016 Tax Exemption Report (page 57)

Description: Firms engaged in providing child care receive a preferential B&O tax rate of 0.484%, compared with the general services tax rate of 1.5%. Notes:

- Churches that provide child care for periods of less than 24 hours are exempt from B&O tax under RCW 82.04.339.
- The care of children up to the age of eight is exempt from B&O tax under RCW 82.04.4282.
- The impacts of these exemptions are in separate estimates.

Purpose: Reduces the cost of child care for families and reduces the tax burden for an industry with low profit margins.

Category/Year Enacted: 1998

Primary Beneficiaries: Businesses providing child care.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$2,211,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.978	\$1.032	\$1.082	\$1.129
Local taxes	0	0	0	0

CHILD CARE RESOURCE AND REFERRAL (B&O TAX)

Current statute: RCW 82.04.3395

Department of Revenue 2016 Tax Exemption Report (page 86)

Description: Nonprofit child care resource and referral services are exempt from B&O tax on income received for services which link families with licensed child care providers.

Purpose: Reduces the cost of providing these services.

Category/Year Enacted: 1995

Primary Beneficiaries: Child care resource and referral offices, many of which are housed under an umbrella organization such as the Child Care Resource and Referral Network.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$475,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.215	\$0.224	\$0.233	\$0.242
Local taxes	0	0	0	0

CHURCH CHILD CARE (B&O TAX)

Current statute: RCW 82.04.339

Department of Revenue 2016 Tax Exemption Report (page 85)

Description: B&O tax does not apply to churches that provide child care for periods of less than 24 hours. The church must be exempt from property tax under RCW 84.36.020 to qualify.

Purpose: Reduces the cost of operating such facilities.

Category/Year Enacted: 1992

Primary Beneficiaries: Day care centers that operate in churches.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$1,703,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.784	\$0.788	\$0.83	\$0.873
Local taxes	0	0	0	0

COMMERCIAL AIR OPERATIONS (AIRCRAFT FUEL TAX)

Current statute: RCW 82.42.030(4)-(5)

Previously reviewed by JLARC: 2011 Tax Preference Reviews ([page 23](#))

Description: Provides an aircraft fuel tax exemption for fuel delivered directly into the fuel tanks of aircraft operated by an air carrier or local service commuter.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to structure the preference so the parties that benefited from the expenditure of aircraft fuel tax receipts were the ones that paid the tax.

Year Enacted: 1967

2011 Legislative Auditor Recommendation: Review and clarify because parties that currently are exempt from paying the aircraft fuel tax benefit from the expenditures of fuel tax receipts.

2011 Citizen Commission Comment: Endorses with comment. The Commission encourages the Legislature to state the public policy objectives of the preference and narrow the scope of the preference commensurate with the stated public policy objectives.

Taxpayer Savings: \$94,835,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$45.907	\$46.593	\$47.166	\$47.669
Local taxes	0	0	0	0

Legislative Response: The Legislature made a different choice.

COMPUTERS DONATED TO SCHOOLS (USE TAX)

Current statute: RCW 82.12.0284

Department of Revenue 2016 Tax Exemption Report (page 828)

Description: Public and private schools are exempt from use tax for computers donated to them by individuals and businesses. The exemption covers computer hardware, components and accessories, as well as computer software.

Note: a similar exemption is provided for ALL tangible personal property that is donated to a government entity or a nonprofit charitable organization. However, that statute does not cover donations of computers to private, nonprofit educational institutions.

Purpose: To encourage individuals and businesses to donate computer equipment to schools.

Category/Year Enacted: 1983

Primary Beneficiaries: Public and private schools.

Possible Program Inconsistency: None

Taxpayer Savings: \$260,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.094	\$0.094	\$0.094	\$0.094
Local taxes	\$0.036	\$0.036	\$0.036	\$0.036

DRIVER TRAINING VEHICLES (USE TAX)

Current statute: RCW 82.12.0264

Department of Revenue 2016 Tax Exemption Report (page 824)

Description: Vehicles used in driver-training programs by public and private schools are exempt from use tax. The vehicles must:

- Contain dual controls, and
- Be used exclusively by public or private schools (not commercial driver-training programs).

Purpose: Reduces the costs of providing driver-education programs.

Category/Year Enacted: 1955

Primary Beneficiaries: School districts.

Possible Program Inconsistency: None

Taxpayer Savings: \$53,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.014	\$0.015	\$0.017	\$0.019
Local taxes	\$0.006	\$0.007	\$0.008	\$0.009

INTERNATIONAL CHARTER AND FREIGHT BROKERS (B&O TAX)

Current statute: RCW 82.04.260(6)

Previously reviewed by JLARC: 2012 Tax Preference Reviews ([page 187](#))

Description: Provides a business and occupation tax preferential rate of 0.275% to international charter and freight brokers.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff were unable to determine a public policy objective for this preference.

Year Enacted: 1979

2012 Legislative Auditor Recommendation: Review and Clarify because: 1) the objective for providing the preferential tax rate for international charter and freight brokers is unclear; and 2) the objective to consolidate B&O tax rates and classifications may no longer apply.

2012 Citizen Commission Comment: Does not endorse. The Commission does not endorse the JLARC staff recommendation to review and clarify these two preferences and recommends that the Legislature should terminate both of these preferential tax rates.

Taxpayer Savings: \$14,134,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$6.230	\$6.567	\$6.897	\$7.237
Local taxes	0	0	0	0

Legislative Response: The Legislature made a different choice.

INTERSTATE TRANSPORTATION EQUIPMENT (SALES TAX)

Current statute: RCW 82.08.0262

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 69](#))

Description: Provides a sales tax exemption for airplanes, locomotives, railroad cars, or watercraft that is used primarily (over 50%) in interstate commerce or out-of-state commercial deep sea fishing. The component parts used, and the labor and services performed, when repairing, cleaning, altering, or improving such transportation equipment are also exempt.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to give a competitive advantage to Washington-based transportation manufacturing industries in order to retain high-wage, skilled manufacturing jobs.

Year Enacted: 1949

2010 Legislative Auditor Recommendation: Continue because the public policy purpose of increasing the competitive advantage of Washington transportation equipment industries is being achieved.

2010 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$140,990,000 in the 2017-19 Biennium. Includes estimate for 2017-19 Biennium for Vehicles Used in Interstate Commerce (Use Tax).

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$46.256	\$48.126	\$50.073	\$52.098
Local taxes	\$17.574	\$18.285	\$19.025	\$19.794

Legislative Response: No action required for a continue recommendation.

INTERSTATE TRANSPORTATION - IN-STATE PORTION (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.050(6)

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 11](#))

Description: Provides a public utility tax deduction for income the state is constitutionally prohibited from taxing. Generally, wholly in-state trips (from one point in Washington to another) are fully subject to public utility tax. However, under current practice, truck, rail, and some water carriers are not subject to public utility tax on the in-state portion of the interstate transportation of goods and passengers.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to abide by the 1930s-era U.S. Supreme Court's analysis and interpretation of federal Commerce Clause prohibitions. This interpretation held that taxing any portion of interstate transportation activities, even in-state portions, was a burden on interstate commerce and unconstitutional. However, this interpretation is outdated and no longer compatible with current Commerce Clause interstate taxation doctrine.

Year Enacted: 1935

2010 Legislative Auditor Recommendation: Terminate because the U.S. Constitution no longer prohibits the in-state portion of interstate transportation from being taxed. The Legislature should provide specific authorization to the Department of Revenue to develop a method of apportioning transportation income generated from activities within the state.

2010 Citizen Commission Comment: The Commission does not endorse the recommendation because it believes it is premature to authorize the Department of Revenue to develop an apportionment methodology. Although the existing preference is no longer constitutionally necessary, affected taxpayers have structured competitive activities relying on continuation of the preference. The Commission recommends the Legislature direct a study be conducted on the competitiveness of affected taxpayers and the impacts of termination. The Commission also recommends the Legislature consider if the economic impact study should identify policy options such as defining the tax base, for restructuring the public utility tax.

Taxpayer Savings: \$60,607,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$28.740	\$29.415	\$29.996	\$30.611
Local taxes	0	0	0	0

Legislative Response: The Legislature made a different choice.

INTERSTATE TRANSPORTATION - SHIPMENTS TO PORTS (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.050(9)

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 57](#))

Description: Provides a public utility tax deduction for transportation of commodities from a point in Washington directly to an in-state port, dock, wharf, export elevator, or shipside for direct shipment by vessel outside the state. The preference is not available when the origin and point of delivery are within the same city. The preference applies to transportation of commodities by truck, rail, and certain water transportation.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to abide by the 1930s-era U.S. Supreme Court's analysis and interpretation of federal Commerce Clause prohibitions. This interpretation held that taxing any portion of interstate transportation activities, even in-state portions, was a burden on interstate commerce and unconstitutional. However, this interpretation is outdated and no longer compatible with current Commerce Clause interstate taxation doctrine.

Year Enacted: 1937

2010 Legislative Auditor Recommendation: Review and clarify because while the original public policy objective of conformity with the Constitution is no longer applicable, the Legislature did not identify any of the additional policy objectives that are implied by statutory changes in 1949 and 1967.

2010 Citizen Commission Comment: Endorses with comment. The Commission suggests the Legislature conduct its reexamination of the intent of this preference in conjunction with the economic impact study that the Commission recommends for the "Through Freight in Interstate Transportation" and "In-state Portion of Interstate Transportation" tax preferences. The Legislature should specify that the study should be completed by December 31, 2011, to inform a decision during the 2012 Legislative Session. After the 2012 session, if the Legislature has taken no action, the Commission intends to determine whether it should schedule this preference for another review.

Taxpayer Savings: Included in the estimate for RCW 82.16.050(6).

INTERSTATE TRANSPORTATION - THROUGH FREIGHT (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.050(8)

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 45](#))

Description: Provides a public utility tax deduction for in-state portions of interstate shipments of goods where the carrier authorizes the shipper to stop the shipment in Washington to store, manufacture, or process the goods, and then continues to transport the same goods or their equivalent, in the same or a converted form, to the final destination noted under a through freight rate (also known as a through bill of lading). The preference applies to transportation of goods by truck, rail, and certain water transportation.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to abide by the 1930s-era U.S. Supreme Court's analysis and interpretation of federal Commerce Clause prohibitions. This interpretation held that taxing any portion of interstate transportation activities, even in-state portions, was a burden on interstate commerce and unconstitutional. However, this interpretation is outdated and no longer compatible with current Commerce Clause interstate taxation doctrine.

Year Enacted: 1937

2010 Legislative Auditor Recommendation: Terminate because this preference is no longer constitutionally necessary.

2010 Citizen Commission Comment: Does not endorse. Although the existing preference is no longer constitutionally necessary, affected taxpayers have structured competitive activities in reliance on continuation of the preference. Because termination of the preference may have unintended deleterious consequences for taxpayers and for the state, the Commission recommends the Legislature direct a study be conducted on the competitiveness of affected taxpayers and the impacts of termination. The Commission also recommends the Legislature consider if the economic impact study should identify policy options such as defining the tax base, for restructuring the public utility tax.

Taxpayer Savings: Included in the estimate for RCW 82.16.050(6).

Legislative Response: the Legislature made a difference choice.

ITEMS USED IN INTERSTATE COMMERCE (SALES TAX)

Current statute: RCW 82.08.0261

Previously reviewed by JLARC: 2008 Tax Preference Reviews ([page 197](#))

Description: Provides a sales tax exemption for sales of items of tangible personal property (such as fuel or food, but not airplanes, trains, or vessels) to air, rail, or water carriers for use in interstate or foreign commerce. Use of these items in this state is still subject to the use tax.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff were unable to determine a public policy objective for this preference.

Year Enacted: 1949

2008 Legislative Auditor Recommendation: Review and clarify because the public policy objective for this preference is not clear.

2008 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$525,569,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$170.127	\$179.420	\$187.189	\$193.658
Local taxes	\$64.48	\$68.180	\$71.132	\$73.590

Legislative Response: the Legislature made a difference choice.

LOG TRANSPORTATION BUSINESSES (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.020(1)(h)

Department of Revenue 2016 Tax Exemption Report (page 543)

Description: RCW 82.16.020 provides log transportation businesses a preferential public utility tax rate of 1.28%(but with the surcharge, equates to 1.3696%). This preference is effective August 1, 2015.

"Log transportation business" is the business of transporting logs by truck, except when such transportation meets the definition of urban transportation business or occurs exclusively upon private roads.

Purpose: Supports the forest products industry by providing permanent tax relief by lowering the public utility tax rate attributable to log transportation businesses.

Category/Year Enacted: 2015

Primary Beneficiaries: Log haulers.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$2,100,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.8	\$1	\$1	\$1.1
Local taxes	0	0	0	0

MOTORCYCLES USED FOR RIDER TRAINING (SALES AND USE TAX)

Current statutes: RCW 82.08.870; 82.12.845

Department of Revenue 2016 Tax Exemption Report (page 782)

Description: Retail sales tax does not apply to sales of motorcycles purchased for use in a motorcycle rider-training program conducted by the Department of Licensing (DOL). Use tax does not apply to motorcycles that are loaned to DOL for use in a motorcycle rider-training program, or to persons contracting with DOL to provide such training.

Purpose: Supports motorcycle rider-training programs.

Category/Year Enacted: 2001

Primary Beneficiaries: The Department of Licensing and their contractors who provide motorcycle training.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$8,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.003	\$0.003	\$0.003	\$0.003
Local taxes	\$0.001	\$0.001	\$0.001	\$0.001

NONPROFIT EDUCATIONAL FOUNDATIONS (PROPERTY TAX)

Current statute: RCW 84.36.050(2)

Department of Revenue 2016 Tax Exemption Report (page 451)

Description: Real and personal property owned by a nonprofit foundation that supports an institution of higher education is exempt from property tax. The tax exemption applies only to the property actively used by currently enrolled students.

Purpose: Supporting the educationally support provided by these nonprofit organizations.

Category/Year Enacted: 2001

Primary Beneficiaries: 61 parcels owned by institutions of higher learning with an educational foundation.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$5,893,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.484	\$0.495	\$0.508	\$0.521
Local taxes	\$2.184	\$2.294	\$2.385	\$2.479

NONRESIDENT KEEPING AIRCRAFT IN-STATE (AIRCRAFT EXCISE TAX)

Current statute: RCW 82.48.100(7)

Department of Revenue 2016 Tax Exemption Report (page 875)

Description: Nonresident owners of planes kept at an airport jointly owned by governmental entities of Washington and another state are exempt from the aircraft excise tax. The nonresident owner must pay all taxes, license fees, and registration fees required by the state where the owner resides.

Purpose: Provides an economic incentive for Idaho residents to base their privately owned airplanes at the Moscow-Pullman airport.

Category/Year Enacted: 1999

Primary Beneficiaries: Nonresidents keeping their aircraft at the Pullman-Moscow Airport.

Possible Program Inconsistency: None

Taxpayer Savings: \$2,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.001	\$0.001	\$0.001	\$0.001
Local taxes	0	0	0	0

NONRESIDENTS' RENTAL CARS (SALES TAX)

Current statute: RCW 82.08.0279

Department of Revenue 2016 Tax Exemption Report (page 711)

Description: Renting or leasing motor vehicles and trailers to nonresidents for exclusive use in interstate commerce are exempt from the retail sales tax. Nonresidents with places of business both inside and outside of Washington qualify for the exemption if the vehicle is registered and most frequently dispatched, garaged and serviced at a location outside of Washington. The exemption includes vehicles or trailers registered in a different state and have incidental use to transport persons or property between Washington locations.

Purpose: To relieve lessors of responsibility for collecting sales tax on the in-state use of rental cars, motor vehicles and trailers by a nonresident motor carrier engaged in interstate commerce and to encourage such businesses to rent or lease in Washington.

Category/Year Enacted: 1980

Primary Beneficiaries: Truck rental businesses and nonresidents.

Possible Program Inconsistency: None

Taxpayer Savings: \$781,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.25	\$0.264	\$0.277	\$0.289
Local taxes	\$0.095	\$0.1	\$0.105	\$0.11

PRIVATE KINDERGARTENS (B&O TAX)

Current statute: RCW 82.04.4282(7)

Department of Revenue 2016 Tax Exemption Report (page 153)

Description: Privately operated kindergartens may take a B&O deduction for charges made to operate the kindergarten.

Purpose: Supports privately operated kindergartens.

Category/Year Enacted: 1965

Primary Beneficiaries: Privately operated kindergartens.

Possible Program Inconsistency: None evident.

Taxpayer Savings: Not separately stated in the 2017-19 Biennium.

RETURNED MOTOR VEHICLES (SALES TAX)

Current statute: RCW 82.32.065

Department of Revenue 2016 Tax Exemption Report (page 840)

Description: The Department of Revenue shall credit or refund to the manufacturers the amount of the tax refunded for returns of a new motor vehicle under chapter 19.118 RCW, also known as the lemon law.

Purpose: Assures that manufacturers are not financially responsible for refunded sales tax.

Category/Year Enacted: 1987

Primary Beneficiaries: Vehicle manufacturers.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$198,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.072	\$0.072	\$0.072	\$0.072
Local taxes	\$0.027	\$0.027	\$0.027	\$0.027

STUDENT LOAN ORGANIZATIONS (B&O TAX)

Current statute: RCW 82.04.367

Department of Revenue 2016 Tax Exemption Report (page 96)

Description: A B&O tax exemption is provided for the gross income of nonprofit organizations exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code that:

- Are guarantee agencies under the federal guaranteed student loan program,
- Issue debt for student loans, or
- Provide guarantees for student loans.

Purpose: Promotes the availability of student loans.

Category/Year Enacted: 1987

Primary Beneficiaries: Qualifying nonprofit student loan organizations.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$0 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	0	0	0	0
Local taxes	0	0	0	0

STUDENT LOAN ORGANIZATIONS (PROPERTY TAX)

Current statute: RCW 84.36.030(6)

Department of Revenue 2016 Tax Exemption Report (page 429)

Description: Property owned by nonprofit organizations, exempt from federal income tax, that guarantee federal student loans or issue debt to provide student loans is exempt from property tax.

Purpose: Supporting the benefits these organizations provide to college students.

Category/Year Enacted: 1987

Primary Beneficiaries: None

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$0 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	0	0	0	0
Local taxes	0	0	0	0

TUITION AND FEES (B&O TAX)

Current statute: RCW 82.04.4282(5)

Previously reviewed by JLARC: 2009 Tax Preference Reviews ([page 29](#))

Description: Provides a business and occupation tax deduction to qualified private educational institutions for payments received as tuition and fees.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to encourage general education activities. The public policy objective for the 1993 change to exempt approved branch campuses of foreign degree-granting institutions from the B&O tax is to facilitate the establishment and operation of such branch campuses in Washington.

Year Enacted: 1935

2009 Legislative Auditor Recommendation: Continue because the deduction is achieving the public policy objective of encouraging general education activities.

2009 Citizen Commission Comment: Does not endorse and comments as follows: The Commission recommends that the Legislature clarify the intended public policy purpose of the Tuition and Fees Deductions from B&O tax and define more precisely the term “education institution” for purposes of determining which institutions are entitled to the B&O tax deduction.

Commissioner Stephen Miller voted in agreement with the Commission and submitted the following minority report: Any loss of private school opportunities due to the elimination of this tax preference can be made up for with growth in public school attendance, so there is no net loss of education in Washington State. As there is no public benefit to the preference, I encourage the Legislature to consider eliminating the preference entirely.

Taxpayer Savings: \$22,439,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$9.965	\$10.479	\$10.971	\$11.468
Local taxes	0	0	0	0

Legislative Response: No action required for continue recommendation.

TUITION FEES - FOREIGN DEGREE-GRANTING INSTITUTIONS (B&O TAX)

Current statute: RCW 82.04.4332

Department of Revenue 2016 Tax Exemption Report (page 182)

Description: Tuition fees received by an in-state branch of a foreign university are exempt from the B&O tax. To qualify, the university must be in compliance with RCW 28B.90, grant degrees, and be exempt from federal income tax.

Purpose: Encourage foreign universities to locate branches in Washington.

Category/Year Enacted: 1993

Primary Beneficiaries: Foreign universities approved by the Higher Education Coordinating Board.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$14,000,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$7	\$7	\$7	\$7
Local taxes	0	0	0	0

URBAN TRANSPORTATION (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.020(1)(d)

Previously reviewed by JLARC: 2008 Tax Preference Reviews ([page 179](#))

Description: Provides a public utility tax preferential rate of 0.642% to urban transportation businesses and vessels under 65 feet in length operating upon the waters within the state, except tugboats.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to recognize the financial difficulties of the street cars and interurban railways at that time. The public policy objective of expanding the definition of urban transportation in 1949 is unclear. The initial public policy for providing a lower tax rate to water transportation conducted in vessels under 65 feet may have been due to the overall financial difficulties of water transportation companies at that time.

Year Enacted: 1935

2008 Legislative Auditor Recommendation: Review and clarify the policy of taxing transportation related business activity at different public utility tax rates based on where a transportation service takes place or the size of a vessel in which the service is conducted.

2008 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$17,115,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$7.947	\$8.186	\$8.431	\$8.684
Local taxes	0	0	0	0

Legislative Response: The Legislature made a different choice.

VEHICLES USED IN INTERSTATE COMMERCE (USE TAX)

Current statute: RCW 82.12.0254

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 69](#))

Description: Provides a use tax exemption for airplanes, locomotives, railroad cars, or watercraft that is used primarily (over 50%) in interstate commerce, foreign commerce, or out-of-state commercial deep sea fishing. Also provides a use tax exemption for motor vehicles that are used in substantial part (at least 25%) in interstate or foreign commerce. The component parts used, and the labor and services performed, when repairing, cleaning, altering, or improving such transportation equipment are also exempt.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to give a competitive advantage to Washington-based transportation manufacturing industries in order to retain high-wage, skilled manufacturing jobs.

Year Enacted: 1937

2010 Legislative Auditor Recommendation: Continue because the public policy purpose of increasing the competitive advantage of Washington transportation equipment industries is being achieved.

2010 Citizen Commission Comment: Endorses with comment. The Commission recommends that the Legislature consider whether to increase the qualifying threshold for motor vehicles by reviewing whether “in substantial part” should be replaced by the language “primarily used.”

Taxpayer Savings: \$140,990,000 in the 2017-19 Biennium. Includes estimate for 2017-19 Biennium for Interstate Transportation Equipment (Sales Tax).

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$46.256	\$48.126	\$50.073	\$52.098
Local taxes	\$17.574	\$18.285	\$19.025	\$19.794

Legislative Response: No action required for a continue recommendation.

VEHICLES IN INTERSTATE COMMERCE (SALES TAX)

Current statute: RCW 82.08.0263

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 69](#))

Description: Provides a sales tax exemption for motor vehicles and trailers used to transport people or property for hire in interstate or foreign commerce.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to give a competitive advantage to Washington-based transportation manufacturing industries in order to retain high-wage, skilled manufacturing jobs.

Year Enacted: 1949

2010 Legislative Auditor Recommendation: Continue because the public policy purpose of increasing the competitive advantage of Washington transportation equipment industries is being achieved.

2010 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$29,915,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$9.590	\$10.346	\$10.701	\$10.977
Local taxes	\$3.644	\$3.931	\$4.066	\$4.171

Legislative Response: No action required for a continue recommendation.

VEHICLES SOLD TO NONRESIDENTS (SALES TAX)

Current statute: RCW 82.08.0264

Previously reviewed by JLARC: 2010 Tax Preference Reviews ([page 35](#))

Description: Provides a sales tax exemption for certain sales of motor vehicles, trailers, or campers to nonresidents, but only if it is pre-licensed in the buyer's home state or immediately taken outside of Washington.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to encourage nonresidents to purchase motor vehicles from Washington dealerships.

Year Enacted: 1935

2010 Legislative Auditor Recommendation: Continue because the tax preference is meeting the inferred public policy objective of encouraging nonresidents to purchase vehicles in Washington.

2010 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$139,384,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$47.284	\$49.252	\$50.792	\$51.468
Local taxes	\$17.172	\$17.887	\$18.432	\$18.692

Legislative Response: No action required for a continue recommendation.

WHOLESALE AUTO AUCTIONS (B&O TAX)

Current statute: RCW 82.04.317; 82.04.422(1)

Department of Revenue 2016 Tax Exemption Report (page 68)

Description: Motor vehicle manufacturers, their financing subsidiaries (must be at least 50% owned by the manufacturer), and vehicle dealers licensed under chapter 46.70 RCW are exempt from wholesaling B&O tax on their wholesale sales of motor vehicles if the sales take place at a wholesale auto auction and the purchaser is a vehicle dealer licensed under chapter 46.70 RCW.

Purpose: To encourage out-of-state auto manufacturers to sell their rental and lease return vehicles and other surplus vehicles at wholesale auctions conducted in this state.

Category/Year Enacted: 1997

Primary Beneficiaries: Car dealers/auctioneers.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$3,047,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$1.41	\$1.468	\$1.513	\$1.534
Local taxes	0	0	0	0

AIRCRAFT HELD FOR SALE (AIRCRAFT EXCISE TAX)

Current statute: RCW 82.48.100(6)

Previously reviewed by JLARC: 2009 Expedited Tax Preference Report (page 51)

Description: Provides an aircraft excise tax exemption for aircraft that are being held as stock in trade of a licensed aircraft dealer and solely for the purpose of sale, exchange, delivery, testing, or demonstration.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to provide consistent tax treatment with other types of property held for sale, which are not taxed under the property tax or other taxes based on valuation of the property.

Year Enacted: 1955

2009 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of treating aircraft held for sale in a similar manner to other types of property held for resale.

2009 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: Not known in the 2017-19 Biennium.

2016 Citizen Commission Action: Identified as critical part of the tax structure.

AIRCRAFT TESTING OR CREW TRAINING (AIRCRAFT EXCISE TAX)

Current statute: RCW 82.48.100(5)

Previously reviewed by JLARC: 2009 Expedited Tax Preference Report (page 45)

Description: Provides an aircraft excise tax exemption for aircraft used for testing and training purposes. However, most aircraft that are exempt from the aircraft excise tax are subject to the personal property tax.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to continue taxing these aircraft under the existing property tax system, as they had been prior to 1949.

Year Enacted: 1949

2009 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of allowing aircraft used for testing or training purposes to be taxed under the existing property tax scheme.

2009 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: Not known in the 2017-19 Biennium.

2016 Citizen Commission Action: Identified as critical part of the tax structure.

COMMERCIAL AIRCRAFT (AIRCRAFT EXCISE TAX)

Current statute: RCW 82.48.100(4)

Previously reviewed by JLARC: 2009 Expedited Tax Preference Report (page 45)

Description: Provides an aircraft excise tax exemption for aircraft engaged in commercial flying. However, most aircraft that are exempt from the aircraft excise tax are subject to the personal property tax.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to continue taxing these aircraft under the existing property tax system, as they had been prior to 1949.

Year Enacted: 1949

2009 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of allowing commercial aircraft to be taxed under the existing property tax scheme.

2009 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: Not known in the 2017-19 Biennium.

2016 Citizen Commission Action: Identified as critical part of the tax structure.

GENERAL AVIATION (PROPERTY TAX)

Current statute: RCW 82.48.110

Previously reviewed by JLARC: 2009 Tax Preference Reviews ([page 123](#))

Description: Provides a property tax exemption for general aviation aircraft when aircraft excise tax has already been paid.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to avoid double taxation. When the Legislature replaced the property tax on certain aircraft with a new aircraft excise tax in 1949, the aircraft subject to the new tax became exempt from the property tax.

Year Enacted: 1949

2009 Legislative Auditor Recommendation: Continue because the tax preference is achieving the public policy objective of avoiding double taxation.

2009 Citizen Commission Comment: Endorses with comment. The Commission endorses the recommendation because it meets the Legislature's objective of avoiding double taxation; however, the Legislature should consider whether the current excise fees should be raised and whether the level of these excise fees should more closely correspond to the Legislature's apparent original intent of approximately one percent of value.

Taxpayer Savings: \$12,941,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$1.064	\$1.087	\$1.115	\$1.144
Local taxes	\$4.4797	\$5.038	\$5.237	\$5.445

2016 Citizen Commission Action: Identified as critical part of the tax structure.

MOTOR VEHICLES, TRAVEL TRAILERS, AND CAMPERS (PROPERTY TAX)

Current statute: RCW 84.36.595

Department of Revenue 2016 Tax Exemption Report (page 504)

Description: Motor vehicles, travel trailers, and campers are exempt from property tax.

Purpose: Ensures that property tax does not apply to vehicles.

Category/Year Enacted: 2000

Primary Beneficiaries: Individuals and businesses who own vehicles.

Possible Program Inconsistency: None evident.

Taxpayer Savings: \$1,112,529,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$91.445	\$93.408	\$95.846	\$98.354
Local taxes	\$412.318	\$433.046	\$450.22	\$468.109

2016 Citizen Commission Action: Identified as critical part of the tax structure.

NONPROFIT DAY CARE CENTERS (PROPERTY TAX)

Current statute: RCW 84.36.040(1)(a)

Previously reviewed by JLARC: 2011 Tax Preference Reviews ([page 163](#))

Description: Provides a property tax exemption for licensed nonprofit child day care centers.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to support nonprofit organizations that provide social services to children and youth, consistent with long-standing legislative policy.

Year Enacted: 1973

2011 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of supporting nonprofit organizations that provide social services for youth.

2011 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$4,868,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$0.400	\$0.409	\$0.419	\$0.430
Local taxes	\$1.804	\$1.895	\$1.970	\$2.049

2016 Citizen Commission Action: Identified as critical part of the tax structure.

NONPROFIT PRIVATE COLLEGES (PROPERTY TAX)

Current statute: RCW 84.36.050(1)

Previously reviewed by JLARC: 2008 Tax Preference Reviews ([page 19](#))

Description: Provides a property tax exemption for property owned or used by any nonprofit college for educational purposes, or for cultural or art education programs.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to support private, nonprofit colleges.

Year Enacted: 1925

2008 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of supporting private, nonprofit colleges.

2008 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$55,207,000 in the 2017-19 Biennium.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$4.538	\$4.635	\$4.756	\$4.881
Local taxes	\$20.460	\$21.489	\$22.341	\$23.229

2016 Citizen Commission Action: Identified as critical part of the tax structure.

NONPROFIT PRIVATE K-12 SCHOOLS (PROPERTY TAX)

Current statute: RCW 84.36.050(1)

Previously reviewed by JLARC: 2008 Tax Preference Reviews ([page 7](#))

Description: Provides a property tax exemption for property owned or used by any nonprofit K-12 school for educational purposes, or for cultural or art education programs.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to support private, nonprofit K-12 schools.

Year Enacted: 1925

2008 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of supporting private, nonprofit K-12 schools.

2008 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: \$39,558,000 in the 2017-19 Biennium.

	FY 2016	FY 2017	FY 2018	FY 2019
State taxes	\$3.251	\$3.321	\$3.408	\$3.497
Local taxes	\$14.661	\$15.398	\$16.008	\$16.645

2016 Citizen Commission Action: Identified as critical part of the tax structure.

NONRESIDENT AIRCRAFT (AIRCRAFT EXCISE TAX)

Current statute: RCW 82.48.100(3)

Previously reviewed by JLARC: 2009 Expedited Tax Preference Report ([page 51](#))

Description: Provides an aircraft excise tax exemption for aircraft that are owned by nonresidents, registered in another state, and in Washington is less than 90 days per year.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to exempt nonresident aircraft in Washington for only a limited amount of time (less than 90 days).

Year Enacted: 1949

2009 Legislative Auditor Recommendation: Continue because the preference is achieving the public policy objective of exempting nonresident aircraft in Washington for a limited amount of time.

2009 Citizen Commission Comment: Endorses without comment.

Taxpayer Savings: Not known in the 2017-19 Biennium.

2016 Citizen Commission Action: Identified as critical part of the tax structure.