
Finance Committee

ESB 5843

Brief Description: Strengthening the review of the legislature's goals for tax preferences by requiring that every new tax preference provide a statement of legislative intent and include an expiration date where applicable.

Sponsors: Senators Tom, Billig, Hill, Hobbs, Murray, Darneille, Kohl-Welles, Conway and Frockt.

Brief Summary of Engrossed Bill

- Requires any new tax preference legislation to include legislative intent language, metrics and data to facilitate the review of the preference.
- Requires any new tax preference legislation to include an expiration date where applicable.

Hearing Date: 4/19/13

Staff: Dominique Meyers (786-7150).

Background:

Washington derives most of its revenue from various excise taxes and property tax. The major excise taxes are the state sales and use tax and the business and occupation (B&O) tax. Washington law also provides numerous reductions in these various taxes through tax exemptions, deductions, credits, deferrals, and preferential tax rates. Collectively, these tax reductions are referred to as tax preferences.

State law requires a periodic review of most excise and property tax preferences to determine if their continued existence or modification serves the public interest. The enabling legislation assigns specific roles in the review process to two different entities. The job of scheduling the review of tax preferences, holding public hearings, and commenting on the reviews is assigned to the Citizen Commission for Performance Measurement of Tax Preferences (Commission). The

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

analysis and reviews are assigned to the staff of the Joint Legislative Audit and Review Committee (JLARC).

The Commission develops a schedule to accomplish a review of tax preferences at least once every ten years. The Commission is authorized to omit certain tax preferences from the schedule, such as: those required by constitutional law; the sales and use tax exemptions for machinery, equipment, and food; the small business credit for the B&O tax; the property tax relief program for retired persons; and tax preferences that the Commission determines are a critical part of the tax structure.

Tax preferences that have a statutory expiration date are scheduled for review before the preference expires. When reviewing tax preferences, JLARC considers a number of factors including the following: (1) the public policy objectives of the exemption; (2) whether terminating the tax preference may have negative effects on the category of taxpayers that currently benefit from the tax preference; (3) the extent to which resulting higher taxes may have negative effects on employment and the economy; and (4) the economic impact of the tax preference compared to the economic impact of government activities funded at the same level of expenditure as the tax preference.

Each year JLARC prepares a final report containing analysis of the tax preference and recommendations for the Legislature to consider regarding the continuation of the preference. In general, JLARC recommendation categories are as follows: continue without modification; clarify or modify; and terminate. The Commission then reviews the JLARC recommendations and includes final comments in the report and can either endorse, endorse with additional comments, or not endorse the JLARC recommendation. The fiscal committees of the Legislature must jointly hold a public hearing to consider the final report.

Summary of Bill:

For any bill enacting a new tax preference, or expanding or extending an existing tax preference, the enacted bill must include legislative intent provisions that establish policy goals and related metrics that provide context or data for the tax preference review process by JLARC. The bill must also include an expiration date where applicable. An applicable tax preference is any tax preference except for those that clarify an ambiguity or correct a technical inconsistency.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2013.