SENATE BILL REPORT
SB 5847

As of January 17, 2018

Title: An act relating to the review process of the citizen commission for performance measurement of tax preferences.

Brief Description: Concerning the review process of the citizen commission for performance measurement of tax preferences.

Sponsors: Senators Carlyle, Hasegawa and Hunt.

Brief History:
Committee Activity: Ways & Means: 2/22/17, 2/24/17; 1/18/18.

Brief Summary of Bill

- Directs the Joint Legislative Audit and Review Committee (JLARC) to report the overall effective tax rates of industry groups as part of their review process.
- Requires JLARC to calculate the effect of tax preferences on regions of the state and on the effect to Washington's personal income, where applicable.
- Requires a taxpayer to have been accurately reporting tax preferences to the Department of Revenue in order to claim a new tax preference.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: 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. A tax preference is a tax exemption, deduction, credit, or preferential tax rate. The enabling legislation assigns specific roles in the review process to two different entities. The job of scheduling tax preferences, holding public hearings, and commenting on the reviews is assigned to the Citizen Commission for Performance Measurement of Tax Preferences (Commission). The responsibility for conducting the reviews is assigned to the staff of 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 and equipment and food, the small business credit for the business and occupation tax, the property tax relief program for retired persons, and tax preferences that the Commission determines are a critical part of the tax structure. The Commission is allowed to consider other factors including, but not limited to, grouping preferences for review by type of industry, economic sector, or policy area in determining the schedule.

When reviewing tax preferences, JLARC is required to consider the following factors:

- the classes of individuals, types of organizations, or types of industries whose state tax liabilities are directly affected by the tax preference;
- the public policy objectives that might provide a justification for the tax preference, including, but not limited to, legislative history, legislative intent, or the extent to which the tax preference encourages business growth or relocation into this state;
- promotes growth or retention of high wage jobs, or helps stabilize communities;
- the evidence that the existence of the tax preference has contributed to the achievement of any of its public policy objectives;
- the extent to which continuation of the tax preference might contribute to any of the public policy objectives;
- the extent to which the tax preference may provide unintended benefits to an individual, organization, or industry other than those the Legislature intended;
- the extent to which terminating the tax preference may have negative effects on the category of taxpayers that currently benefit from the tax preference, and the extent to which resulting higher taxes may have negative effects on employment and the economy;
- the feasibility of modifying the tax preference to provide for adjustment or recapture of the tax benefits of the tax preference if the objectives are not fulfilled;
- the fiscal impacts of the tax preference, including past impacts and expected future impacts if it is continued; and
- an economic impact analysis using the Washington input-output model.

After evaluating these factors, JLARC and the Commission provide a recommendation as to whether the tax preference should be continued without modification, modified, scheduled for sunset review at a future date, or terminated immediately.

Summary of Bill: The overall effective tax rate for industry groups benefiting from a tax preference is added as one of the metrics that JLARC will calculate as part of the review process. JLARC will also evaluate the effects on regions of the state of tax preferences and the effect on the Washington's personal income, where applicable.

In order to be able claim a new tax preference, a taxpayer must be reporting current tax preferences to the Department of Revenue as required by law.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony (Regular Session 2017): None.

Persons Testifying: No one.

Persons Signed In To Testify But Not Testifying: No one.