

May 17, 2013

MEMORANDUM TO: Members
Citizens Commission for Performance Measurement
of Tax Preferences

FROM: William A. Longbrake
Chairman

SUBJECT: Consideration of 2014 Preferences for JLARC Audit
Staff Studies

Objective: Preliminary prioritization of 2014 tax preferences for JLARC Audit
Staff studies

Background: There are 70 tax preferences scheduled for review in 2014. JLARC Audit Staff resources are insufficient to conduct full studies on all 70 preferences. JLARC staff needs additional time to determine how many full studies it can complete during 2014.

Recommendation: Divide the 70 preferences into four groups and schedule for review, on a preliminary basis, subject to further JLARC staff input later in 2013.

Group A: Aerospace preferences – 10 preferences. **Schedule As a Group for a Single Study.**

2014 Tax Preferences – JLARC Staff Studies					
Description	#	Tax Type	Year Enacted	Biennial Revenue Impact	Study
Aircraft Pre-Production Expenditures	1	B&O	2003	\$194,830,000	Yes
Commercial Aircraft Manufacturing – Preferential Rate	2	B&O	2003	\$177,574,000	Yes
Aircraft Pre-Production Computer Expenditures	3	Sales & Use	2003	\$33,391,000	Yes
Commercial Aircraft Manufacturing – Credit for Taxes Paid	4	B&O	2003	\$8,000,000	Yes
Aerospace Product Development	5	B&O	2008	\$2,523,000	Yes
Aircraft Part Prototypes	6	Sales & Use	1997	\$1,293,000	Yes
Commercial Airplane Part Place of Sale	7	B&O	2008	\$923,000	Yes
Superefficient Aircraft Production	8	Sales & Use	2003	\$0	Yes
Superefficient Aircraft Production Facilities	9	Leasehold Excise	2003	\$0	Yes
Superefficient Aircraft Production Facilities	10	Property	2003	\$0	Yes

Group B: Fresh food processing preferences scheduled to expire, which previously have had full JLARC staff studies. **Schedule for Study, subject to additional input from JLARC audit staff on method of conducting studies and staff resource impact,** do not conduct full studies, rather update previous full studies for new information, if any.

2014 Tax Preferences – Updates to Previous JLARC Staff Studies						
Description	#	Tax Type	Year Enacted	Biennial Revenue Impact	Study	
Fruit and Vegetable Manufacturing - Exemption	5	B&O	2005	\$34,087,000	Yes	
Fruit and Vegetable Manufacturing – Preferential Rate	7	B&O	1965	\$24,846,000	Yes	
Seafood Products Manufacturing – Preferential Rate	13	B&O	2006	\$12,031,000	Yes	
Dairy Products Manufacturing – Exemption	14	B&O	2006	\$8,849,000	Yes	
Seafood Products Manufacturing – Preferential Rate	15	B&O	1959	\$8,770,000	Yes	
Dairy Products Manufacturing – Preferential Rate	16	B&O	2001	\$6,450,000	Yes	

Group C: Preferences to be considered for full JLARC staff studies. **Determine later in the year which, if any, of these preferences to schedule for a full study.**

2014 Tax Preferences – Consider for JLARC Staff Studies						
Description	#	Tax Type	Year Enacted	Biennial Revenue Impact	Study	
Sales Subject to Public Utility Tax	1*	Sales	1935	\$305,619,000	?	
Multiple Activities Credit	2	B&O	1987	\$288,759,000	?	
Electric Power Exported or Resold	3*	Public Utility	1989	\$130,000,000	?	
Natural Gas Subject to PUT	4*	Use	1989	\$67,190,000	?	
International Investment Management	8	B&O	1995	\$20,029,000	?	
Sewerage Processing and Disposal	9	Public Utility	1987	\$16,785,000	?	
Nonprofit Fundraising	12*	Sales	1998	\$13,653,000	?	
Film and Video Production Equipment	17	Sales & Use	1995	\$5,656,000	?	
Microbrewers	19	Beer	1993	\$5,016,000	?	
Wholesale Auto Auctions	20	B&O	1997	\$2,900,000	?	
Child Care	21	B&O	1998	\$2,246,000	?	
Church Child Care	23*	B&O	1992	\$1,712,000	?	
Products Shipped Out-of-State	24	Litter	1992	\$1,587,000	?	
Mental Health Services	25	B&O	2011	\$1,451,000	?	

*See questions and comments below

Questions and Comments:

#1 – purpose: to avoid double taxation; however, if exemption repealed, taxpayer savings would be realized. **Ask DOR to estimate tax revenues from alternative forms of current taxation.**

#3 – purpose: to reflect a court decision barring direct taxation of interstate power sales, and to avoid pyramiding of the tax on in-state sales of power for resale. **Ask JLARC staff to determine whether there has been any change in the court decision.**

#4 – purpose: to avoid double taxation; however, if exemption repealed, taxpayer savings would be realized. **Ask DOR to estimate tax revenues from alternative forms of current taxation.**

#12 – purpose: to support fundraising activities of nonprofit organizations. **Policy issue.**

#23 – purpose: to reduce the cost of operating child care facilities in churches. **Policy issue.**

Group D: Other preferences. **Do not schedule the preferences listed in the table below for full JLARC staff studies; in addition, do not schedule any preference for a full JLARC staff study that has an estimated biennial revenue impact of less than \$1,000,000.**

2014 Tax Preferences – Do not Schedule for JLARC Staff Studies						
Description	#	Tax Type	Year Enacted	Biennial Revenue Impact	Study	
Prewritten Computer Software	6	Property	1991	\$32,866,000	No	
Historic Property	10	Property	1985	\$16,567,000	No	
Custom Computer Software	11	Property	1991	\$13,808,000	No	
Multi-Unit Urban Housing	18	Property	1995	\$5,408,000	No	
Air Pollution Control Activities	22	Property	1997	\$2,078,000	No	

Question: Should we seek additional information concerning preferences #55, 56, 57, 58, 59, 60 before determining not to schedule any of these preferences for a full JLARC staff study?

Citizen Commission for the Review of Tax Preferences – 2013 Expedited Preferences

Consider Scheduling Expiration Date:

Alternative Fuel Vehicles	\$	504,000
Drug Delivery Systems	\$	844,000
Fish Cleaning	\$	26,000
Forest Derived Biomass	\$	262,000
Human Body Parts	\$	310,000
Nebulizers	\$	862,000
Nonfuel Use of Petroleum (Oil Spill Tax)	\$	387,000
Ostomic Items	\$	430,000
Tuna, Mackerel and Jack Fish	\$	578,000

Consider Letting Expiration Date Expire:

Biodiesel and Alcohol Fuel Production	Expires 2015	\$	559,000
Biodiesel and Alcohol Fuel Production Facilities	Expires 2015	\$	264,000
Biodiesel and E85 Fuel Distribution	Expires 2015	\$	20,000
Biodiesel and E85 Fuel Sales	Expires 2015	\$	191,000
Bonneville Power Admin Program	Expires 2015	\$	641,000
Wax and Ceramic Materials to Create Molds	Expires 2015	\$	450,000
Wood Biomass Fuel Production Facilities-Leasehold	Expires 2015	\$	0
Wood Biomass Fuel Production Facilities-Property	Expires 2015	\$	0

Terminate:

Forest Land Special Assessments	No Beneficiaries
Secondary Transportation (Oil Spill Tax)	Minimal
Wood Biomass Fuel Manufacturing	No Beneficiaries

Other:

Boats Under 16 Feet	\$	5,633,000
Free Public Hospitals	One beneficiary	
Hanford Lease Fees	One beneficiary	
Life Sciences Discovery Fund	One beneficiary	
Organ Procurement (B&O/Sales and Use)	Two beneficiaries	
Testing and safety labs	One beneficiary	
Vaccine Association	One beneficiary	