
Finance Committee

ESSB 5513

Brief Description: Increasing tax exemption transparency and accountability.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Frockt, Hasegawa, Miloscia, Rolfes, Saldaña, Keiser, Wellman, Conway, Chase, Billig, Kuderer, Hunt, McCoy and Darneille).

Brief Summary of Engrossed Substitute Bill

- Requires the budget outlook methodology document to summarize the fiscal impact of tax preferences.
- Requires the Governor's budget documents to include a detailed listing of discretionary tax preferences.
- Requires the Department of Revenue (DOR) tax exemption report to be updated more frequently.

Hearing Date: 2/22/18

Staff: Tracey O'Brien (786-7152).

Background:

State Operating Budget.

The state government operates on a fiscal biennium that begins on July 1 of each odd-numbered year. A two-year biennial operating budget is adopted every odd-numbered year. Appropriations are made in the biennial budgets for the operation of state government and its various agencies and institutions, including higher education and K–12 public schools.

Governor's Budget Proposal.

The Budget and Accounting Act establishes various requirements for the budget documents that the Governor must submit to the Legislature before each regular legislative session. The required documents include the Governor's budget message, which explains the budget and

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outlines proposed fiscal policies for the period covered by the budget; the budget bill; and other supporting information.

Tax Preferences.

A tax preference confers reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences.

Annual Surveys and Reports.

Over the last 10 years, the Legislature has required taxpayers to file the Annual Survey (Survey) or the Annual Report (Report) in order to qualify for a variety of new economic development-related tax preferences, or in some cases, to extend existing economic development-related preferences. There are currently 32 economic development-related tax preferences that require one of these supplemental filings.

Exemption Study.

The Department of Revenue (DOR) must produce and submit to the Legislature a Tax Exemption Report every four years. The report includes a listing of all tax exemptions, including the estimated revenue lost from and beneficiary of each exemption. The report also includes the estimated revenue lost for other tax preferences including preferential rates, deductions, and credits. The next report is due in January 2020.

The Citizen Commission for Performance Measurement of Tax Preferences and Joint Legislative Audit and Review Committee: Tax Preference Reports.

The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the Legislature in 2006. The Commission develops a schedule to review nearly all tax preferences at least once every 10 years. The Commission also schedules preferences with expiration dates to be reviewed two years before the tax preference expires. Tax preference reviews are conducted by the Joint Legislative Audit and Review Committee (JLARC) according to the schedule established by the Commission. For each tax preference, the JLARC provides recommendations to continue, modify, schedule for future review, or terminate the preference. The Commission reviews and comments on the JLARC report.

Budget Outlook.

A state budget outlook workgroup is required to prepare an official state budget outlook for the current and subsequent biennium. The outlook must estimate revenues to and expenditures from the State General Fund and related funds. The estimate must include maintenance items including, but not limited to, continuation of current programs, forecasted growth of current entitlement programs, and actions required by law, including legislation with a future implementation date.

Summary of Bill:

The DOR Tax Exemption Report must be updated every two years instead of every four years. The report must also include recommendations by JLARC and the Commission if the tax preference has been reviewed.

The November outlook materials prepared by the Economic and Revenue Forecast Council (ERFC) must include the projected fiscal impact of discretionary tax preferences in the current biennium and subsequent biennium. The preferences will be arranged by category as provided in the DOR Tax Exemption Report.

The ERFC, the Governor's Office, and the Office of Financial Management must maintain on their websites a current list of discretionary tax preferences, including: a description of the tax preferences; prior and estimated future fiscal impacts; any state public policy objectives of the tax preference; the expiration date of the tax preference, if specified; and the most recently available recommendations on the tax preference by JLARC or the Commission.

The Governor's budget documents must include a detailed listing of discretionary tax preferences.

Appropriation: None.

Fiscal Note: Requested on February 19, 2018.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.