
Ways & Means Committee

HB 2762

Brief Description: Concerning tax expenditure reform to provide transparency and accountability in fiscal matters.

Sponsors: Representatives Carlyle, Anderson, Kagi, Orwall, Springer, Seaquist, Dickerson, Sells, Appleton, Fitzgibbon, Reykdal, Ormsby, Wylie, Ryu, Pollet, Sullivan, Hasegawa, Roberts, Hansen, Jinkins and Goodman.

Brief Summary of Bill

- Repeals most sales and use tax preferences and business and occupation tax preferences in five stages, beginning in 2017.

Hearing Date: 2/29/12

Staff: Rick Peterson (786-7150).

Background:

Washington State imposes two general types of taxes: property and excise. Property taxes consist of annual payments by owners of real property (land and structures), and personal property. Property taxes are measured by the value of the property - i.e., an ad valorem tax determined either by the fair market value of the property or a statutory assessment formula. Property taxes are the oldest form of general taxation in this country and are levied in all states. Excise taxes include virtually every other type of tax. Although there is not a uniform definition of excise taxes, generally, these taxes are imposed on a specific transaction or activity. In Washington, most excise taxes are measured by the selling price or some other measure of sales such as gross receipts. The retail sales tax is the single largest excise tax levied in this state. The major state business tax is the business and occupation (B&O) tax. Other excise taxes include selective sales taxes on specific products (cigarettes, gasoline, etc.) and various taxes which are levied in lieu of the property tax (e.g., harvested timber, leaseholds, etc.). The retail sales tax and B&O tax account for approximately 72 percent of state general fund revenue.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Washington law also provides numerous reductions in these various taxes through tax exemptions, deductions, credits, deferrals, and preferential tax rates. Collectively, these tax reductions are referred to as "tax preferences." Currently, state law authorizes 640 tax preferences. One third of them have been enacted since 2000. The 2012 Tax Exemption Study estimated the impact of 452 exemptions that would likely increase revenue if eliminated. The tax preferences enacted after 2000 represent about 10 percent of the total taxpayers saving from the tax preferences included in the 2012 study.

Legislation enacted in 2006 requires a periodic review of most excise and property tax preferences to determine if their continued existence or modification serves the public interest. The enabling legislation assigns specific roles in the review process to two different entities. The job of scheduling tax preferences, holding public hearings, and commenting on the reviews is assigned to the Citizen Commission for Performance Measurement of Tax Preferences (Commission). The responsibility for conducting the reviews is assigned to the staff of the Joint Legislative Audit and Review Committee (JLARC).

The Commission develops a schedule to accomplish a review of tax preferences at least once every 10 years. The Commission is authorized to omit certain tax preferences from the schedule such as those required by constitutional law, the sales and use tax exemptions for machinery and equipment and food, the small business credit for the business and occupation tax, the property tax relief program for retired persons, and tax preferences that the Commission determines are a critical part of the tax structure.

JLARC prepares a final, yearly report containing its recommendations as to whether tax preferences reviewed that year should be continued without modification, modified, or terminated. JLARC has reviewed 121 tax preferences since the review process began in 2006.

Summary of Bill:

A schedule is established to repeal most tax preferences for state and local retail sales and use taxes and the state business and occupation (B&O) tax. The tax preference repeal process will take place over five stages. The first group of tax preferences is repealed on July 1, 2017. This group is comprised of tax preferences that have received a review by the Joint Legislative Audit and Review Committee. The second group is repealed July 1, 2019. This group includes the tax preferences for nonprofit organizations and governmental activities. The third group is repealed on July 1, 2021. This group is comprised of tax preferences for businesses, including farm and agriculture, and exemptions for nonresidents. The fourth group of tax preferences is scheduled for repeal on July 1, 2023. This group provides tax preferences for items typically consumed by households. The fifth and final group of tax preferences is repealed on July 1, 2025. These are tax preferences for health-care related items and services for low-income individuals.

Tax preferences that are constitutionally mandated or already scheduled for expiration are not included in the bill.

Appropriation: None.

Fiscal Note: Available.

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