SENATE BILL REPORT
SB 5416

As Reported By Senate Committee On:
Government Operations & Elections, March 1, 2005

Title: An act relating to tax preferences.

Brief Description: Modifying the review of tax preferences.

Sponsors: Senators Kohl-Welles, Prentice, Rockefeller, Fairley, Regala and Kline.

Brief History:
Committee Activity: Government Operations & Elections: 2/7/05, 3/1/05 [DP-WM, DNP].

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Kastama, Chair; Berkey, Vice Chair; Fairley, Haugen, Kline, McCaslin and Pridemore.

Minority Report: Do not pass.
Signed by Senators Roach, Ranking Minority Member; Benton and Mulliken.

Staff: Diane Smith (786-7410)

Background: In 1982 a procedure for review and termination of tax preferences was instituted in statute. A tax preference is an exemption, exclusion, or deduction 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 legislative budget committee must review each tax preference for termination and report to the legislature on at least six factors concerning the preference before June 30th of the year prior to the date established for termination. The Department of Revenue then may make its own report . The legislative budget committee then prepares the final report that contains both reports, which it transmits to the legislature, the governor, and the state library.

The six evaluation factors are as follows: the beneficiary of the preference; the legislative objective behind the granting of the preference; evidence that the preference has achieved its objective; whether continuation of the preference would continue to further its objective; fiscal impacts of the preference; and how would termination of the preference affect distribution of liability for payment of state taxes.

The legislature's fiscal committees must hold a joint hearing to consider the final report. If they determine that a tax preference should continue, or be modified, they must make the determination as a bill.

Since 1982, the legislative budget committee has been redesignated the joint legislative audit and review committee (JLARC).

Summary of Bill: References to the legislative budget committee are corrected to the JLARC. The tax preferences to be reviewed are specified to be those for investments in projects in rural counties; for manufacturing, research, and development projects; for eligible business projects in rural counties; and for high technology businesses. Four of these tax preferences must be reviewed per year.

The second of the six factors, legislative objectives, is expanded to include consideration of business development, business expansion and job creation, emphasizing creation of higher wage jobs, and growth in state and local revenue due to the preference.

JLARC must recommend to the legislature disclosure and accountability standards for future review of a tax preference.

Appropriation: None.

Fiscal Note: Requested February 7, 2005.

Committee/Commission/Task Force Created: No.

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

Testimony For: Reports should give the legislature enough information to decide which tax preferences should be continued. You should look at the oldest first. A wider tax base creates less tax for everyone.

Testimony Against: None.

Who Testified: PRO: Michelle Hagen, Washington Association of County Officials; Dianne Dorsey and Patricia Costello, Washington Association of City Assessors.