
HOUSE BILL 1095

State of Washington 59th Legislature 2005 Regular Session

By Representatives Santos, Hasegawa, Conway, Darneille, Chase and McCoy

Read first time 01/13/2005. Referred to Committee on Finance.

1 AN ACT Relating to disallowing tax expenditures that exceed a
2 specified limit; adding new sections to chapter 82.32 RCW; and creating
3 new sections.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** The people of the state of Washington hereby
6 find and declare:

7 (1) Initiative 601 limits the growth of state expenditures to the
8 growth rate of inflation and state population, but does not limit the
9 proliferation of tax expenditures;

10 (2) When the number of tax expenditures increases, the state faces
11 a corresponding loss in revenue;

12 (3) Those who do not benefit directly from tax expenditures either
13 pay higher taxes to support essential government services or face cuts
14 to these essential services;

15 (4) The continuing increases in tax expenditures and the
16 corresponding shift of the tax burden is contrary to the interest of
17 the people of the state of Washington;

18 (5) It is necessary to limit the growth of state tax expenditures

1 in order to ensure adequate funding of essential services, including
2 health care and education;

3 (6) The current budgetary system in the state of Washington lacks
4 stability. The system encourages overcreation of tax expenditures
5 during surplus years resulting in crisis budgeting in lean years with
6 resulting tax increases and cuts in essential services;

7 (7) Local government tax revenues are adversely impacted by state-
8 adopted tax expenditures which result in reductions of critical local
9 services, such as police and fire protection;

10 (8) It is therefore the intent of this act to:

11 (a) Establish a limit on state tax expenditures that will ensure
12 that the monetary value of state tax expenditures, as a percent of the
13 limited general fund budget, does not exceed a reasonable amount;

14 (b) Protect taxpayers who do not directly benefit from tax
15 expenditures from paying higher taxes to support essential government
16 services while retaining tax expenditures that have a clear benefit to
17 low and middle-income families such as the sales tax exemptions on food
18 and prescription drugs and property tax exemptions for senior citizens;

19 (c) Ensure that the growth of state tax expenditures does not
20 threaten adequate funding of essential services, including health care
21 and education;

22 (d) Ensure that local governments are not threatened by runaway
23 growth in tax expenditures.

24 NEW SECTION. **Sec. 2.** (1) The value of tax expenditures to the
25 recipients due to the tax expenditures identified in section 3 of this
26 act during a fiscal year shall not exceed the state tax expenditure
27 limit for that fiscal year. The state tax expenditure limit for any
28 fiscal year shall be the previous year's state tax expenditure limit
29 increased by a percentage rate that equals the fiscal growth factor.

30 (2) For the purpose of the limit, the fiscal growth factor is
31 determined by the state expenditure limit committee under chapter
32 43.135 RCW. The department of revenue shall calculate the limit as
33 soon as practical after each projection is issued. The department
34 shall estimate the value of tax expenditures at the same times as the
35 limit is calculated and recalculated.

36 (3) For purposes of computing the state tax expenditure limit for
37 the fiscal year beginning July 1, 2005, the phrase "the previous fiscal

1 year's state tax expenditure limit" means the value of the tax
2 expenditures to the recipients due to the tax expenditures identified
3 in section 3 of this act for the fiscal year beginning July 1, 1995,
4 increased by the fiscal growth factors for the fiscal years 1997, 1998,
5 1999, 2000, 2001, 2002, 2003, 2004, and 2005. For tax expenditures
6 enacted before July 1, 1995, the department of revenue shall estimate
7 the value of the tax expenditures to the recipients identified in
8 section 3 of this act for the fiscal year beginning July 1, 1995. For
9 tax expenditures enacted after July 1, 1995, the department shall
10 increase the tax expenditure limit for the fiscal year the tax
11 expenditure is first in effect by the value of the tax expenditure to
12 the recipients as estimated by the fiscal note for the enacting
13 legislation.

14 (4) If necessary, the department of revenue shall disallow one or
15 more tax expenditures so that, in the department's judgment, the limit
16 will not be exceeded for the current fiscal year. The department shall
17 disallow tax expenditures in the order the tax expenditures are set
18 forth in section 3 of this act, until sufficient tax expenditures have
19 been disallowed so that the limit will not be exceeded. The department
20 shall determine an effective date upon which each disallowance will
21 begin. The department shall provide notice of the effective date to
22 affected taxpayers, the legislature, and others as deemed appropriate
23 by the department. The department shall give at least seventy-five
24 days' notice of a disallowance that affects sales and use taxes
25 collected by sellers, and the disallowance shall take effect only on
26 the first day of January, April, July, or October.

27 (5) The department shall make its best effort to administer the
28 limit under this section while providing for an orderly process of
29 disallowing tax expenditures. The department's estimates of tax
30 exemption value, determinations of which tax expenditures are to be
31 disallowed, and timing of the disallowances are final and may not be
32 challenged in a court of law.

33 NEW SECTION. **Sec. 3.** (1) The exemptions, exclusions, deductions
34 from the base of a state tax, credits against state taxes, deferrals of
35 state taxes, and preferential state tax rates allowed under subsection
36 (2) of this section are the tax expenditures subject to the limit in
37 section 2 of this act.

2	RCW 82.04.423	Direct sellers
3	RCW 82.08.010(1)	Trade-ins
4	RCW 82.16.020(1) (d) and (e)	Tax rate for urban transportation and vessels
5		
6	RCW 82.08.0255(1)(b)	Motor vehicle and special fuel
7	RCW 82.08.02566	Equipment for designing aircraft parts
8	RCW 82.04.315	International banking facilities
9	RCW 82.04.260(4)	Processors of meat
10	RCW 82.04.050(8)	Conservation and habitat development
11	RCW 82.04.260(7)	Travel agents
12	RCW 82.16.050(8)	Shipments to ports
13	RCW 82.08.02537	Academic transcripts
14	RCW 82.08.0289	Local residential and coin-op telephone service
15		
16	RCW 82.04.4292	Interest on real estate loans
17	RCW 82.04.250(1)	Retailing
18	RCW 82.04.260(11)	Insurance agents
19	RCW 82.08.0272	Semen for artificial insemination
20	RCW 82.04.332	Wholesaling of grain
21	RCW 82.04.2403	Fish cleaning
22	RCW 82.08.0294	Fish feed for aquaculture
23	RCW 82.04.4451	Small business credit
24	RCW 82.08.0277	Pollen
25	RCW 82.04.370	Fraternal insurance
26	RCW 82.04.120	Seed conditioning
27	RCW 82.12.800	Use of vessels by manufacturers/dealers
28	RCW 82.08.0311	Packing materials for horticultural products
29		
30	RCW 82.62.030 and 82.62.045	New jobs in rural counties and CEZ
31	RCW 82.04.213	Christmas tree production
32	RCW 82.08.832	Gun safes
33	RCW 82.04.120	Processors of seafood
34	RCW 82.08.0253	Newspapers
35	RCW 82.08.810	Air pollution control facilities
36	RCW 82.04.392	Income from trust accounts
37	RCW 82.04.050(3)(e)	Tree trimming under power lines
38	RCW 82.16.055	Cogeneration facilities and renewable resources
39		
40	RCW 82.04.4296	Funeral home reimbursement
41	RCW 82.04.260(2)	Processors of dry peas
42	RCW 82.04.317	Wholesale auto auctions
43	RCW 82.04.4281	Investments by nonfinancial firms
44	RCW 82.04.333	Small timber harvesters

1	RCW 82.16.053	Electric power, low density customer
2		base
3	RCW 82.04.050(3)(e)	Horticultural services for farmers
4	RCW 82.12.0263	Extracted fuel
5	RCW 82.04.110	Aluminum master alloys
6	RCW 82.04.260(1)(a)	Manufacturers of flour and oil
7	RCW 82.08.0259	Breeding livestock; cattle and milk
8		cows
9	RCW 82.12.0272	Display items for trade shows
10	RCW 82.08.0267	Poultry used in production
11	RCW 82.08.0298	Fishing boat fuel
12	RCW 82.04.335	Agricultural fairs
13	RCW 82.04.337	Exported processed hops
14	RCW 82.04.050	Personal and professional services
15	RCW 82.04.4298	Condominium maintenance fees
16	RCW 82.04.4295	Manufacturing completed in
17		Washington
18	RCW 82.08.02568	Anodes and cathodes for aluminum
19		production
20	RCW 82.08.02567	Electric generating equipment;
21		renewable resources
22	RCW 82.04.260(1)(c)	Processors of fresh fruit and vegetables
23	RCW 82.04.338	Services for the hop commodity
24		commission
25	RCW 82.04.290(1)	International investment management
26	RCW 82.04.050(2)(a)	Hospital laundry service
27	RCW 82.04.434	Testing and safety labs
28	RCW 82.04.4333	Job training services
29	RCW 82.04.272	Resellers of prescription drugs
30	RCW 82.04.050(8)	Fertilizer and chemical spray
31	RCW 82.08.02745	Farm worker housing
32	RCW 82.04.050(8)	Pollination agents
33	RCW 82.16.050(7)	Irrigation water
34	RCW 82.04.4294	Interest on agricultural loans
35	RCW 82.12.010(1)	Use tax on rental value
36	RCW 82.04.260(9)	Stevedoring
37	RCW 82.04.44525	International services
38	RCW 82.04.062	Precious metals and bullion
39	RCW 82.16.040	Two thousand dollar monthly minimum
40	RCW 82.04.330	Agricultural producers
41	RCW 82.04.255	Shared real estate commissions
42	RCW 82.04.394	Property management, on-site personnel
43	RCW 82.04.120	Hay cubing
44	RCW 82.32.045(4)	Twenty-eight thousand dollar minimum
45		for filing a tax return
46	RCW 82.08.0315	Film and video production equipment
47	RCW 82.08.0288	Leased irrigation equipment

1	RCW 82.04.421	Memberships to purchase at discount
2	RCW 82.08.820	Tax remittance for warehouse expansion
3	RCW 82.04.4281	Dividends from subsidiaries
4	RCW 82.12.0265	Bailed tangible personal property for
5		research and development
6	RCW 82.04.416	2nd Narrows bridge
7	RCW 82.04.260(8)	Charter and freight brokers
8	RCW 82.12.0266	Vehicles acquired while in military
9		service
10	RCW 82.08.0257	Farm auction sales
11	RCW 82.04.260 (5) and (6)	Nuclear fuel assemblies
12	RCW 82.04.331	Wholesaling of conditioned seed
13	RCW 82.04.4287	Processing horticultural products
14	RCW 82.04.260(1)(b)	Manufacturers of seafood
15	RCW 82.08.811	Coal for thermal generating plants
16	RCW 82.08.0296	Livestock feed
17	RCW 82.04.425	Accommodation sales
18	RCW 82.60.040	Rural county deferral
19	RCW 82.08.0255(1)	Fuel for aircraft research
20	RCW 82.04.4452	Research and development; high
21		technology firms
22	RCW 82.08.0295	Sale/leaseback, equipment used in
23		processing
24	RCW 82.08.0276	Wearing apparel for display purposes
25	RCW 82.04.050(1)(d)	Ferrosilicon
26	RCW 82.08.0274	Form lumber
27	RCW 82.63.030	High technology deferral
28	RCW 82.16.0491	Credit for rural electric utility
29		contributions
30	RCW 82.04.355	Commuter ride sharing
31	RCW 82.08.0282	Returnable containers
32	RCW 82.04.350	Horse racing
33	RCW 82.12.0251	Nonresidents' personal property
34	RCW 82.16.050(4)	Cash discounts
35	RCW 82.04.4284	Credit losses
36	RCW 36.100.090	Baseball stadium deferral
37	RCW 82.04.4331	Health insurance, medical claims
38	RCW 82.04.433	Fuel used in commercial vessels
39	RCW 82.04.4283	Cash discounts
40	RCW 82.08.0279	Nonresidents' rental cars
41	RCW 82.16.046	2nd Narrows bridge
42	RCW 82.16.050(8)	Interstate transportation; through freight
43	RCW 82.08.0262	Interstate transportation equipment
44	RCW 82.08.026	Natural and manufactured gas
45	RCW 82.08.0263	Vehicles in interstate commerce
46	RCW 82.08.0255(2)	Special fuel
47	RCW 82.04.4285	Motor fuel taxes

1	RCW 82.08.0265	Repaired items delivered to other states
2	RCW 82.16.050(2)	Sales for resale
3	RCW 82.12.0254	Vehicles used in commerce
4	RCW 82.34.050(2)	Credit for tax paid on pollution control facilities
5		
6	RCW 82.04.440 (2) and (3)	Multiple activities, instate
7	RCW 82.32.065	Vehicles under warranty
8	RCW 82.16.050(3)	Joint utility services
9	RCW 82.04.322	Health maintenance organizations
10	RCW 82.04.360	Life insurance "statutory" employees
11	RCW 82.08.0261	Items used in interstate commerce
12	RCW 82.04.050(8)	Feed and seed
13	RCW 82.04.427	Pollution control facilities
14	RCW 47.46.060	2nd Narrows bridge
15	RCW 82.04.310	Public utilities
16	RCW 82.04.390	Real estate sales
17	RCW 82.35.050	Cogeneration facilities
18	RCW 82.04.340	Boxing and wrestling matches
19	RCW 82.66.040	Horse race track deferral
20	RCW 82.04.280	Rental of real estate
21	RCW 82.08.0266	Boats sold to nonresidents
22	RCW 82.16.050(11)	Processing/disposal of sewerage
23	RCW 82.08.033	Used mobile homes
24	RCW 82.08.037	Credit for bad debts
25	RCW 82.08.0268	Farm machinery sold to nonresidents
26	RCW 82.16.050(6)	Interstate transportation; in-state portion
27	RCW 82.04.405	Credit unions; state-chartered
28	RCW 82.08.0273	Purchases by nonresidents, no or low sales taxes
29		
30	RCW 82.08.0264	Vehicles sold to nonresidents
31	RCW 82.04.320	Insurance premiums
32	RCW 82.16.045	Credit for pollution control facilities
33	RCW 82.08.0269	Purchases by residents of Alaska and Hawaii
34		
35	RCW 82.04.280(6)	Radio and television broadcasting
36	RCW 82.04.4329	Health insurance pool fees
37	RCW 82.16.050(5)	Credit losses
38	RCW 82.08.036	Core deposits and tire fees
39	RCW 82.32.420	Waiver of delinquency penalties, Y2K
40	RCW 36.102.070	Football stadium deferral

41 NEW SECTION. **Sec. 4.** Sections 2 and 3 of this act are each added
42 to chapter 82.32 RCW.

43 NEW SECTION. **Sec. 5.** This act applies to fiscal years beginning

1 after June 30, 2005.

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