

HOUSE BILL REPORT

HB 2731

As Reported by House Committee On:

Finance

Title: An act relating to the evaluation of tax preferences.

Brief Description: Revising the evaluation of tax preferences.

Sponsors: Representatives Veloria, Gombosky, Dunshee and Chase.

Brief History:

Committee Activity:

Finance: 2/4/02, 2/11/02 [DPS].

Brief Summary of Substitute Bill

- Provides that tax preferences will be evaluated at least once every six years.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Conway, Morris, Santos and Veloria.

Minority Report: Do not pass. Signed by 5 members: Representatives Cairnes, Ranking Minority Member; Nixon, Orcutt, Roach and Van Luven.

Staff: Bob Longman (786-7139).

Background:

Tax exemptions, exclusions, deductions, credits, deferrals, and preferential rates are known as tax preferences.

In 1982 the Legislature enacted a bill that initiated a sunset review of tax preferences. The legislation directed the Joint Select Committee on Sunset to prepare additional legislation that would terminate all tax preferences over a period of four years. If this termination legislation had been subsequently enacted, the Legislative Budget Committee (LBC) (now known as the Joint Legislative Audit and Review Committee (JLARC))

would have been required to review each preference before its termination date and report back to the Legislature. After receiving this report, the Legislature could enact legislation preventing the termination of one or more preferences.

In 1983 the Joint Select Committee on Sunset submitted a bill terminating all tax preferences over a period of four years, as directed by the Legislature. This bill, HB 199, was the subject of a lively and well attended hearing in the House Ways and Means Committee. No further action was taken on the bill. Thus, the termination schedule was not enacted, the LBC did not do any reviews of tax preferences, and no preferences were terminated. Portions of the 1982 sunset review statute, setting forth the review procedure that the LBC would have used, remain on the books. Under these procedures, the factors to be considered in the review are:

- (1) The persons or organizations whose state tax liabilities are directly affected by the tax preference.
- (2) Legislative objectives that might provide a justification for the tax preference.
- (3) Evidence that the existence of the tax preference has contributed to the achievement of any of the objectives.
- (4) The extent to which continuation of the tax preference might contribute to any of the objectives.
- (5) Fiscal impacts of the tax preference, including past impacts and expected future impacts.
- (6) The extent to which termination of the tax preference would affect the distribution of liability for payment of state taxes.

Following this review, the LBC was to submit a report to the Legislature. If the Legislature decided a preference was to be continued rather than terminated, a bill to continue the preference would be necessary. Otherwise, the preference would terminate as scheduled.

The Department of Revenue publishes a report on tax preferences every four years. The report covers more than 400 tax preferences and describes each preference, the year of enactment, the purpose of the preference (or the department's best guess), an indication of primary beneficiaries, and estimated fiscal impact.

Summary of Substitute Bill:

Existing references to LBC in the tax preference review statutes are changed to JLARC.

The JLARC must establish a schedule and review each tax preference at least once every six years. Business growth and relocation into this state are additional factors to consider when tax preferences are evaluated.

No preference would be automatically terminated. After receiving an annual report on tax preferences from JLARC, the legislative fiscal committees will hold hearings to determine whether individual preferences should be continued, modified, or terminated.

The Department of Revenue must provide additional information needed by JLARC in its review.

Substitute Bill Compared to Original Bill:

The original bill expresses an intent that tax preferences be reviewed every six years. The substitute bill adds the detailed provisions.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: There should be an orderly review of tax preferences. This will provide the legislature with information on the strengths and weaknesses of individual tax incentive approaches. A full review will not necessarily lead to the conclusion that tax incentives should be repealed. Some incentives might be increased, so as to encourage economic development in the state. There is no procedure for reviewing tax exemptions that have been on the books for many years. Assessors think property tax exemptions in particular should be reviewed periodically. Automatic termination of exemptions is not a good idea, but there should be a thorough evaluation of all exemptions.

Testimony Against: None.

Testified: Representative Veloria, prime sponsor; Ron Newbry, Washington Economic Development Association; and Scott Noble, Washington State Association of County Assessors.