



Proposed Study Questions: 2018 Tax Preference Performance Reviews

State of Washington Joint Legislative Audit and Review Committee

July 2017

Why a JLARC Study of Tax Preferences?

In 2006, the Legislature established a process to review the state's 600-plus tax preferences.

Two key steps in that process were creating the Citizen Commission for Performance Measurement of Tax Preferences and assigning legislative staff to conduct reviews.

The Commission was charged with developing a ten-year schedule for reviewing the state's tax preferences. Staff of the Joint Legislative Audit and Review Committee (JLARC) were directed to conduct the reviews ([Chapter 43.136 RCW](#)).

The JLARC reviews focus on identifying the public policy objectives for each tax preference and seeking evidence to determine whether the objectives have been achieved. Each review requires an audit recommendation to the Legislature.

Tax preferences selected for review in 2018

Based on a ten-year schedule, the Citizen Commission selected these preferences for a formal review by JLARC staff in 2018.

Brief Description and Tax Type	Year Enacted	RCW Citation
1. Custom Farming (B&O Tax)	2007	82.04.625
2. Hauling Farm Products for Relatives (Public Utility Tax)	2007	82.16.300
3. Corporate Headquarters (Sales and Use Tax)	2008	82.82.020
4. Multi-Unit Urban Housing in Rural Counties (Property Tax)	2014	Ch. 84.14 RCW ; 84.14.040(1)
5. Multi-Unit Urban Housing (Property Tax)	1995	Ch. 84.14 RCW
6. Mental Health Services (B&O Tax)	2011	82.04.4277
7. Aircraft for Air Ambulances (Aircraft Excise Tax)	2010	82.48.100(8)
8. Aircraft for Air Ambulances (Property Tax)	2010	84.36.575
9. Nonprofit Fundraising (Use Tax)	2013	82.12.225
10. High-Unemployment County Investment Projects (Sales and Use Tax)	1985	82.60.040 ; 82.60.049
11. Seed Conditioning (B&O Tax)	1987	82.04.120
12. Conditioned Seed Wholesaling (B&O Tax)	1998	82.04.331
13. Shipping Farm Products to Port (Public Utility Tax)	2007	82.16.050(10)
14. Agricultural Fairs (B&O Tax)	1965	82.04.335
15. Hay Cubing (B&O Tax)	1997	82.04.120

Proposed Study Questions: 2018 Tax Preference Performance Reviews

The Commission also identified the following additional tax preferences for a performance review by JLARC staff in 2018, if staff resources are available.

Brief Description and Tax Type	Year Enacted	RCW Citation
16. Christmas Tree Producers (B&O Tax)	1987	82.04.335
17. Christmas Trees and Cottonwoods (Timber Tax)	1971	84.33.170
18. Christmas Tree Inputs (Sales and Use Tax)	1987	82.04.213
19. Hop Commission Services (B&O Tax)	1998	82.04.338
20. Farming Machinery and Equipment (Property Tax)	2001	84.36.630
21. Farm-Worker Housing (Sales and Use Tax)	1996	82.08.02745 ; 82.12.02685
22. Product Leases (Leasehold Excise Tax)	1976	82.29A.120(2)
23. Anaerobic Digesters for Dairies (Sales and Use Tax)	2001	82.08.900 ; 82.12.900
24. Crop Dusting (Aircraft Fuel Tax)	1982	82.42.230(1)
25. Conservation Futures (Property Tax)	1984	84.36.500

Preferences for expedited review

In addition, the Commission will consider the following tax preferences using an expedited process. Expedited reviews are primarily based on the Department of Revenue's most recent tax exemption study and do not include an evaluation by JLARC staff.

Brief Description and Tax Type	Year Enacted	RCW Citation
1. Agricultural Products	1984	84.36.470
2. Hops Processed and Exported (B&O Tax)	1987	82.04.337
3. Agricultural Products (Litter Tax)	1971	82.19.050(2)
4. Nursery Stock (Property Tax)	1971	84.40.220
5. Livestock Nutrient Management Equipment (Sales and Use Tax)	2001	82.08.890 ; 82.12.890
6. Horticultural Packing Materials (Sales and Use Tax)	1988	82.08.0311 ; 82.12.0311
7. Semen for Artificial Inseminations (Sales and Use Tax)	1965	82.08.0272 ; 82.12.0267
8. Aquaculture Feed (Sales and Use Tax)	1985	82.08.0294 ; 82.12.0294
9. Livestock Feed (Sales and Use Tax)	1986	82.08.0296 ; 82.12.0296
10. Conifer Seedlings Sold Out-of-State (Sales and Use Tax)	2001	82.08.850 ; 82.12.850
11. Pollen (Sales and Use Tax)	1967	82.08.0277 ; 82.08.0273
12. Pollination Agents (Sales and Use Tax)	1993	82.04.050(11)

Proposed Study Questions: 2018 Tax Preference Performance Reviews

	Brief Description and Tax Type	Year Enacted	RCW Citation
13.	Farm Machinery Replacement Parts (Sales and Use Tax)	2006	82.08.855 ; 82.12.855
14.	Fuel Used on Farms (Sales and Use Tax)	2006	82.08.865 ; 82.12.865
15.	Farm Machinery Sold to Nonresidents (Sales Tax)	1961	82.08.0268
16.	Warehouse and Grain Elevator Construction and Equipment (Sales and Use Tax)	1997	82.08.820 ; 82.12.820
17.	Farm Auction Sales (Sales and Use Tax)	1943	82.08.0257 ; 82.12.0258
18.	Leased Irrigation Equipment (Sales and Use Tax)	1983	82.08.0288 ; 82.12.0283
19.	Farm Property (Estate Tax)	2005	83.100.046
20.	Agricultural Products (B&O Tax)	1935	82.04.330 ; 82.04.410
21.	Grain and Unprocessed Milk Wholesaling (B&O Tax)	1998	82.04.332
22.	Livestock Medicine (Sales and Use Tax)	2001	82.08.880 ; 82.12.880
23.	Gas Used to Heat Chicken Houses (Sales and Use Tax)	2001	82.08.910 ; 82.12.910
24.	Irrigation Water (Public Utility Tax)	1935	82.16.050(7)
25.	Chicken Bedding Materials (Sales and Use Tax)	2001	82.08.920 ; 82.12.920

Study Timeframe

Preliminary Report: July 2018

Proposed Final Report: December 2018

Study Team

- Project Coordinator: Eric Thomas 360-786-5182 eric.thomas@leg.wa.gov
- Research Analyst: Dana Lynn 360-786-5177 dana.lynn@leg.wa.gov
- Research Analyst: Rachel Murata 360-786-5293 rachel.murata@leg.wa.gov
- Research Analyst: Pete van Moorsel 360-786-5185 pete.vanmoorsel@leg.wa.gov
- Research Analyst: Eric Whitaker 360-786-5618 eric.whitaker@leg.wa.gov

More about the process for reviewing tax preferences

Legislature directed on-going assessment of tax preferences

Tax preferences include exemptions, exclusions, or deductions from the base of a state tax; credits against or deferrals of a state tax; or preferential state tax rates.

The Legislature provided questions for JLARC staff to consider for each performance review. After JLARC staff complete their analysis, the Legislative Auditor provides one of the following

Proposed Study Questions: 2018 Tax Preference Performance Reviews

recommendations to the Legislature: (1) continue; (2) review or clarify the policy objective; (3) modify; or (4) terminate or allow the preference to expire.

The performance reviews address the topics below:

Public Policy Objective Questions

- What are the public policy objectives for the tax preference and are they stated or inferred?
- Is there evidence the tax preference has contributed to achieving any of the public policy objectives?
- If the objectives are not being achieved, can the tax preference be modified to achieve them?

Beneficiary Questions

- Who are the direct and indirect beneficiaries of the tax preference?
- To what extent does the preference provide unintended benefits to entities other than those intended by the Legislature?

Revenue and Economic Impact Questions

- What are the past and future tax savings to the beneficiaries?
- Does the preference shift tax liability to other taxpayers?
- For preferences enacted for economic development purposes, what are the impacts of the preference on the overall state economy, including a comparison to the economic impact of government activities funded at the same level as the tax preference? This analysis may involve conducting an economic impact study using an economic impact modeling tool.

Other States Questions

- Do other states have a similar tax preference or do they provide other incentives to achieve a similar result?

Citizen Commission develops review schedule and provides comments

The Citizen Commission develops a ten-year review schedule, which is revised annually if needed. The intent of the schedule is to review the state's 600-plus tax preferences at least once every ten years.

JLARC staff review tax preferences according to the Commission's schedule and present the results of their analysis to the Legislature and the Commission. The Commission dedicates a meeting each year to public testimony on the preferences, and may choose to add comments to the JLARC staff reports.

Several categories of tax preferences are statutorily omitted from review

The following types of tax preferences are not reviewed by JLARC staff:

- Tax preferences that are required by constitutional law.
- Sales and use tax exemptions for machinery and equipment used for manufacturing, research and development, or testing.
- The business and occupation tax credit for small businesses.
- Sales and use tax exemptions for food and prescription drugs.
- Property tax relief for retired persons.
- Property tax valuations based on current use.

Proposed Study Questions: 2018 Tax Preference Performance Reviews

The Commission may also omit from review any tax preference it determines is critical to the structure of the tax system.

Tax Preference Review Process

