
HOUSE BILL 2531

State of Washington 62nd Legislature 2012 Regular Session

By Representatives Carlyle, Kelley, Anderson, Morris, Pedersen,
Jenkins, Darneille, and Pollet

Read first time 01/17/12. Referred to Committee on Ways & Means.

1 AN ACT Relating to requiring a rate of return analysis for state
2 tax preferences; amending RCW 43.136.055; and creating a new section.

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

4 NEW SECTION. **Sec. 1.** (1) The legislature finds that to
5 effectively fulfill its role as a financial steward of state tax
6 dollars, the legislature must understand the return on investment
7 associated with each tax preference.

8 (2) The legislature therefore intends to add a return on investment
9 measurement to the duties of the joint legislative audit and review
10 committee to provide a rigorous and measurable analysis of value of
11 each tax preference.

12 **Sec. 2.** RCW 43.136.055 and 2011 c 335 s 3 are each amended to read
13 as follows:

14 (1) The joint legislative audit and review committee must review
15 tax preferences according to the schedule developed under RCW
16 43.136.045. The committee must consider, but not be limited to, the
17 following factors in the review as relevant to each particular tax
18 preference:

1 (a) The classes of individuals, types of organizations, or types of
2 industries whose state tax liabilities are directly affected by the tax
3 preference;

4 (b) Public policy objectives that might provide a justification for
5 the tax preference, including but not limited to the legislative
6 history, any legislative intent, or the extent to which the tax
7 preference encourages business growth or relocation into this state,
8 promotes growth or retention of high wage jobs, or helps stabilize
9 communities;

10 (c) Evidence that the existence of the tax preference has
11 contributed to the achievement of any of the public policy objectives;

12 (d) The extent to which continuation of the tax preference might
13 contribute to any of the public policy objectives;

14 (e) The extent to which the tax preference may provide unintended
15 benefits to an individual, organization, or industry other than those
16 the legislature intended;

17 (f) The extent to which terminating the tax preference may have
18 negative effects on the category of taxpayers that currently benefit
19 from the tax preference, and the extent to which resulting higher taxes
20 may have negative effects on employment and the economy;

21 (g) The feasibility of modifying the tax preference to provide for
22 adjustment or recapture of the tax benefits of the tax preference if
23 the objectives are not fulfilled;

24 (h) Fiscal impacts of the tax preference, including past impacts
25 and expected future impacts if it is continued. For the purposes of
26 this subsection, "fiscal impact" includes an analysis of the general
27 effects of the tax preference on the overall state economy, including,
28 but not limited to, the effects of the tax preference on the
29 consumption and expenditures of persons and businesses within the
30 state;

31 (i) The extent to which termination of the tax preference would
32 affect the distribution of liability for payment of state taxes;

33 (j) The economic impact of the tax preference compared to the
34 economic impact of government activities funded by the tax for which
35 the tax preference is taken at the same level of expenditure as the tax
36 preference. For purposes of this subsection the economic impact shall
37 be determined using the Washington input-output model as published by
38 the office of financial management;

1 (k) Consideration of similar tax preferences adopted in other
2 states, and potential public policy benefits that might be gained by
3 incorporating corresponding provisions in Washington;

4 (1) The rate of return of the tax preference. The "rate of return"
5 is the ratio of: (i) The amount of direct, indirect, and induced state
6 taxes that are paid to the state as a result of the tax preference; and
7 (ii) the amount of state tax savings claimed by taxpayers as a result
8 of the tax preference. Local taxes may be included as part of the
9 ratio calculation under (1)(i) and (ii) of this subsection if the tax
10 preference provides for a reduction in local taxes. The committee may
11 determine the length of the time period used in the ratio calculation.
12 The rate of return of the tax preference may be considered only where
13 a purpose of the tax preference is job creation or retention. Where
14 appropriate, the committee may deem the seller as the taxpayer with
15 respect to sales and use tax exemptions. The factor under this
16 subsection (1)(1) is not required to be part of a tax preference review
17 until 2013 and thereafter.

18 (2) For each tax preference, the committee must provide a
19 recommendation as to whether the tax preference should be continued
20 without modification, modified, scheduled for sunset review at a future
21 date, or terminated immediately. The committee may recommend
22 accountability standards for the future review of a tax preference.

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