

2013 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?

Engrossed House Bill 1069 (2006) 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 bill also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct the periodic reviews.

Background

Tax preferences are exemptions, exclusions, or deductions from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. JLARC estimates the state currently has 602 tax preferences.

Recognizing the need to assess the effectiveness of these tax preferences through an orderly process, the Legislature established the Citizen Commission for Performance Measurement of Tax Preferences. One of the Commission's roles is to develop a schedule for the orderly review of all tax preferences at least once every ten years. The ten-year schedule is to be revised annually.

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. Additionally, the Commission may recommend an expedited process for any tax preference.

JLARC is to review tax preferences according to the schedule developed by the Commission. For each tax preference the Commission selects for a performance review, JLARC is 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 tax preferences for a performance review by JLARC in 2013:

	Brief Description and Tax Type	RCW Citation	Year Enacted
1.	Artistic and Cultural Organizations (B&O Tax)	82.04.4322; 82.04.4324; 82.04.4326; 82.04.4327	1981
2.	Artistic and Cultural Organizations (Sales and Use Tax)	82.08.031; 82.12.031	1981
3.	Basic Health Plan Receipts (Insurance Premiums Tax)	48.14.0201(6)(b)	2005
4.	Dentistry (Insurance Premiums Tax)	48.14.0201(6)(c)	1993
5.	Dietary Supplements (Sales and Use Tax)	82.08.925; 82.12.925	2003
6.	Fishing Boat Fuel (Sales and Use Tax)	82.08.0298; 82.12.0298	1987
7.	Fuel Used in Commercial Vessels (B&O Tax)	82.04.433	1985
8.	Health Maintenance Organizations (B&O Tax)	82.04.322	1993
9.	Insulin (Sales and Use Tax)	82.08.985; 82.12.985	2004
10.	Kidney Dialysis Equipment (Sales and Use Tax)	82.08.945; 82.12.945	2003

Brief Description and Tax Type		RCW Citation	Year Enacted
11.	Local Residential and Coin-Op Telephone Service (Sales Tax)	82.08.0289	1983
12.	Medical Devices (Sales and Use Tax)	82.08.0283; 82.12.0277	1975
13.	Medicare and Basic Health Plan Receipts by Public and Nonprofit Hospitals (B&O Tax)	82.04.4311	2002
14.	Medicare Receipts (Insurance Premiums Tax)	48.14.0201(6)(a)	1993
15.	Nonprofit Blood, Bone, and Tissue Banks (B&O Tax)	82.04.324	1995
16.	Nonprofit Blood, Bone, and Tissue Banks (Sales and Use Tax)	82.08.02805; 82.12.02747	1995
17.	Nonprofit Youth Recreation Services and Local Government Fitness Classes (Sales and Use Tax)	82.08.0291; 82.12.02917	1981
18.	Prescription Drug Administration (B&O Tax)	82.04.620	2007
19.	Prescription Drugs Resellers (B&O Tax)	82.04.272	1998
20.	Retailing (B&O Tax)	82.04.250(1)	1983
21.	Rural County and CEZ New Jobs (B&O Tax)	82.62.030; 82.62.045	1986
22.	Tree Trimming Under Power Lines (Sales and Use Tax)	82.04.050(3)(e)	1995
23.	Use Tax on Rental Value (Use Tax)	82.12.010(7)(c)	1985

In addition, using the expedited process, the Commission will consider the following 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.	Alternative Fuel Vehicles (Sales and Use Tax)	82.08.809; 82.12.809	2005
2.	Baseball Stadiums (Leasehold Excise Tax)	82.29A.130(14)	1995
3.	Baseball Stadiums (Sales and Use Tax)	36.100.090	1995
4.	Biodiesel and Alcohol Fuel Production Facilities (Leasehold Excise Tax)	82.29A.135(1)(a)-(d),(2)	1980
5.	Biodiesel and Alcohol Fuel Production Facilities (Property Tax)	84.36.635	2003
6.	Biodiesel and E85 Fuel Distribution (Sales and Use Tax)	82.08.955; 82.12.955	2003
7.	Biodiesel and E85 Fuel Sales (B&O Tax)	82.04.4334	2003
8.	Boats Under 16 Feet (Watercraft Excise Tax)	82.49.020(3)	1983
9.	Bonneville Power Admin Program (B&O Tax)	82.04.310(4)	2010
10.	Competitive Telephone Service (Sales and Use Tax)	82.04.050(1)(a)	1981
11.	Comprehensive Cancer Centers (B&O Tax)	82.04.4265	2005
12.	Comprehensive Cancer Centers (Sales and Use Tax)	82.08.808; 82.12.808	2005
13.	Core Deposits and Tire Fees (Sales and Use Tax)	82.08.036; 82.12.038	1989
14.	Drug Delivery Systems (Sales and Use Tax)	82.08.935; 82.12.935	2003
15.	Fish Cleaning (B&O Tax)	82.04.2403	1994
16.	Foreclosure Relocation Assistance (Real Estate Excise Tax)	82.45.030(3)	2011
17.	Forest Derived Biomass (B&O Tax)	82.04.4494	2009
18.	Forest Land Special Assessments (Property Tax)	84.33.210(1)	1992
19.	Free Public Hospitals (Sales and Use Tax)	82.08.02795; 82.12.02745	1993
20.	Hanford Lease Fees (Leasehold Excise Tax)	82.29A.020(2)	1991

Brief Description and Tax Type		RCW Citation	Year Enacted
21.	Horse Race Tracks (Sales and Use Tax)	82.66.040	1995
22.	Human Body Parts (Sales and Use Tax)	82.08.02806; 82.12.02748	1996
23.	Inmate Employment Programs (Leasehold Excise Tax)	82.29A.130(12)	1992
24.	Life Sciences Discovery Fund (B&O Tax)	82.04.4263	2005
25.	Local Government Business Income (B&O Tax)	82.04.419	1983
26.	Nebulizers (Sales and Use Tax)	82.08.803; 82.12.803	2004
27.	Nonfuel Use of Petroleum (Oil Spill Tax)	82.23B.045	1991
28.	Nonprofit Cancer Treatment Clinics (Property Tax)	84.36.046	1997
29.	Nonprofit Credit and Debt Counseling (B&O Tax)	82.04.368	1993
30.	Nonprofit Dialysis Facilities (Property Tax)	84.36.040(1)(f)	1987
31.	Nonprofit Emergency or Transitional Housing (Property Tax)	84.36.043	1983
32.	Nonprofit Fundraising (Property Tax)	84.36.550	1993
33.	Nonprofit Homes for Aging (Property Tax)	84.36.041	1989
34.	Nonprofit Medical Research and Training Facilities (Property Tax)	84.36.045	1975
35.	Organ Procurement (B&O Tax)	82.04.326	2002
36.	Organ Procurement (Sales and Use Tax)	82.08.02807; 82.12.02749	2002
37.	Ostomic Items (Sales and Use Tax)	82.08.804; 82.12.804	2004
38.	Performing Arts (Property Tax)	84.36.060(1)(b)	1981
39.	Secondary Transportation (Oil Spill Tax)	82.23B.030	1991
40.	Testing and Safety Labs (B&O Tax)	82.04.434	1991
41.	Trade Shows (B&O Tax)	82.04.4282(6)	1989
42.	Tuna, Mackerel, and Jack Fish (Enhanced Food Fish Tax)	82.27.010	1995
43.	Used Mobile Homes (Sales and Use Tax)	82.08.033; 82.12.033	1979
44.	Vaccine Association (B&O Tax)	82.04.640	2010
45.	Wax and Ceramic Materials to Create Molds (Sales and Use Tax)	82.08.983; 82.12.983	2010
46.	Wood Biomass Fuel Manufacturing (B&O Tax)	82.04.260(1)(f)	2003
47.	Wood Biomass Fuel Production Facilities (Leasehold Excise Tax)	82.29A.135(1)(e),(2)	2003
48.	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 will be presented at the July 2013 JLARC meeting and at the August 2013 meeting of the Commission. A final report will be presented to JLARC in January 2014.

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