Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2762

Brief Description: Providing mandatory accountability for tax preferences.

Sponsors: Representatives Santos, Kagi, Conway, Moeller, Hunt, Cody, Hudgins, Simpson, G., Kirby, Chase, Darneille and Morrell.

Brief Summary of Bill

- Limits eligibility for business tax preferences to firms that meet performance standards on job creation, wages, and benefits.
- Requires firms using tax preferences to file publically available reports on employment, wages, benefits, and the amount of tax preferences used.
- Requires business tax preferences to state the public purpose and benefit, expire in five years, limit individual business use to five years, provide for repayment of tax preferences if business fails to achieve performance standards.
- Requires an annual report by Department of Revenue analyzing business tax preferences.

Hearing Date: 1/29/04

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.

Summary of Bill:

The Legislative finds that business tax preferences may create new jobs, diversification of the economy, and raise living standards but may result in higher tax burdens on those not eligible for tax preferences or result in a lower return to the public than if the taxes were collected and spent on education and health care. The Legislature finds that it is necessary to enact eligibility standards and collect, analyze, and make public information regarding business tax preferences.

Businesses may use tax preferences if they satisfy the following performance standards: (a) create additional full-time permanent jobs within two years of receiving the tax preference; (b) pay the greater of the prevailing wage for the industry or the county average wage; (c) provide employer-paid heath care at least equivalent to the basic health plan, dental care, vacation and sick leave, and retirement benefits; and (d) pay prevailing wages for plant construction and equipment installation.

Business tax preferences adopted by the Legislature shall: (a) state the public purpose and benefit; (b) expire in five years; (c) limit individual business use to five years; (d) require repayment of tax preference if business fails to achieve the performance standards.

Business must annually report the following: (a) statement of why the business needs the tax preference to create jobs; (b) number of new full-time, part-time, and temporary jobs created; (c) wages of new jobs by wage band; (d) amount and level of employer provided health and dental insurance, vacation and sick leave and retirement benefits; (e) employment level in other states and countries and; (f) value of tax preference received. This information is not confidential and is available for public disclosure.

The Department of Revenue will report annually to the Legislature: (a) the amount of each tax preference used, (b) the geographic and industrial distribution of business tax preferences; (c) jobs created, wages and benefits paid, and employment in other state and counties by firms using tax preferences and; (d) an analysis of whether the goals of the tax preferences are being met.

Appropriation: None.

Fiscal Note: Requested on January 21, 2004.

Effective Date: The bill takes effect on July 1, 2004.