Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1869

Brief Description: Requiring performance audits for tax preferences.

Sponsors: Representatives McIntire, Gombosky, Morris, Conway, Santos, Haigh, Kagi, Hunt, Linville, Dunshee, Chase, Simpson, Moeller, Lovick, Cody, Murray, Upthegrove, Veloria and Wood.

Brief Summary of Bill

- Creates a citizen commission to develop a schedule for review tax preferences such as exemptions, exclusions, deductions, credits, deferrals, and preferential rates.
- Allows the citizen commission to determine which tax preferences to review, with particular consideration to tax preferences that affect the business climate of the state.
- Requires the JLARC to conduct the actual reviews of tax preferences, according to criteria set in the bill.
- Requires annual reports to the Legislature on reviewed tax preferences.

Hearing Date: 2/21/03

Staff: Bob Longman (786-7139).

Background:

Tax exemptions, exclusions, deductions, credits, deferrals, and preferential rates are known as tax preferences. The Department of Revenue publishes a report on tax preferences every four years. The report covers more than 400 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.

In 1982, the Legislature enacted legislation that initiated a sunset review of tax preferences. The legislation directed the Joint Select Committee on Sunset to prepare a bill that would terminate all tax preferences over a period of four years. If this termination bill had been subsequently enacted, the Legislative Budget Committee (LBC) (now known as the Joint Legislative Audit and Review Committee (JLARC)) would have been required to review each preference before its termination date and report back to the Legislature. The termination and review bill was not enacted, and the LBC did not conduct tax preference reviews.

Summary of Bill:

The citizen commission for performance measurement of tax preferences is created, with nine voting members and four nonvoting members. The nine voting members are appointed by the governor and include two persons representing labor, two persons representing business, three persons representing the general public, and two tax specialists from the state university system. One nonvoting member is appointed by each of the governor, the president of the senate, the speaker of the house of representatives, and the director of the department of revenue.

The commission must develop a schedule for review of tax preferences at least once every six years. The commission decides which preferences are appropriate for review, but is to give particular consideration to tax preferences that affect the business climate of the state. The commission may omit tax preferences that are required by constitutional law, or that primarily benefit government agencies, charities, nonprofit organizations, or individuals.

The JLARC must review tax preference according to the six-year schedule developed by the citizen commission. The JLARC is to consider, but not be limited to, the following factors in the review:

(a) The persons or organizations whose state tax liabilities are directly affected by the tax preference;

(b) Public policy objectives that might provide a justification for the tax preference, including the extent to which the preference encourages business growth or relocation into this state, promotes growth or retention of high wage jobs, or helps stabilize communities;

(c) Evidence that the existence of the tax preference has contributed to the achievement of any of the public policy objectives;

(d) The extent to which continuation of the tax preference might contribute to any of the public policy objectives;

(e) The feasibility of modifying the preference to provide for adjustment or recapture of the tax benefits of the preference if the objectives are not fulfilled;

(f) Fiscal impacts of the tax preference, including past impacts and expected future impacts if it is continued;

(g) The extent to which termination of the tax preference would affect the distribution of liability for payment of state taxes.

For each tax preference, the JLARC must provide a recommendation as to whether the tax preference should be continued without modification, modified, scheduled for sunset review at a future date, or terminated immediately. The committee may recommend accountability standards for the future review of a tax preference.

The JLARC will submit a report to the citizen commission by August 30th of each year. The citizen commission will submit a report to the House Finance and Senate Ways & Means committees by December 30th of each year. The legislative committees are to hold a joint hearing on the report.

Staff support to the citizen commission is provided by the JLARC, and the Department of Revenue is directed to provide information needed by the citizen commission or JLARC.

Statutes relating to the unimplemented 1982 tax preference review are repealed.

Appropriation: None.

Fiscal Note: Available.

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