

HOUSE BILL REPORT

HB 1827

As Reported by House Committee On:
Finance

Title: An act relating to tax expenditure reports.

Brief Description: Requiring a tax expenditure report as part of the biennial budget documents.

Sponsors: Representatives Santos, Hasegawa, Campbell, Kenney, McDermott, Hunt, Appleton, Haler, Blake, Hankins, Green, Upthegrove, Williams, Simpson, McIntire, Ormsby and Chase.

Brief History:

Committee Activity:

Finance: 2/13/07, 3/2/07 [DPS].

Brief Summary of Substitute Bill

- Requires a tax expenditures report to be produced every two years as part of the Governor's budget

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

Staff: Rick Peterson (786-7150).

Background:

The Department of Revenue (DOR) produces a listing of tax exemptions every four years. The most recent report was published in 2004 and the next report is due in 2008. According to the 2004 report there are more than 500 tax exemptions. The term "exemption" includes tax exemptions, exclusions, deductions, credits, deferrals, and preferential rates. These are also sometimes referred to as "tax preferences." The tax exemptions report describes each

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exemption, the year of enactment, the purpose of the exemption (or the DOR's best estimate of the purpose), an indication of primary beneficiaries, and estimated fiscal impact.

The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the 2006 Legislature (EHB 1069). The primary role of the Commission is to develop a schedule to review all tax preferences at least once every 10 years. The Commission takes into account any newly enacted or terminated tax preferences and revises the schedule as needed each year. The schedule is delivered to the Joint Legislative Audit and Review Committee (JLARC). Tax preference reviews are conducted by the JLARC according to the schedule established by the Commission. For each tax preference, the JLARC will provide recommendations to continue, modify, schedule for future review, or terminate the preference. The JLARC may also recommend accountability standards for future reviews of tax preferences. The JLARC must report its findings and recommendations for scheduled tax preferences to the Commission by August 30 of each year. The Commission will review and comment on the JLARC report. The final JLARC reports will be submitted to the House Finance and Senate Ways & Means Committees for joint public hearings.

Summary of Substitute Bill:

A tax expenditures report is created as part of the Governor's biennial budget documents. The report will include the listing of tax exemptions prepared by the DOR and will categorize each exemption according to the program or function it supports. The report will include the findings and recommendations of the JLARC and the comments of the citizens tax commission for performance measurement of tax preferences. The Governor will make a recommendation on whether each exemption scheduled to terminate in the next biennium should be allowed to terminate, continue, or continue with modification.

Substitute Bill Compared to Original Bill:

The substitute bill adds to the tax expenditures report the findings and recommendations of the JLARC and the comments of the citizens tax commission for performance measurement of tax preferences.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) This bill will provide the Legislature with another tool for evaluating critical budget decisions, make the impact on fiscal policies more transparent, and improve accountability in our budgeting process.

(Opposed) We need to get the more detailed analysis completed prior to the effort presented in this proposal. The proposed tax expenditure report is a one-sided report of the impacts on the budget and does not fully take into account the cumulative benefit of tax exemptions. We cannot support the provision for Governor approval on exemption recommendations. Lastly, the Governor already has a means of making his or her requests known.

Persons Testifying: (In support) Representative Santos, prime sponsor; Barb Flye, Washington Tax Fairness Association; Jeff Johnson, Washington State Labor Council; Paul Benz, Lutheran Public Policy Office of Washington State; Barbara Bush, League of Women Voters of Washington; and Steve Zenke, Taxpayers for Washington's Future.

(Opposed) Amber Carter, Association of Washington Businesses.

Persons Signed In To Testify But Not Testifying: None.