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

2021 EXPEDITED TAX PREFERENCE REVIEWS

May 2021

This report contains information on 55 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.

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.

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Current statute: RCW 82.04.322

JLARC 2013 Tax Preference Reviews (page 33)

Description: Provides a business and occupation tax exemption to health maintenance organizations and health care service contractors for income from premiums and prepayments that are taxed under the insurance premium 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 avoid double taxation of health maintenance organization and health care service contractor premium and prepayment income.

Year Enacted: 1993

2013 Legislative Auditor Recommendation: Continue because the preference is fulfilling the inferred public policy objective of avoiding double taxation of this income.

2013 Citizen Commission Comment: Endorses without comment.

Estimated Beneficiary Savings: $719,100,000 in the 2021-23 Biennium.

NONPROFIT MEDICAL RESEARCH AND TRAINING FACILITIES (PROPERTY TAX)

Current statute: RCW 84.36.045

Department of Revenue 2020 Tax Exemption Report

Description: Property taxes do not apply to real and personal property owned or used by a nonprofit corporation or association that provides facilities for medical research and training free of charge.

Purpose: Supporting nonprofit medical research and training facilities.

Category/Year Enacted: 1975

Primary Beneficiaries: 23 parcels owned by medical research centers.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $53,123,000 in the 2021-23 Biennium.

DRUG DELIVERY SYSTEMS (SALES AND USE TAX)

Current statutes: RCW 82.08.935; 82.12.935

Department of Revenue 2020 Tax Exemption Report

Description: Disposable devices used to deliver drugs for human use are exempt from retail sales and use tax. This includes single use items such as syringes, tubing and catheters.

Purpose: To reduce the cost of single use drug delivery systems.

Category/Year Enacted: 2003

Primary Beneficiaries: Persons using disposable devices used to deliver drugs.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $5,544,000 in the 2021-23 Biennium.

EMERGENCY MEDICAL AIR TRANSPORT (AIRCRAFT FUEL TAX)

Current statute: RCW 82.42.030(6)

Department of Revenue 2020 Tax Exemption Report

Description: Aircraft fuel sold to emergency medical air transport service providers is exempt from the aircraft fuel tax.

Purpose: Lowers the cost of providing emergency medical air transport services.

Category/Year Enacted: 2003

Primary Beneficiaries: Medical air transport service providers.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $233,000 in the 2021-23 Biennium.

GOVERNMENT PAYMENTS TO PUBLIC AND NONPROFIT HOSPITALS (B&O TAX)

Current statute: RCW 82.04.4311

JLARC 2013 Tax Preference Reviews (page 21)

Description: Provides a business and occupation tax deduction to public or nonprofit hospitals and nonprofit community health centers for amounts received under a health service program paid for by the federal or state government.

Purpose: The Legislature stated that the public policy objective for this preference was to not tax amounts paid to public or nonprofit hospitals under a government-subsidized health care program for the care of elderly, low income, or disabled people, as providing health care for such persons is a recognized, necessary, and vital governmental function.

Year Enacted: 2002

2013 Legislative Auditor Recommendation: Review and Clarify because it is unclear why for-profit hospitals that provide government-subsidized health care are excluded from the preference.

2013 Citizen Commission Comment: Endorses with comment. The Commission endorses the Legislative Auditor's recommendation but notes that the Legislature has consistently excluded for-profit hospitals from this preference since 1937 and explicitly omitted for-profit hospitals in its statement of purpose when it amended the preference in 2005.

Rationale: The Legislative Auditor observes that although exclusion of for-profit hospitals from this preference has been long-standing, no rationale for their exclusion is included in the legislative record. Only 5 percent of government subsidized payments in 2011 went to for-profit hospitals. Thus, if the preference were extended to for-profit hospitals, the reduction in B&O tax receipts would be small. If the Legislature decides to review this preference, it will need to determine whether extending this preference to for-profit hospitals would result in a public benefit. The Commission received no testimony in support of the Legislative Auditor's recommendation.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $436,500,000 in the 2021-23 Biennium.

DENTISTRY PREPAYMENTS (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.0201(6)(c)

JLARC 2013 Tax Preference Reviews (page 49)

Description: Provides an insurance premium exemption to health care service contractors on prepayments received for dentistry services. Effective July 28, 2013, the exemption also became available to health maintenance organizations and life and disability insurers.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the tax preference may have been intended to be temporary while health care service contractors offering dentistry services transitioned into certified health plans.

Year Enacted: 1993

2013 Legislative Auditor Recommendation: Terminate because the inferred public policy objective of providing a temporary exemption during the transition of health care service contractors to certified health plans is no longer applicable.

2013 Citizen Commission Comment: Does not endorse. The Commission does not endorse the recommendation of the Legislative Auditor to terminate the exemption from the insurance premium tax for health care service contractors on prepayments received for dentistry services. The Commission recommends that the Legislature review and clarify whether this exemption is serving a broad-based public policy objective.

Rationale: Based upon its review the Legislature could determine to terminate the dentistry insurance premium tax exemption, continue it, or establish a preferential insurance premium tax rate. While the 1993 law established a temporary exemption, the exemption became permanent when the part of the 1993 law pertaining to Certified Health Plans was repealed in 1995. There is no public record that the Legislature explicitly intended the temporary exemption to become permanent or whether this was simply the outcome of repealing parts of the 1993 law. The Commission received public testimony that argued that this was an intentional, not an accidental, outcome at the time the Legislature revised the law in 1995. While the Legislature did not expressly provide a permanent exemption for all health care service contractors providing prepaid dental services in the Health Care Reform Act originally adopted in 1993, the Legislature clearly intended that the tax preference apply for Limited Certified Health Plans for Dental Services. These original intended beneficiaries of the preference continue to enjoy the benefits of this preference along with health care service contractors that would not have had the benefit of this preference for dentistry services under the original 1993 legislation. The 1995 legislation adopted changes to the statute in its current form that extended the tax preference to all health care service contractors. The Legislative Auditor inferred that the absence of any specific reference in the 1995 legislation or in the legislative history of an intent to extend the preference to all health care service contractors was, in effect, an oversight and that the Legislature did not intend to provide the tax preference to all health care service contractors. However, the Commission believes the record is inconclusive as to whether the Legislature simply overlooked the fact that the 1995 legislation converted a temporary exemption into a permanent one or whether the Legislature intended to make the exemption permanent. The Affordable Care Act (ACA) and its impact may raise a new issue specific to this tax preference. According to public testimony, the industry is facing a 2% tax (instead of 1.5%) on insurance obtained in the new ACA-mandated insurance exchange. For pediatric dentistry, the higher tax rate is intended to help pay the costs of running the exchange. The industry argued that increasing the tax from 1.5% to 2% (by terminating the tax preference) would lower the amount of dental services provided to vulnerable populations. If this assertion is true, it raises the question of whether the 2% tax on exchange-obtained insurance would result in a similar outcome. The industry did not comment on this possibility. Furthermore, if the Legislature intended this tax preference to be temporary when enacted in 1993, it is possible the tax preference may have had the unintended consequence of increasing the supply of dental services to vulnerable populations. If so, this may have some social-welfare benefits. The Legislature should request the industry to clarify the specific programs that are at risk if the tax preference is terminated. In response to a commission question during public testimony, the industry was either unable or unwilling to comment on specifics about programs at risk. Finally, there is a question of whether program cuts, if they occur, would be mitigated by increased health insurance coverage generated by the ACA exchanges. The Legislature may also wish to consider the disparity of tax treatment between the different types of insurance carriers for dental services. The Commission also received public testimony which indicated that most providers of dentistry services are not-for-profit organizations which engage in substantial public service initiatives. Thus, it is possible that some of the benefits of the tax preference, perhaps a significant portion, are passed on to the public through various educational programs to reduce oral disease and improve overall health.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $302,598,000 in the 2021-23 Biennium.

NONPROFIT HOSPITALS (PROPERTY TAX)

Current statute: RCW 84.36.040(1)(e)

JLARC 2007 Tax Preference Reviews (page 7)

Description: Provides a property tax exemption for property of nonprofit hospitals that is used exclusively for the purposes of the hospital. The preference requires that the benefits of the exemption inure to the nonprofit entity.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to: 1) to define the property tax base; and 2) ensure that hospitals were devoting profits to charitable purposes in the community.

Year Enacted: 1886

2007 Legislative Auditor Recommendation: Review and Clarify because it is unclear if the Legislature intended to provide an exemption under the assumption that these nonprofit hospitals were providing more charity or low-income care than other hospitals.

2007 Citizen Commission Comment: Endorses with comment. The Legislature should determine whether the nonprofit hospital property tax exemption is intended to be available to hospitals that provide more charity or low-income care than other hospitals, and if necessary, amend the exemption to ensure that it carries out its intended purpose. The Legislature should determine whether it should require information on community service activities performed by nonprofit hospitals, and if so, it should amend the exemption to require nonprofit hospitals to report an annual community service inventory.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $198,834,000 in the 2021-23 Biennium.

PRESCRIPTION DRUG RESELLERS (B&O TAX)

Current statute: RCW 82.04.272

JLARC 2013 Tax Preference Reviews (page 91)

Description: Provides a business and occupation tax preferential rate to businesses that warehouse and resell prescription drugs.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to reduce a competitive disadvantage for drug resellers operating warehouses in Washington relative to businesses that distribute drugs in the state without nexus and that owe no B&O tax.

Year Enacted: 1998

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing a competitive disadvantage for wholesalers operating Washington warehouses relative to out-of-state drug distributors that have no nexus to Washington and pay no B&O tax.

2013 Citizen Commission Comment: Endorses with comment. The Commission endorses the Legislative Auditor's recommendation to continue the prescription drug resellers preference, but in light of public testimony, the Legislature could consider whether to review this preference.

Rationale: The Legislative Auditor believes the Legislature's inferred public policy objective for the prescription drug resellers B&O preferential tax rate is intended to reduce a competitive disadvantage for drug resellers operating warehouses in Washington relative to businesses that distribute drugs in the state without nexus and that owe no B&O tax. But, the preference is also available to drug resellers operating out-of-state warehouses that have nexus. The Commission received testimony questioning the necessity of this preference, but also received testimony indicating that drug reseller employment in the state has grown 182% since the preference was enacted in 1998.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $53,644,000 in the 2021-23 Biennium.

INSURANCE PRODUCERS, TITLE INSURANCE AGENTS, AND SURPLUS LINE BROKERS (B&O TAX)

Current statute: RCW 82.04.260(9)

JLARC 2012 Tax Preference Reviews (page 119)

Description: Provides a business and occupation tax preferential rate of 0.484 percent to insurance producers, title insurance agents, and surplus line brokers.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to: 1) reduce the impact of B&O surtaxes on insurance contractors because they were unable to raise commissions to cover tax increases in the short term (1983); 2) provide some equity for insurance businesses following the removal of pyramiding for real estate businesses (1983 and 1995); and 3) simplify the tax code by consolidating B&O tax rates (1998).

Year Enacted: 1983

2012 Legislative Auditor Recommendation: Review and Clarify because it is unclear: 1) why the Legislature is providing different tax treatment to businesses with similar agent/sub agent relationships; and 2) because the inferred objectives related to the inability of passing on rate increases and of consolidating rates may no longer apply.

2012 Citizen Commission Comment: Endorses with comment. The Commission endorses the recommendation that the Legislature should review and clarify the public policy purpose of the preference and unless there is a compelling reason for a differential rate, the Legislature should increase the tax rate to provide equivalent tax treatment with businesses with similar agent/sub-agent relationships.

Rationale: The JLARC staff study documents numerous changes in this tax preference between its initiation in 1935 and the most recent change in 2009. Beginning in 1995 the Legislature has reduced the tax rate on insurance commissions from 1.172% of insurance commissions to 0.484%. The Legislature provided no economic or competitive rationale for the reductions in the tax rate. Over the same time period, the Legislature has reduced the tax rate on real estate commissions from 2.13% to 1.80%. It should be noted that pyramiding of B&O taxes applies to insurance agents but not to real estate agents, pursuant to a 1992 state Supreme Court case that ruled that insurance agents are not entitled to the same exemption that removed tax pyramiding for real estate agents. Adjusting the current insurance commissions tax rate for pyramiding results in a combined B&O tax rate of 0.726% compared to 1.80% for real estate services. In public testimony, representatives of insurance agents pointed out that commission rates are established by insurance companies. Thus, there are limitations on how agents can recover costs directly from policyholders if there is an increase in the insurance commissions B&O tax rate. However, no evidence was provided for why a lower tax rate relative to similar agent/sub-agent relationships in other industries is appropriate.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $47,947,000 in the 2021-23 Biennium.

NONPROFIT NURSING HOMES (PROPERTY TAX)

Current statute: RCW 84.36.040(1)(d)

JLARC 2007 Expedited Tax Preference Reviews (page 29)

Description: Provides a property tax exemption to nonprofit nursing homes, so long as they retain the benefits of the exemption and the exempted property is used exclusively for the purposes of the nursing home.

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 quasi-public service activities performed for the aged and infirm. The original property tax exemption applied to all nursing homes that performed charitable services. In 1973, the Legislature narrowed the exemption to nonprofit nursing homes without a clear statement of intent.

Year Enacted: 1891

2007 Legislative Auditor Recommendation: Review and Clarify because it is unclear if the Legislature intended to provide an exemption under the assumption that these nonprofit nursing homes were providing more charity or low-income care than other nursing homes.

2007 Citizen Commission Comment: Endorses with comment. The Legislature should determine whether the nonprofit nursing home property tax exemption is intended to be available to nursing homes that provide more charity or low-income care than other nursing homes, and if necessary, amend the exemption to ensure that it carries out its intended purpose. The Legislature should determine whether it should require information on community service activities performed by nursing homes, and if so, it should amend the exemption to require nursing homes to report an annual community service inventory.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $17,724,000 in the 2021-23 Biennium.

KIDNEY DIALYSIS, NURSING HOMES, AND HOSPICE (B&O TAX)

Current statute: RCW 82.04.4289

JLARC 2009 Expedited Tax Preference Reviews (page 19)

Description: Provides a business and occupation tax deduction to nonprofit kidney dialysis facilities, nonprofit hospice agencies, nursing homes, and homes for unwed mothers operated as religious or charitable organizations, for income from services to patients, including the sales of prescription drugs when an integral part of services to patients.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to benefit facilities that performed services that traditionally have been performed in hospitals and did not earn a profit. The public policy objective became less clear in 1993 when hospitals themselves were removed from the deduction. As a result, hospitals are taxed, but services traditionally provided in hospitals are not. Therefore, the objective that the Legislature wants to currently achieve is unclear.

Year Enacted: 1945

2009 Legislative Auditor Recommendation: Review and Clarify because nonprofit hospitals now pay tax on their services, it is not clear what other types of services the Legislature intends to exempt.

2009 Citizen Commission Comment: Does not endorse. The Commission recommends that the Legislature eliminate the B&O tax deduction for nursing homes, kidney dialysis facilities, and hospice centers.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $9,300,000 in the 2021-23 Biennium.

PRESCRIPTION DRUG ADMINISTRATION (B&O TAX)

Current statute: RCW 82.04.620

JLARC 2013 Tax Preference Reviews (page 57)

Description: Provides a business and occupation tax deduction to physicians and medical clinics for sales to patients of certain prescription drugs covered under Medicare Part B that are infused or injected.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to: 1) lower costs for physicians and medical clinics that infuse or inject drugs covered under Medicare Part B; and 2) help keep these physicians' offices and medical clinics open to provide better patient access to these drugs.

Year Enacted: 2007

2013 Legislative Auditor Recommendation: Review and Clarify because while the preference is meeting the inferred public policy objective of lowering costs, the Legislature may want to consider adding reporting or other accountability requirements to provide better information on the effectiveness of the preference

2013 Citizen Commission Comment: Endorses with comment. The Commission endorses the Legislative Auditor's recommendation that the Legislature may want to consider adding reporting or other accountability requirements and suggests the Legislature consider how the Affordable Care Act (ACA) impacts incentives to provide services covered by this preference.

Rationale: In light of the Affordable Care Act (ACA), the Legislature may want to track how the ACA impacts incentives to provide the services covered by this preference. Depending on the results of this tracking, alterations in the preference may be appropriate.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $4,267,000 in the 2021-23 Biennium.

OCEAN MARINE INSURANCE (INSURANCE PREMIUMS TAX)

Current statutes: RCW 48.11.050; 48.11.105; 48.14.020(4)

JLARC 2009 Expedited Tax Preference Reviews (page 35)

Description: Provides an insurance premiums tax preferential rate and a deduction for insurance company losses to the ocean marine and foreign trade insurance industry.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to 1) lower taxes on insurance premiums to reduce costs to marine carriers in order to simulate business for Washington based companies, for out-of-state companies selling into Washington, and for in-state ports and others that ship and store goods.; and 2) provide preferential tax treatment for ocean marine and foreign trade insurers operating in competitive national and international markets.

Year Enacted: 1947

2009 Legislative Auditor Recommendation: Review and Clarify because there is a lack of a clearly stated public policy objective and changing conditions since earlier enactments.

2009 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $4,048,000 in the 2021-23 Biennium.

OSTOMIC ITEMS (SALES AND USE TAX)

Current statutes: RCW 82.08.804; 82.12.804

Department of Revenue 2020 Tax Exemption Report

Description: Ostomic items used by colostomy, ileostomy or urostomy patients are exempt from retail sales and use tax. Ostomic items refer to disposable medical supplies such as bags, belts, tape, tubes, soap, jellies, germicides, etc. The exemption does not extend to undergarments, pads or shields, sponges or rubber sheets.

Purpose: Reduces the cost of ostomic items.

Category/Year Enacted: 2004

Primary Beneficiaries: Consumers of ostomic items.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $2,704,000 in the 2021-23 Biennium.

INSURANCE GUARANTEE ASSOCIATION ASSESSMENTS (INSURANCE PREMIUMS TAX)

Current statutes: RCW 48.32.145; 48.32A.125

Department of Revenue 2020 Tax Exemption Report

Description: Property, casualty, life and disability insurers may claim a credit against their insurance premiums tax for assessments made by the Washington Insurance Guarantee Association to pay covered claims of insolvent insurers. The credit may be taken over a five year period.

Purpose: To ensure that claims against insolvent insurance companies are paid and that the cost is not borne by the policyholders of the surviving companies.

Category/Year Enacted: 1976

Primary Beneficiaries: Insurance companies.

Possible Program Inconsistency: The state does not normally become involved in payment of debts of private firms.

Estimated Beneficiary Savings: $1,600,000 in the 2021-23 Biennium.

NEBULIZERS (SALES AND USE TAX)

Current statute: RCW 82.08.803; 82.12.803

Department of Revenue 2020 Tax Exemption Report

Description: A nebulizer is a device that converts a liquid medication into a mist that the patient inhales. Nebulizers prescribed for human use by a physician are exempt from retail sales and use tax. The exemption includes repair and replacement parts for nebulizers, as well as labor and service charges for cleaning, repairing, etc. Sellers must collect the sales tax, and the buyer must apply to the Department of Revenue for a refund.

Purpose: Reduces the cost of nebulizers.

Category/Year Enacted: 2004

Primary Beneficiaries: Persons who use prescribed nebulizers.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $1,403,000 in the 2021-23 Biennium.

WAX AND CERAMIC MATERIALS TO CREATE MOLDS (SALES AND USE TAX)

Current statutes: RCW 82.08.983; 82.12.983

Department of Revenue 2020 Tax Exemption Report

Description: Sales of wax or ceramic materials used to create molds consumed during the process of creating ferrous and nonferrous investment castings used in industrial applications are exempt from retail sales and use tax. Labor and services used to create patterns and shells used as molds also qualify.

Purpose: To encourage the production of castings in Washington.

Category/Year Enacted: 2010

Primary Beneficiaries: Businesses creating molds.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $923,000 in the 2021-23 Biennium.

TEMPORARY MEDICAL HOUSING (SALES TAX)

Current statute: RCW 82.08.997

Department of Revenue 2020 Tax Exemption Report

Description: Sales of temporary medical housing provided by health and social welfare organizations are exempt from retail sales and use tax.

Purpose: Reduces the cost of temporary housing for patients and their families while undergoing medical treatment.

Category/Year Enacted: 2008

Primary Beneficiaries: Persons seeking medical treatment away from their homes.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $910,000 in the 2021-23 Biennium.

HUMAN BODY PARTS (SALES AND USE TAX)

Current statutes: RCW 82.08.02806; 82.12.02748

Department of Revenue 2020 Tax Exemption Report

Description: Sales of human blood, tissue, organs, bodies or body parts are exempt from retail sales and use tax when used for medical research or quality control testing.

Purpose: To support medical research in Washington.

Category/Year Enacted: 1996

Primary Beneficiaries: Medical research organizations.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $234,000 in the 2021-23 Biennium.

NATURAL GAS PURCHASES BY DSI INDUSTRY (B&O TAX)

Current statute: RCW 82.04.447

Department of Revenue 2020 Tax Exemption Report

Description: Direct Service Industry (DSI) customers (persons who purchase electric power directly from the Bonneville Power Administration) may take a B&O tax credit for the amount of public utility tax due on purchases of natural or manufactured gas used to generate electric power consumed by the DSI customer at its own gas turbine electrical generation facility. The tax credit may be used for 60 months following the first qualifying gas purchase and the DSI customer must maintain its existing level of employment to take the credit.

Purpose: To encourage DSI customers to continue manufacturing in Washington by constructing their own natural gas powered turbines after their BPA power contracts expire.

Category/Year Enacted: 2001

Primary Beneficiaries: Direct service industry firms.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

NATURAL GAS PURCHASED BY DSI CUSTOMERS (USE TAX)

Current statute: RCW 82.12.024

Department of Revenue 2020 Tax Exemption Report

Description: This statute allows a deferral of brokered natural gas tax for a direct service industry firm (DSI's) that constructs a new power plant. DSIs are firms that purchase power directly from the Bonneville Power Administration. The amount of deferred brokered natural gas use tax is not repaid if the firm continues production and their employment levels do not drop below base period levels.

Purpose: To encourage direct service industry firms to continue manufacturing in Washington after existing power contracts with Bonneville Power Administration expire by building their own natural gas powered electric generating facilities.

Category/Year Enacted: 2001

Primary Beneficiaries: Direct service industry firms constructing new power plants.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

ELECTRICITY PURCHASED BY DSI INDUSTRY (PUBLIC UTILITY TAX)

Current statute: RCW 82.16.0495

Department of Revenue 2020 Tax Exemption Report

Description: Sales of electricity from a gas turbine electrical generation facility to a direct service industrial (DSI) customer are eligible for a public utility tax credit if such sales will be made for at least ten consecutive years and the price of the electricity will be reduced by an amount equal to the credit. The tax credit lasts for 60 months following the first qualifying sale of electricity. The DSI customer must maintain existing employment levels for at least five years to qualify. A DSI customer is an industrial customer that purchases power from the Bonneville Power Administration (BPA) for its own consumption.

Purpose: To encourage DSI customers to continue manufacturing in Washington after their power supply contracts with the BPA expire by switching to power from newly constructed power facilities.

Category/Year Enacted: 2001

Primary Beneficiaries: Direct service industry firms.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MATERIALS MANUFACTURING AFTER $1 BILLION INVESTMENT - PREFERENTIAL RATE (B&O TAX)

Current statute: RCW 82.04.240(2)

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a reduced B&O tax rate for manufacturing semiconductor materials. Beneficiaries would pay a rate of 0.275 percent compared to the general manufacturing rate of 0.484 percent for twelve years after its effective date.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MATERIALS MANUFACTURING AFTER $1 BILLION INVESTMENT - GASES AND CHEMICALS (SALES AND USE TAX)

Current statutes: RCW 82.08.970; 82.12.970

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a sales and use tax exemption for purchases of gases and chemicals used in the production of semiconductor materials for twelve years after its effective date.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MATERIALS MANUFACTURING AFTER $1 BILLION INVESTMENT - CONSTRUCTION COSTS (SALES AND USE TAX)

Current statutes: RCW 82.08.965; 82.12.965

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a sales and use tax exemption for the construction of new buildings used for manufacturing semiconductor materials.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MATERIALS MANUFACTURING AFTER $1 BILLION INVESTMENT - MACHINERY AND EQUIPMENT (PROPERTY TAX)

Current statute: RCW 84.36.645

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a property tax exemption for machinery and equipment used for manufacturing semiconductor materials when located in a building exempted from sales tax.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MATERIALS MANUFACTURING AFTER $1 BILLION INVESTMENT - NEW JOBS CREDIT (B&O TAX)

Current statute: RCW 82.04.448

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a B&O tax credit of $3,000 for each manufacturing production job located in a building exempted from sales tax.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

SEMICONDUCTOR MICROCHIP MANUFACTURING AFTER $1 BILLION INVESTMENT (B&O TAX)

Current statute: RCW 82.04.426

JLARC 2016 Tax Preference Reviews (Semiconductor Materials Manufacturing Preferences)

Description: Provides a full B&O tax exemption for manufacturing semiconductor microchips.

Purpose: The Legislature stated its intent for this preference was to induce significant construction projects, retain, expand and attract semiconductor businesses, and create family wage jobs.

Year Enacted: 2003

2016 Legislative Auditor Recommendation: Terminate because it has not been used in the thirteen years since it was enacted.

2016 Citizen Commission Comment: Endorses with comment. In addition to JLARC staff's research, a recent research paper released by the Congressional Research Service (CRS) on the U.S. semiconductor industry highlights some important points. First, the CRS study finds that about 87% of fabrication is located outside of the U.S. with little evidence this will change significantly in the future. Second, between 2001 and 2015 U.S. employment in semiconductor manufacturing has fallen 38%. Third, the decline in employment reflects both the shift of production to outside of the U.S.; increasing automation of production facilities; and a shift in favor of U.S. employment focused on semiconductor design work. The trends laid out by the CRS paper suggest that the current set of preferences will be, for the foreseeable future, underutilized or not utilized.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

FERROSILICON (SALES AND USE TAX)

Current statutes: RCW 82.04.050(1)(a)(iv); 82.04.190(1)(d)

Department of Revenue 2020 Tax Exemption Report

<u>Description</u>: The definition of retail sale excludes property used in the production of ferrosilicon which is then used to produce magnesium. These sales are classified as wholesale transactions. The exempt items must be used primarily to create a chemical reaction with an ingredient of ferrosilicon.

<u>Purpose</u>: To encourage magnesium production businesses to locate in Washington.

<u>Category/Year Enacted</u>: 1986

<u>Primary Beneficiaries</u>: Businesses using ferrosilicon.

<u>Possible Program Inconsistency</u>: None evident.

<u>Estimated Beneficiary Savings</u>: $0 in the 2021-23 Biennium.

MINOR FINAL ASSEMBLY COMPLETED IN WASHINGTON (B&O TAX)

Current statute: RCW 82.04.4295

JLARC 2012 Tax Preference Reviews (page 137)

Description: Provides a business and occupation tax deduction to manufacturers that perform minor final assembly in Washington on components that have been imported from outside the United States.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to address the specific circumstance of the assembly of Chevrolet LUV trucks at the Port of Seattle in order to retain that operation.

Year Enacted: 1977

2012 Legislative Auditor Recommendation: Terminate because of changes in federal import regulations, imported truck components are no longer being assembled at Washington ports, and there are no known beneficiaries of this deduction for minor final assembly.

2012 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

COMPREHENSIVE CANCER CENTERS (B&O TAX)

Current statute: RCW 82.04.4265

Department of Revenue 2020 Tax Exemption Report

Description: Comprehensive cancer center income is exempt from B&O tax to the extent the amounts are exempt from federal income tax.

Purpose: To encourage cancer research by a comprehensive cancer center as defined in RCW 82.04.4265.

Category/Year Enacted: 2005

Primary Beneficiaries: Comprehensive cancer centers.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

ORGAN PROCUREMENT (SALES AND USE TAX)

Current statutes: RCW 82.08.02807; 82.12.02749

Department of Revenue 2020 Tax Exemption Report

Description: Sales to qualified nonprofit organ procurement organizations of medical supplies, chemicals or materials are exempt from sales and use tax. The exemption does not apply to the sale of construction materials, office equipment, building equipment, administrative supplies, or vehicles.

Purpose: To extend the same tax treatment available to blood, bone and tissue banks.

Category/Year Enacted: 2002

Primary Beneficiaries: Nonprofit organizations that locate and obtain human organs for transplant operations.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

VACCINE ASSOCIATION (B&O TAX)

Current statute: RCW 82.04.640

Department of Revenue 2020 Tax Exemption Report

Description: The Washington Vaccine Association collects funds from health care insurers and third-party administrators for the cost of vaccines provided to children. Funds received by the Association are exempt from B&O tax.

Purpose: To improve the health of children.

Category/Year Enacted: 2010

Primary Beneficiaries: The Association and indirectly, children of the state.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

COMPREHENSIVE CANCER CENTERS (SALES AND USE TAX)

Current statutes: RCW 82.08.808; 82.12.808

Department of Revenue 2020 Tax Exemption Report

Description: Sales of medical supplies, chemicals, or materials to a comprehensive cancer center are exempt from retail sales and use taxes. The exemption does not extend to construction, office equipment, building equipment, administrative supplies or vehicles.

Purpose: To encourage cancer research by a comprehensive cancer center as defined in RCW 82.04.4265.

Category/Year Enacted: 2005

Primary Beneficiaries: Comprehensive cancer centers.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

FREE PUBLIC HOSPITALS (SALES AND USE TAX)

Current statutes: RCW 82.08.02795; 82.12.02745

Department of Revenue 2020 Tax Exemption Report

Description: Free hospitals are exempt from retail sales and use tax on purchases of items used in the operation of the hospital or the provision of health care services. The exemption requires that hospitals not charge its patients for health care services received.

Purpose: To reduce the cost of health care services provided by hospitals providing free service to their patients.

Category/Year Enacted: 1993

Primary Beneficiaries: Free public hospitals.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

ORGAN PROCUREMENT (B&O TAX)

Current statute: RCW 82.04.326

Department of Revenue 2020 Tax Exemption Report

Description: Qualified nonprofit organ procurement organizations receive a B&O tax exemption on income that is exempt from federal income tax.

Purpose: To extend the same tax treatment available to blood, bone and tissue banks.

Category/Year Enacted: 2002

Primary Beneficiaries: Nonprofit organizations that locate and obtain human organs for transplant operations.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Not disclosable in the 2021-23 Biennium.

FRATERNAL BENEFIT SOCIETIES (INSURANCE PREMIUMS TAX)

Current statutes: RCW 48.36A.010; 48.36A.240

JLARC 2009 Expedited Tax Preference Reviews (page 9)

Description: Provides an insurance premiums tax exemption to fraternal benefit societies that provide insurance to their members.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to acknowledge that fraternal organizations were providing benefits to a large class of people who otherwise would not carry any insurance, and any tax on these organizations would reduce the benefits they could provide.

Year Enacted: 1911

2009 Legislative Auditor Recommendation: Review and Clarify because it is unclear whether the objective or rationale for the exemption changed with the re-enactments of insurance law in 1947 and 1987.

2009 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $8,000,000 in the 2021-23 biennium

MEDICARE RECEIPTS (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.0201(6)(a)

JLARC 2013 Tax Preference Reviews (page 41)

Description: Provides an insurance premium tax exemption to health maintenance organizations and health care service contractors for certain federal payments for Medicare.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to comply with federal law prohibiting states from taxing federal Medicare prepayments.

Year Enacted: 1993

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of keeping Washington in compliance with federal law that prohibits states from taxing Medicare receipts.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $2,289,046,000 in the 2021-23 Biennium.

INSURANCE PREMIUMS (B&O TAX)

Current statute: RCW 82.04.320

JLARC 2008 Tax Preference Reviews (page 151)

Description: Provides a business and occupation tax exemption for income from premiums, fees, assessments, dues, or other charges for insurance that are assessed by a statewide gross insurance premiums 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: 1) define the B&O tax base; and 2) avoid double taxing income from insurance premiums that was already subject to the gross insurance premiums tax.

Year Enacted: 1935

2008 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objectives of defining the tax base and avoiding double taxation.

2008 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $1,646,700,000 in the 2021-23 Biennium.

ANNUITIES (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.020(1)

JLARC 2012 Tax Preference Reviews (page 27)

Description: Provides an insurance premiums tax exemption to life insurance companies for payments received on “qualifying” and “non-qualifying” annuity contracts. "Qualifying” annuities qualify for federal tax deferrals on contributions.

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 individuals to save toward retirement, and to treat “qualifying” and “non-qualifying” annuities the same.

Year Enacted: 1979

2012 Legislative Auditor Recommendation: Continue because payments to “qualifying” and “non-qualifying” annuities are receiving the same tax treatment, and to the extent tax savings are passed on, the exemptions are encouraging individuals to save for retirement.

2012 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $183,600,000 in the 2021-23 Biennium.

MEDICAL DEVICES (SALES AND USE TAX)

Current statutes: RCW 82.08.0283; 82.12.0277

JLARC 2013 Tax Preference Reviews (page 65)

Description: Provides a sales and use tax exemption for medical items, including prescribed prosthetic devices, naturopath-prescribed medicines, prescribed medical oxygen systems, and repair labor and services for any of these items.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to selectively address the regressive nature of sales tax by exempting certain "medically necessary" items for basic human needs.

Year Enacted: 1975

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing the regressive nature of Washington's sales and use tax by exempting certain medical items and services that meet basic human needs.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $144,735,000 in the 2021-23 Biennium.

INSULIN (SALES AND USE TAX)

Current statutes: RCW 82.08.985; 82.12.985

JLARC 2013 Tax Preference Reviews (page 65)

Description: Provides a sales and use tax exemption for insulin.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to selectively address the regressive nature of sales tax by exempting certain "medically necessary" items for basic human needs.

Year Enacted: 2004

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing the regressive nature of Washington's sales and use tax by exempting certain medical items and services that meet basic human needs.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $114,803,000 in the 2021-23 Biennium.

NONPROFIT BLOOD AND TISSUE BANKS (SALES AND USE TAX)

Current statutes: RCW 82.08.02805; 82.12.02747

JLARC 2013 Tax Preference Reviews (page 83)

Description: Provides a sales and use tax exemption to nonprofit blood and tissue banks for purchases of qualified medical supplies, chemicals, and materials.

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 the same tax treatment to nonprofit blood and tissue banks as federal law requires states to provide to the American Red Cross.

Year Enacted: 1995

2013 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of providing the same tax treatment to nonprofit blood and tissue banks as to the American Red Cross.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $29,758,000 in the 2021-23 Biennium.

TITLE INSURANCE PREMIUMS (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.020(1)

JLARC 2010 Tax Preference Reviews (page 119)

Description: Provides an insurance premiums tax exemption for title insurance premiums. Instead, title insurers pay B&O tax under the retailing classification.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to tax title insurance like a service activity under the B&O tax, and not like other forms of insurance subject to the insurance premiums tax.

Year Enacted: 1947

2010 Legislative Auditor Recommendation: Continue because the exemption is achieving the original objective of taxing title insurance like a service activity.

2010 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $18,187,000 in the 2021-23 Biennium.

DIETARY SUPPLEMENTS (SALES AND USE TAX)

Current statutes: RCW 82.08.925; 82.12.925

JLARC 2013 Tax Preference Reviews (page 65)

Description: Provides a sales and use tax exemption for prescribed dietary supplements.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to selectively address the regressive nature of sales tax by exempting certain "medically necessary" items for basic human needs.

Year Enacted: 2003

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing the regressive nature of Washington's sales and use tax by exempting certain medical items and services that meet basic human needs.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $17,004,000 in the 2021-23 Biennium.

NONPROFIT BLOOD AND TISSUE BANKS (B&O TAX)

Current statute: RCW 82.04.324

JLARC 2013 Tax Preference Reviews (page 83)

Description: Provides a business and occupation tax exemption to nonprofit blood and tissue banks for revenue from collection, storage, and distribution of blood and tissue if the income is also exempt from federal income 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 provide the same tax treatment to nonprofit blood and tissue banks as federal law requires states to provide to the American Red Cross.

Year Enacted: 1995

2013 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objective of providing the same tax treatment to nonprofit blood and tissue banks as to the American Red Cross.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $11,273,000 in the 2021-23 Biennium.

KIDNEY DIALYSIS EQUIPMENT (SALES AND USE TAX)

Current statutes: RCW 82.08.945; 82.12.945

JLARC 2013 Tax Preference Reviews (page 65)

Description: Provides a sales and use tax exemption for kidney dialysis devices.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to selectively address the regressive nature of sales tax by exempting certain "medically necessary" items for basic human needs.

Year Enacted: 2003

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing the regressive nature of Washington's sales and use tax by exempting certain medical items and services that meet basic human needs.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $9,230,000 in the 2021-23 Biennium.

LAUNDRY SERVICES FOR NONPROFIT HEALTH CARE FACILITIES (SALES AND USE TAX)

Current statute: RCW 82.04.050(2)(a)

JLARC 2011 Tax Preference Reviews (page 117)

Description: Provides a sales and use tax exemption to nonprofit health care facilities for purchases of laundry services.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to reduce member hospitals' laundry costs and assure a standard of laundry quality and cleanliness. When enacted, the preference provided a specific, targeted sales tax exemption for cooperative nonprofit associates formed by nonprofit hospitals to operate a central laundry facility for hospital members. JLARC staff infer the public policy objective for the 1998 expansion of the preference was to reduce the cost of outsourced laundry services for all nonprofit health care facilities.

Year Enacted: 1973

2011 Legislative Auditor Recommendation: Continue because the inferred public policy objective of reducing costs for outsourced laundry services for nonprofit health care facilities is being achieved.

2011 Citizen Commission Comment: Endorses without comment.

Estimated Beneficiary Savings: $6,822,000 in the 2021-23 Biennium.

FRATERNAL INSURANCE (B&O TAX)

Current statute: RCW 82.04.370

JLARC 2008 Expedited Tax Preference Reviews (page 27)

Description: Provides a business and occupation tax exemption for income from premiums, fees, assessments, dues, or other charges directly attributable to insurance or death benefits provided by fraternal benefit societies or fraternal fire insurance associations.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to 1) define the B&O tax base; 2) subsidize fraternal nonprofit organizations with charitable purposes and benefits for their members; and 3) provide tax-exempt status consistent with previous tax treatment for fraternal organizations since 1911.

Year Enacted: 1935

2008 Legislative Auditor Recommendation: Continue because the preference is achieving the inferred public policy objectives of defining the tax base, subsidizing fraternal nonprofit organizations, and providing consistent tax treatment for fraternal organizations.

2008 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $6,000,000 in the 2021-23 Biennium.

NONPROFIT BLOOD AND TISSUE BANKS (PROPERTY TAX)

Current statute: RCW 84.36.035

JLARC 2011 Tax Preference Reviews (page 155)

Description: Provides a property tax exemption for blood and tissue banks and their administrative offices.

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 support for organizations that are nonprofit benevolent and charitable entities, which provide services traditionally performed in hospitals, but that are now performed outside the hospital setting.

Year Enacted: 1971

2011 Legislative Auditor Recommendation: Continue because the exemption for blood and tissue banks is consistent with the inferred public policy objective to reduce costs for nonprofit organizations performing hospital-like services.

2011 Citizen Commission Comment: Endorses without comment.

Estimated Beneficiary Savings: $1,904,000 in the 2021-23 Biennium.

HEALTH INSURANCE BY STATE POOL (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.022

JLARC 2012 Tax Preference Reviews (page 91)

Description: Provides an insurance premiums tax deduction to health insurance carriers for the fees they are required to pay to the Washington State Health Insurance Pool (WSHIP) before calculating their insurance premiums 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 define the insurance premiums tax base.

Year Enacted: 1987

2012 Legislative Auditor Recommendation: Continue because the tax deduction for fees paid to WSHIP is defining the base for the insurance premiums tax.

2012 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $1,000,000 in the 2021-23 Biennium.

INSURANCE GUARANTY FUNDS (MULTIPLE TAXES)

Current statute: RCW 48.32.130

JLARC 2012 Tax Preference Reviews (page 113)

Description: Provides an insurance premiums tax credit to insurance companies for 20 percent of guaranty fund assessments each year, which allows full recoupment after five years.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to allow insurers to recoup assessments paid to the guaranty funds.

Year Enacted: 1976

2012 Legislative Auditor Recommendation: Continue because insurers are being allowed to recoup assessments to the guaranty funds.

2012 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $120,000 in the 2021-23 Biennium.

HEALTH INSURANCE CLAIMS (B&O TAX)

Current statute: RCW 82.04.4331

Department of Revenue 2020 Tax Exemption Report

Description: Insurance companies may take a B&O tax deduction for amounts paid on medical or dental claims for state employees incurred prior to July 1, 1990.

Purpose: To prevent placing commercial insurers at a competitive disadvantage in bidding for state contracts by providing commercial insurance firms with a deduction that was available to health care contractors and health maintenance organizations.

Category/Year Enacted: 1988

Primary Beneficiaries: None

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

BASIC HEALTH PLAN RECEIPTS (INSURANCE PREMIUMS TAX)

Current statute: RCW 48.14.0201(6)(b)

JLARC 2013 Tax Preference Reviews (page 41)

Description: Provides an insurance premium tax exemption to health maintenance organizations and health care service contractors for subsidized enrollees in the state Basic Health Plan and medical care services for certain persons.

Purpose: The Legislature did not state a public policy objective for this preference. JLARC staff infer that the policy objective may have been to reduce costs to the state by exempting state-funded Basic Health Plan and certain medical care services.

Year Enacted: 2005

2013 Legislative Auditor Recommendation: Continue because the preference is meeting the inferred public policy objective of reducing state medical care costs.

2013 Citizen Commission Comment: Endorses without comment.

Department of Revenue 2020 Tax Exemption Report

Estimated Beneficiary Savings: $0 in the 2021-23 Biennium.

NATURAL GAS SURPLUS SALES (B&O TAX)

Current statute: RCW 82.04.310(3)

Department of Revenue 2020 Tax Exemption Report

Description: Sales of natural or manufactured gas are exempt from B&O tax if the person sells within the United States a total amount of natural or manufactured gas that is no more than twenty percent of the amount of natural or manufactured gas they consumed within the United States within the same calendar year.

Purpose: Allows large industrial users who are not in the business of selling natural gas to sell back unused gas without incurring B&O tax liability.

Category/Year Enacted: 2007

Primary Beneficiaries: Businesses using natural gas in industrial processes.

Possible Program Inconsistency: None evident.

Estimated Beneficiary Savings: Minimal in the 2021-23 Biennium.