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## Ways & Means Committee

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### SSB 6088

**Brief Description:** Strengthening the review of the legislature's goals for tax preferences by requiring that every new tax preference provide an expiration date and statement of legislative intent.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Pridemore, Swecker, Conway, Ranker, Shin, Keiser, Kilmer, Kline, Zarelli, Prentice, Rolfes, Eide, Fraser, Kastama, Hobbs, Kohl-Welles, Tom, Benton and Frockt).

#### Brief Summary of Substitute Bill

- Requires legislation enacted after July 1, 2012, that authorizes a new tax preference or the expansion or extension of an existing tax preference to contain a statement of legislative intent.
- Expires any tax preference enacted after July 1, 2012, five years after the provision's effective date unless an alternate expiration date is provided in the legislation.

**Hearing Date:** 2/20/12

**Staff:** Jeffrey Mitchell (786-7139).

#### **Background:**

Washington state derives most of its revenue from various excise taxes and the state property tax. The major excise taxes are the state sales and use tax and business and occupation tax. 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."

State law 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 the review of tax preferences, holding public hearings, and commenting on the reviews is assigned to

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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.

Tax preferences that have a statutory expiration date are scheduled for review before the preference expires. When reviewing tax preferences, the JLARC considers a number of factors including: the public policy objectives of the exemption; whether terminating the tax preference may have negative effects on the category of taxpayers that currently benefit from the tax preference; the extent to which resulting higher taxes may have negative effects on employment and the economy; and the economic impact of the tax preference compared to the economic impact of government activities funded at the same level of expenditure as the tax preference.

Each year the JLARC prepares a final report containing its recommendations as to whether tax preferences reviewed that year should be continued without modification, modified, or terminated. The fiscal committees of the Legislature are required to jointly hold a public hearing to consider the final report.

**Summary of Bill:**

For any bill enacting a new tax preference or expanding or extending an existing tax preference, the enacted bill must include legislative intent provisions that establish policy goals and related metrics that provide context or data for the tax preference review process by the Joint Legislative Audit and Review Committee (JLARC). A bill enacted without the legislative intent provisions does not take effect. The JLARC must provide written notice of a bill's failure to meet the requirements to the Department of Revenue (DOR). The DOR must then provide written notice that such bill did not take effect to the affected parties, the Chief Clerk of the House of Representatives, the Secretary of the Senate, the Office of the Code Reviser, and others as deemed appropriate.

Tax preferences taking effect on or after July 1, 2012, must include a specific expiration date. Tax preferences without a specified date expire five years after taking effect.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 17, 2012.

**Effective Date:** The bill takes effect July 1, 2012.