

**2010
EXPEDITED
TAX PREFERENCE
PERFORMANCE
REVIEWS**

SCOPE AND OBJECTIVES

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STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMITTEE

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Why a JLARC Study of Tax Preferences?

Engrossed House Bill 1069 (2006) established the Citizen Commission for Performance Measurement of Tax Preferences and directed it to develop a schedule for periodic review of the state's tax preferences. The bill also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct the periodic reviews.

Background

Tax preferences are exemptions, exclusions, or deductions from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. The state has more than 580 tax preferences.

Recognizing the need to assess the effectiveness of these tax preferences in meeting their intended objectives, and an orderly process to do so, the Legislature established the Citizen Commission for Performance Measurement of Tax Preferences. The role of the Commission is to develop a schedule for the performance review of all tax preferences at least once every ten years. The ten-year schedule is to be revised annually.

Omitted from review are several categories of tax preferences identified by statute (e.g., tax preferences required by constitutional law). Any tax preference that the Commission determines is a critical part of the structure of the tax system may also be omitted.

The Commission has identified three categories of review, based on each tax preference's estimated biennial fiscal impact:

1. Full reviews (over \$10 million)
2. Expedited reviews (between \$2 million and \$10 million)
3. Expedited light reviews (less than \$2 million)

This document identifies the scope and objectives for the second category: expedited tax preference reviews. JLARC is to review tax preferences according to the schedule developed by the Commission, and consistent with guidelines set forth in statute. For the expedited tax preferences JLARC is to provide recommendations to (1) continue, (2) modify, (3) add an expiration date and conduct another review prior to the expiration date, or (4) terminate the preference. JLARC may also recommend accountability standards for future reviews of tax preferences.

Expedited Study Scope

This tax preference performance review will include the tax preferences identified by the Citizen Commission to be reviewed prior to July 30, 2010. These tax preferences were recommended by the Citizen Commission as being subject to an expedited review process:

Brief Description	RCW Citation	Year Enacted
1. Poultry used in production	82.08.0267; 82.12.0262	1961
2. Farm machinery sold to nonresidents	82.08.0268	1961
3. Bailed tangible personal property for R&D	82.12.0265	1961

Expedited Study Scope (cont'd.)

Brief Description	RCW Citation	Year Enacted
4. Vehicles acquired while in military service	82.12.0266	1963
5. Sand & gravel for local road construction	82.08.0275; 82.12.0269	1965
6. Open space & park land	84.36.260	1967
7. Tax incentives for fruit/vegetable processors	82.04.4266; 82.04.260(1d)	2005
8. Manufacturing of certain seafood products	82.04.4269; 82.04.260(1b)	2006
9. Manufacturing of dairy products	82.04.4268; 82.04.260(1c)	2006

Expedited Study Objectives

In response to the legislative directive, the study will answer, for each tax preference, the following questions:

Public Policy Objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is the purpose or intent of the tax preference clear?
2. Is there any readily available evidence related to the achievement of any of these public policy objectives?

Beneficiaries:

3. Who are the entities whose state and/or local tax liabilities are directly affected by the tax preference?

Revenue and Economic Impacts:

4. What are the past and future tax revenue impacts of the tax preference to the taxpayer and to the government if it is continued?

Timeframe for the Study

A preliminary audit report will be presented at the July 2010 JLARC meeting and at the August 2010 meeting of the Commission. A final report will be presented to JLARC in November 2010.

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Tax Preference Review Process

Commission develops and delivers to JLARC schedule of tax preferences for review

JLARC staff conducts reviews of tax preferences

Staff presents preliminary report to JLARC

Staff requests comments from OFM and DOR

JLARC presents preliminary report to Commission

Commission conducts public comment session and may provide comments

Proposed Final Report (with OFM, DOR, and Commission comments) to JLARC for approval to distribute

Final Report transmitted to Legislative Fiscal Committees

Legislative Fiscal Committees hold joint hearing on Final Report