

SENATE BILL REPORT

EHB 1069

As Reported By Senate Committee On:
Ways & Means, February 24, 2006

Title: An act relating to performance audits of tax preferences.

Brief Description: Requiring performance audits for tax preferences.

Sponsors: Representatives McIntire, Conway, Priest, Upthegrove, Kilmer, Moeller, Dickerson, Williams, Schual-Berke, Nixon, Springer, Sells, P. Sullivan, Green, Lovick, Kenney, Haigh, Wallace, Kagi, Simpson, Linville, Morris, Wood, Hunter, Lantz, Hudgins, Ericks, Darneille, Clibborn, Sommers, Morrell, Takko, O'Brien, Appleton, Hunt, Santos, Ormsby, Murray and Chase.

Brief History: Passed House: 2/07/05, 63-32; 2/11/06, 61-34.

Committee Activity: Ways & Means: 3/30/05, 2/21/06, 2/24/06 [DPA, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Kohl-Welles, Pflug, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Roach and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senators Brandland and Parlette.

Staff: Steve Jones (786-7440)

Background: State revenue laws provide a variety of tax exemptions, exclusions, credits, deferrals, and preferential rates, which are known collectively as tax preferences.

In 1982, the Legislature established a statutory process for the review and evaluation of tax preferences by the Legislative Budget Committee (now known as the Joint Legislative Audit and Review Committee, JLARC). The 1982 statute directed the Select Joint Committee on Sunset Review to prepare legislation to establish a four-year termination schedule for all tax preferences. Each tax preference scheduled for termination would be evaluated by the Legislative Budget Committee prior to termination. The termination schedule was never enacted by the Legislature, and Legislative Budget Committee did not conduct the tax preference evaluations.

Summary of Amended Bill: The Citizen Commission for Performance Measurement of Tax Preferences is established, consisting of: the State Auditor, a nonvoting member; the chair of the Joint Legislative Audit and Review Committee, a nonvoting member; an appointee of the

Governor; and four additional members, who cannot be legislators, each appointed by the chair of the two largest caucuses of the House of Representatives and the two largest caucuses of the Senate.

The commission must develop a schedule for the Joint Legislative Audit and Review Committee to conduct a review of all tax preferences at least once every 10 years. Excluded from the review are: (1) constitutionally required tax preferences; (2) exemptions for machinery and equipment for manufacturing, research, and development; (3) business and occupation tax credit for small business; (4) sales and use tax exemptions for food and prescription drugs; (4) retired persons property tax relief; (5) current use property tax valuations; (6) state credit unions; and (7) any other tax preference found by the commission to be a critical part of the state's tax structure.

For each tax preference review performed by JLARC, which must include a recommendation as to whether the tax preference should be continued or modified, the review must consider the following factors: (1) the persons or entities affected by the tax preference; (2) the public policy objective of the preference; (3) any persons receiving unintended benefits from the tax preference; (4) the effect of terminating the preference; (5) possible modifications of the preference; and (6) fiscal impact of the preference.

JLARC must provide staff support to the commission, and the Department of Revenue and the Employment Security Department must provide any necessary information or data.

Amended Bill Compared to Original Bill: Due dates and deadlines were updated to reflect the 2006 session, and tax preferences for state credit unions were excluded from the commission's review.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: Yes.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The bill provides for a bipartisan effort for an orderly review of tax preferences to ensure that they are achieving their intended public purposes. The bill is based on a recommendation of the Gates Tax Structure Commission. This will build taxpayer confidence in our tax system.

Testimony Against: None.

Who Testified: PRO: Representative Jim McIntire, prime sponsor; Patricia Costello, Washington Association of County Assessors; Michelle Hagen, Washington Association of County Officials; John Burbank, Economic Opportunity Institute.