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Citizen Commission for Performance Measurement of Tax Preferences

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Chair, Joint Legislative Audit
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December 5, 2008

To: Joint Legislative Audit and Review Committee

From: William A. Longbrake, Chair *William A. Longbrake*
Citizen Commission for Performance Measurement of Tax Preferences

Subject: **2008 Tax Preference Reviews**

Thank you for the opportunity to comment on the 2008 Tax Preference Preliminary Review Reports. The Commission has provided a forum for discussion and public comment on the recommendations included in the reviews. Our comments are as follows:

JLARC Recommendation	Commission Position and Adopted Comments
<p>FULL REVIEWS:</p> <p>Intangibles</p> <p><u>Recommendation:</u> The Legislature should continue the property tax exemption for intangible personal property.</p> <p>EXPEDITED REVIEWS:</p> <p>Wood biomass fuel: Production Facilities/Sale/Distribution</p> <p><u>Recommendations:</u></p> <p>1) The Legislature should continue the property tax exemption for machinery and equipment used in producing wood biomass fuel. Since this tax preference is not currently being utilized, it should be reviewed for effectiveness in the future once it is used.</p> <p>2) The Legislature should continue the leasehold excise tax exemption for leasehold interests of machinery and equipment used in producing wood biomass fuel. Since this tax preference is not currently being utilized, it should be reviewed for effectiveness in the future once it is used.</p> <p>3) The Legislature should continue the retail sales tax exemption for sales of machinery and equipment used in constructing, altering or updating equipment which is used in selling wood biomass fuel. Since this tax preference is not</p>	<p>Does not endorse and comments as follows: <i>Given the revenue impact of the exemption (\$11 billion in 2008), the dramatic growth of intangible property in the New Economy, and the impact of such a large exemption on the adequacy, efficiency and fairness of the tax system, the Commission recommends that the Legislature study the exemption and consider how to appropriately treat intangible property.</i></p> <p>Does not endorse and comments as follows: <i>The Commission recommends that these preferences be allowed to expire in 2009 unless there is evidence that taxpayers plan to use them.</i></p>

JLARC Recommendation	Commission Position and Adopted Comments
<p>currently being utilized, it should be reviewed for effectiveness in the future once it is used.</p> <p>4) The Legislature should continue the use tax exemption for use of machinery and equipment used in constructing, altering or updating equipment which is used in selling wood biomass fuel. Since this tax preference is not currently being utilized, it should be reviewed for effectiveness in the future once it is used.</p> <p>5) The Legislature should continue the business and occupation tax deduction for sales or distribution of wood biomass fuel. Since this tax preference is not currently being utilized, it should be reviewed for effectiveness in the future once it is used.</p>	
<p>FULL REVIEWS:</p>	
<p>Exported and imported fuel <u>Recommendation:</u> The motor vehicle fuel tax and special fuel tax exemption for exported and imported fuel should be continued.</p>	<p>Endorse with the following comment: <i>The Commission recommends the Legislature consider whether to modify this exemption in light of US Supreme Court decisions subsequent to enactment of this exemption.</i></p>
<p>Private K-12 schools <u>Recommendation:</u> The Legislature should continue the property tax exemption for private, nonprofit schools.</p>	<p>Endorse without comment</p>
<p>Private colleges <u>Recommendation:</u> The Legislature should continue the property tax exemption for private, nonprofit schools.</p>	<p>Endorse without comment</p>
<p>Commercial vessels <u>Recommendation:</u> The Legislature should continue the apportionment of commercial vessels for property tax purposes.</p>	<p>Endorse without comment</p>
<p>Other ships and vessels <u>Recommendation:</u> The property tax exemption for other ships and vessels should be continued.</p>	<p>Endorse without comment</p>
<p>Real estate sales/rental/leasing <u>Recommendation:</u> The Legislature should continue the business and occupation tax exemption for income derived from real estate sales, rental and leasing.</p>	<p>Endorse without comment</p>
<p>Business and occupation tax deduction for credit losses <u>Recommendation:</u> The Legislature should continue this business and occupation tax deduction for credit losses incurred by businesses.</p>	<p>Endorse without comment</p>

<p align="center">JLARC Recommendation</p>	<p align="center">Commission Position and Adopted Comments</p>
<p>EXPEDITED REVIEWS (cont.):</p> <p>Airports owned by cities in other states <u>Recommendation:</u> Given that there are no out-of-state municipalities owning airport property in Washington, the Legislature should terminate this property tax exemption.</p> <p>Farm auction sales <u>Recommendation:</u> Due to the fact that Washington currently does not have uniform tax treatment for all purchases of used farm machinery and equipment regardless of location and method by which the property is acquired, the Legislature should require reporting information of on-farm auction sales and review the policy of these retail sales and use tax exemptions.</p> <p>Alcohol/biodiesel fuel production facilities <u>Recommendations:</u></p> <ol style="list-style-type: none"> 1) The Legislature should continue the property tax exemption for machinery and equipment used in producing alcohol fuel, biodiesel and biodiesel feedstock and review for effectiveness in the future once this industry is more developed. 2) The Legislature should continue the leasehold excise tax exemption for leasehold interests of machinery and equipment used in producing alcohol, biodiesel and biodiesel feedstock and review for effectiveness in the future once this industry is more developed. 3) The Legislature should continue the preferred business and occupation tax rate for manufacturers of alcohol and biodiesel fuel and feedstock and review for effectiveness in the future once this industry is more developed. 	<p>Endorse without comment</p> <p>Endorse without comment</p> <p>Endorse without comment</p>