

**2014
TAX PREFERENCE
PERFORMANCE
REVIEWS**

SCOPE AND OBJECTIVES

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STATE OF WASHINGTON
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Why a JLARC Study of Tax Preferences?

In 2006 the Legislature established the Citizen Commission for Performance Measurement of Tax Preferences and directed it to develop a schedule for periodic review of the state's tax preferences. The Legislature also directed the staff of the Joint Legislative Audit and Review Committee (JLARC) to conduct the periodic reviews.

Background

Statute details the process used to review preferences (Chapter 43.136, Revised Code of Washington) and defines tax preferences to include: exemptions, exclusions, or deductions from the base of a state tax; credits against a state tax; deferrals of a state tax; or preferential state tax rates. JLARC staff estimate the state has 624 tax preferences.

Recognizing the need to assess the effectiveness of these tax preferences through an orderly process, the Legislature directed the Commission to develop a schedule for the review of all tax preferences so that each preference is reviewed at least once every ten years. The Commission annually revises the resulting ten-year schedule to account for any new or terminated tax preferences.

Omitted from review are several categories of tax preferences identified by statute (e.g., tax preferences required by constitutional law). Any tax preference the Commission determines is critical to the structure of the tax system may also be omitted.

JLARC staff are to review tax preferences according to the schedule developed by the Commission. For each tax preference the Commission selects for a performance review, JLARC staff are to provide a recommendation to either: (1) continue; (2) allow to expire; (3) continue and modify the expiration date; (4) review and clarify; or (5) terminate the preference.

Study Scope

The Citizen Commission selected the following 20 tax preferences for a performance review by JLARC staff in 2014:

Brief Description and Tax Type		RCW Citation	Year Enacted
Aerospace Industry Preferences			
1.	Aerospace Pre-Production Computer Expenditures (Sales and Use Tax)	82.08.975 ; 82.12.975	2003
2.	Aerospace Product Development (B&O Tax)	82.04.290(3)	2008
3.	Aircraft Part Prototypes (Sales and Use Tax)	82.08.02566 ; 82.12.02566	1997
4.	Airplane Pre-Production Expenditures (B&O Tax)	82.04.4461	2003
5.	Certified Aircraft Repair Firms (B&O Tax)	82.04.250(3)	2003
6.	Commercial Airplane Manufacturing – Credit for Taxes Paid (B&O Tax)	82.04.4463	2003
7.	Commercial Airplane Manufacturing – Preferential Rate (B&O Tax)	82.04.260(11)	2003
8.	Commercial Airplane Part Place of Sale (B&O Tax)	82.04.627	2008
9.	Superefficient Airplane Production (Sales and Use Tax)	82.08.980 ; 82.12.980	2003
10.	Superefficient Airplane Production Facilities (Leasehold Excise Tax)	82.29A.137	2003
11.	Superefficient Airplane Production Facilities (Property Tax)	84.36.655	2003

Brief Description and Tax Type		RCW Citation	Year Enacted
Fruit and Vegetable Processing Preferences			
12.	Dairy Products Manufacturing – Exemption (B&O Tax)	82.04.4268	2006
13.	Dairy Products Manufacturing – Preferential Rate (B&O Tax)	82.04.260(1)(c)	2001
14.	Fruit and Vegetable Manufacturing – Exemption (B&O Tax)	82.04.4266	2005
15.	Fruit and Vegetable Manufacturing – Preferential Rate (B&O Tax)	82.04.260(1)(d)	1965
16.	Seafood Products Manufacturing – Exemption (B&O Tax)	82.04.4269	2006
17.	Seafood Products Manufacturing – Preferential Rate (B&O Tax)	82.04.260(1)(b)	1959
Miscellaneous Preferences			
18.	Electric Power Exported or Resold (Public Utility Tax)	82.16.050(11)	1989
19.	International Investment Management (B&O Tax)	82.04.290(1)	1995
20.	Sales Subject to Public Utility Tax (Sales Tax)	82.08.0252	1935

In addition, using an expedited process, the Commission will consider the following 62 tax preferences. The expedited process is based on information published by the Department of Revenue in its most recent statutorily required tax exemption study.

Brief Description and Tax Type		RCW Citation	Year Enacted
1.	Academic Transcripts (B&O Tax)	82.04.399	1996
2.	Academic Transcripts (Sales and Use Tax)	82.08.02537 ; 82.12.0347	1996
3.	Air Pollution Control Facilities (Property Tax)	84.36.487	1997
4.	Air Pollution Control Facilities (Sales and Use Tax)	82.08.810 ; 82.12.810	1997
5.	Aluminum Master Alloy Producers (B&O Tax)	82.04.110(2)(b)	1997
6.	Bad Debts (Fuel Tax)	82.36.044	1998
7.	Baseball Stadiums (Leasehold Excise Tax)	82.29A.130(14)	1995
8.	Biodiesel and Alcohol Fuel Production Facilities (Leasehold Excise Tax)	82.29A.135(1)(a)-(d),(2)	1980
9.	Biodiesel and Alcohol Fuel Production Facilities (Property Tax)	84.36.635	2003
10.	Boats Under 16 Feet (Watercraft Excise Tax)	82.49.020(3)	1983
11.	Child Care (B&O Tax)	82.04.2905	1998
12.	Church Child Care (B&O Tax)	82.04.339	1992
13.	Coal for Thermal Generating Plants (Sales and Use Tax)	82.08.811 ; 82.12.811	1997
14.	Commuter Airplanes (Sales and Use Tax)	82.08.0262 ; 82.12.0254	2009
15.	Custom Computer Software (Property Tax)	84.36.600	1991
16.	Discount Program Memberships (B&O Tax)	82.04.421	1997
17.	Emergency Medical Air Transport (Aircraft Fuel Tax)	82.42.030(6)	2003
18.	Film and Video Production Equipment (Sales and Use Tax)	82.08.0315 ; 82.12.0315	1995
19.	Fish Cleaning (B&O Tax)	82.04.2403	1994
20.	Football Stadium and Exhibition Center Parking (Sales Tax)	82.08.02875	1997
21.	Football Stadiums (Leasehold Excise Tax)	82.29A.130(15)	1997
22.	Football Stadiums (Sales and Use Tax)	36.102.070	1997
23.	Gravitational Wave Observatory (Sales and Use Tax)	82.08.02569 ; 82.12.02569	1996
24.	Gun Safes (Sales and Use Tax)	82.08.832 ; 82.12.832	1998
25.	Habitat and Water Quality Improvements (Property Tax)	84.36.255	1997
26.	Historic Property (Property Tax)	84.26.070	1985

27.	Inmate Employment Programs (Leasehold Excise Tax)	82.29A.130(12)	1992
28.	International Services (B&O Tax)	82.04.44525	1998
29.	Low Value Parcels (Property Tax)	84.36.015	1997
30.	Mental Health Services (B&O Tax)	82.04.4277	2011
31.	Microbrewers (Beer Tax)	66.24.290(3)(b)	1993
32.	Multiple Activities Credit (B&O Tax)	82.04.440	1987
33.	Multi-Unit Urban Housing (Property Tax)	84.14.020	1995
34.	Natural Gas Subject to Public Utility Tax (Use Tax)	82.12.022(4)	1989
35.	Natural Gas Surplus Sales (B&O Tax)	82.04.310(3)	2007
36.	Nonprofit Camps and Conference Centers (B&O Tax)	82.04.363	1997
37.	Nonprofit Camps and Conference Centers (Sales Tax)	82.08.830	1997
38.	Nonprofit Developmentally Disabled Housing (Property Tax)	84.36.042	1998
39.	Nonprofit Fundraising (B&O Tax)	82.04.3651	1998
40.	Nonprofit Fundraising (Sales and Use Tax)	82.08.02573 ; 82.12.NEW	1998
41.	Nonresident Keeping Aircraft In-State (Aircraft Excise Tax)	82.48.100(7)	1999
42.	Prewritten Computer Software (Property Tax)	84.40.037	1991
43.	Products Shipped Out-of-State (Litter Tax)	82.19.050(1)	1992
44.	Public Records Copies (Sales and Use Tax)	82.08.02525 ; 82.12.02525	1996
45.	Racing Fuel (Fuel Tax)	82.38.080(2)(c)	1998
46.	Second Narrows Bridge (B&O Tax)	82.04.416	1998
47.	Second Narrows Bridge (Leasehold Excise Tax)	82.29A.132	1998
48.	Second Narrows Bridge (Property Tax)	84.36.010(1)	1998
49.	Second Narrows Bridge (Public Utility Tax)	82.16.046	1998
50.	Second Narrows Bridge (Real Estate Excise Tax)	82.45.190	1998
51.	Second Narrows Bridge (Sales and Use Tax)	47.46.060	1998
52.	Sewerage Processing and Disposal (Public Utility Tax)	82.16.050(13)	1987
53.	Trade Shows (B&O Tax)	82.04.4282(6)	1989
54.	Truck Auxiliary Power - Batteries and Infrastructure (Sales and Use Tax)	82.08.815 ; 82.12.815	2006
55.	Truck Auxiliary Power - Enabling Parked Operation (Sales and Use Tax)	82.08.825 ; 82.12.825	2006
56.	Tuna, Mackerel, and Jack Fish (Enhanced Food Fish Tax)	82.27.010	1995
57.	Vending Machine Sales (Sales Tax)	82.08.080	1963
58.	Vessel Use by Manufacturers or Dealers (Use Tax)	82.12.800 ; 82.12.801 ; 82.12.802	1997
59.	Wax and Ceramic Materials to Create Molds (Sales and Use Tax)	82.08.983 ; 82.12.983	2010
60.	Wholesale Auto Auctions (B&O Tax)	82.04.317 ; 82.04.422(1)	1997
61.	Wood Biomass Fuel Production Facilities (Leasehold Excise Tax)	82.29A.135(1)(e),(2)	2003
62.	Wood Biomass Fuel Production Facilities (Property Tax)	84.36.640	2003

Study Objectives

In response to the legislative directive, each performance review may answer questions relevant to the tax preference from the following list of questions.

Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference? (RCW [43.136.055\(b\)](#))

2. What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives? (RCW [43.136.055\(c\)](#))
3. To what extent will continuation of the tax preference contribute to these public policy objectives? (RCW [43.136.055\(d\)](#))
4. If the public policy objectives are not being fulfilled, what is the feasibility of modifying the tax preference for adjustment of the tax benefits? (RCW [43.136.055\(g\)](#))

Beneficiaries:

5. Who are the entities whose state tax liabilities are directly affected by the tax preference? (RCW [43.136.055\(a\)](#))
6. To what extent is the tax preference providing unintended benefits to entities other than those the Legislature intended? (RCW [43.136.055\(e\)](#))

Revenue and Economic Impacts:

7. What are the past and future tax revenue and economic impacts of the tax preference to the taxpayer and to the government if it is continued? (This includes an analysis of the general effects of the tax preference on the overall state economy, including the effects on consumption and expenditures of persons and businesses within the state.) (RCW [43.136.055\(h\)](#))
8. If the tax preference were to be terminated, what would be the negative effects on the taxpayers who currently benefit from the tax preference and the extent to which the resulting higher taxes would have an effect on employment and the economy? (RCW [43.136.055\(f\)](#))
9. If the tax preference were to be terminated, what would be the effect on the distribution of liability for payment of state taxes? (RCW [43.136.055\(i\)](#))
10. For those preferences enacted for economic development purposes, what are the economic impacts of the tax preference compared to the economic impact of government activities funded by the tax? (This analysis involves conducting an economic impact study using OFM’s input-output model.) (RCW [43.136.055\(j\)](#))

Other States:

11. Do other states have a similar tax preference and what potential public policy benefits might be gained by incorporating a corresponding provision in Washington? (RCW [43.136.055\(k\)](#))

Timeframe for the Study

A preliminary audit report is scheduled to be presented at the July 2014 JLARC meeting and at the August 2014 meeting of the Commission. A final report is scheduled to be presented to JLARC in December 2014.

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