Written Testimony of
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Review of RCW 82.04.260(12) – Reduction in Timber Industry B&O Tax Rate

We appreciate the good work of the JLARC staff, and in particular meeting with us and the prime sponsor of SB 6874 to better understand legislative intent.

We do not disagree with JLARC's inferred intent nor their conclusion that it is difficult to ascertain success. And while we understand why JLARC recommended that the legislature Review and Clarify, we disagree that this is necessary for a tax preference that is set to expire in a few years.

We agree with JLARC that the tax reduction lowered the marginal costs of the industry, and we believe therefore that any reduction in activity (or employment) would have been worse without the tax preference.

The "But for . . ." question is a difficult question to answer in reviewing the performance of these tax preferences. This is because so many things beyond the tax preference itself can affect the outcome of the metric being measured.

As an economist, I believe that the reduction in the marginal cost (such as a tax reduction) of any activity will result in more the activity, ceteris paribus. However, all other things are rarely equal over time.

One of the primary concerns that led to the legislation was the state's pulp mills and their ability to compete with much lower cost producers in other counties that do not have the environmental laws we have in Washington State. Since that time the state has lost two of its ten pulp mills due to economic factors that the tax preference by itself could not overcome. However, the remaining mills are still in business, no doubt helped by the tax preference, if only marginally.

The rest of the timber industry was enjoying a boomlet in 2006 with a record high number of national housing starts in the housing bubble. This was shortly followed by a genuine depression in the timber industry which saw the lowest harvest levels in over a hundred years. Housing starts have only partially recovered and have not reached their historic levels.

Further, automation and increases in productivity have occurred, as pointed out by JLARC. But this is the case in every industry.

These sorts of factors are going to overwhelm any tax preference and make it nearly impossible to isolate the salutary effects of the tax preference. This does not mean the tax preference was not effective, however.

We appreciate JLARC pointing out that the average timber wage is much higher than the county average in these economically distressed rural counties.

Commissioners questions:

1. Is there evidence that the tax preference achieved its purpose, as noted in the 2016 tax preferences reports?

Answer: We believe the answer is yes, but we cannot point to any additional evidence beyond JLARC's analysis.

2. Does the preference provide benefits in addition to those stated in its intended or inferred purpose?

Answer: The timber industry produces the most environmentally friendly building material. It provides long term sequestration of carbon that is pulled out of the air by trees. In the process of growing and harvesting this wood, the industry provides clean air, clean water, open space and recreation opportunities, and fish and wildlife habitat. Any economic development director would love to recruit an industry like that to their state or region. And this is the best place in the world to grow wood. As one of the founders of Greenpeace said, the solution is to use more wood. To the degree that the tax preference encourages the activity of the timber industry, it provides many benefits to the citizens of this state.

3. Do taxes associated with any increased economic activity stimulated by this tax preference exceed the preference's loss of tax revenue?

Answer: We believe the answer is yes, particularly in the rural counties where the timber industry is a major part of the economy and provides family wage jobs. But we have no evidence beyond JLARC's analysis.

4. Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?

Answer: No.

Review of RCW 82.45.195 – Application of REET to Sales of Standing Timber

We agree with the JLARC staff conclusion and recommendation that RCW 82.45.195 is fulfilling its intent and therefore should continue.

One of the purposes of HB 1513 was to clarify legislative intent on how the Real Estate Excise Tax was to apply to sales of standing timber. This need was due to a dispute between the timber industry and the Department of Revenue. Clarification was needed because part of the timber industry was transitioning from the traditional "C" corporation to Real Estate Investment Trusts (REIT) due to changes in the federal tax code.

Clarification was achieved and there have been no disputes since. In this sense, we feel that RCW 82.45.195 was a clarification needed to make the tax code work, and not a tax preference intended to incentivize some activity. The only loss of revenue was the tax increase that would have occurred had Revenue's new interpretation prevailed.

Commissioners Questions:

1. Is there evidence that the tax preference achieved its purpose, as noted in the 2016 tax preferences reports?

Answer: Yes, the intent was to clarify a dispute with how the Real Estate Excise Tax is to apply to sales of standing timber. There have been no disputes since.

2. Does the preference provide benefits in addition to those stated in its intended or inferred purpose?

Answer: No.

3. Do taxes associated with any increased economic activity stimulated by this tax preference exceed the preference's loss of tax revenue?

Answer: There was no loss of revenue. The RCW merely clarified legislative intent and settled a dispute with Department of Revenue. DOR was trying to implement a new interpretation of REET's application to sales of standing timber that would have resulted in a tax increase.

4. Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?

Answer: No.