

# HOUSE BILL REPORT

## HB 2654

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### As Reported by House Committee On:

Finance

**Title:** An act relating to tax expenditure reports.

**Brief Description:** Requiring a tax expenditure report as part of the biennial budget documents.

**Sponsors:** Representatives Santos, Cody, Kagi, Chase, Kenney, McIntire, Schual-Berke and McDermott.

### Brief History:

#### Committee Activity:

Finance: 1/29/04, 2/5/04 [DP].

#### Brief Summary of Bill

- Requires a tax expenditures report to be produced every two years with the Governor's budget.
- Requires the tax expenditures report to determinate whether each exemption is the most fiscally effective means to achieve its purpose, whether the exemption is achieving its purpose, and an analysis of the persons benefitting from the exemption.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Morris and Santos.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern and Roach.

**Staff:** Rick Peterson (786-7150).

### Background:

Tax exemptions, exclusions, deductions, credits, deferrals, and preferential rates are

known as tax preferences. The Department of Revenue (Department) publishes a report listing tax preferences every four years. The report covers more than 500 tax preferences and describes each preference, the year of enactment, the purpose of the preference (or the Department's best guess), an indication of primary beneficiaries, and estimated fiscal impact. The most recent report was published January 2004.

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**Summary of Bill:**

A tax expenditures report is created as part of the Governor's biennial budget documents. The report will include the listing of tax exemptions prepared by the Department of Revenue and will categorize each exemption according to the program or function it supports. The report will determine whether the exemption is achieving its purpose, whether the exemption is the most fiscally effective means to achieve its purpose, and an analysis of the persons benefitting from the exemption. The Governor will make a recommendation on whether each exemption scheduled to terminate in the next biennium should be allowed to terminate, continue, or continue with modification.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This bill is intended to inform policy makers and the public on our priorities of government. This information will be helpful for policy makers to plan for the fiscal future of the state. It informs us as to the ultimate effect of tax credit policy decisions which show as a debt against the state's balance sheet. And to properly identify them as an expenditure. Current tax exemptions exceed state revenue by 160 percent. The list of exemptions and the amount of revenue lost to exemptions is growing at the same time cuts are made to state services. The shortfall for next biennium will be over \$1 billion. The choices are budget cuts or raise taxes. The better choice is to end tax loopholes. Most of the exemptions have been granted in perpetuity regardless of whether they meet a public purpose. They deplete taxes for the budget or raise taxes on other taxpayers. The bill will implement a tax expenditure report as part of the Governor's budget. It is in the best interest of the state and will allow the Governor, policy makers, and the public to identify and analyze and to periodically make criteria based decisions on whether expenditures should be continued. The tax expenditure report will result in the elimination of inefficient and inappropriate exemptions. The phrase "most fiscally effective" needs to be changed to a more objective criteria.

**Testimony Against:** None.

**Persons Testifying:** (In support) Jim Hedrick, Office of the Governor; Ellie Menzie, Service Employees International Union; Marilyn Watkins, Economic Opportunity Institute; and Jeff Johnson, Washington State Labor Council.

**Persons Signed In To Testify But Not Testifying:** (In support) Lonnie Johns-Brown, National Organization of Women; Bob Cooper, Washington Citizen Action; Tom Quigley, Washington Association of Churches; Deric Young, Friends Community Washington Public Policy; Randy Parr and Dave Gallaher, Washington Education Association; Bev Hermanson, Washington Federation of State Employees; Paul Benz, Lutheran Public Policy; Wendy Rader-Konofalski and Dorothy Gibson, Washington Federation of Teachers; and Kevin Glackin-Coley, Washington State Catholic Conference.