Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1239

Brief Description: Increasing tax exemption transparency and accountability.

Sponsors: Representatives Pollet, Appleton, Reykdal, Moscoso, S. Hunt, Stanford, Fitzgibbon, Kagi, Farrell, Ortiz-Self, Dunshee, Walkinshaw, Pettigrew, Tharinger, Ryu, Sells, Tarleton, Santos, Goodman, Cody, Wylie, McBride, Bergquist, Riccelli, Ormsby and Kirby.

Brief Summary of Bill

- Requires the operating budget for the state to include a tax expenditure budget detailing all discretionary state tax expenditures with an estimate of state revenue impacts.
- Requires the Governor's budget documents to include a list of expiring tax expenditures and a recommendation to extend or allow the tax expenditure to expire.
- Modifies the Department of Revenue tax exemption report.
- Modifies the requirements of the Citizen Commission and Joint Legislative Audit and Review Committee tax preference reviews.

Hearing Date: 2/20/15

Staff: Dominique Meyers (786-7150).

Background:

State Operating Budget.
The state government operates on a fiscal biennium that begins on July 1 of each odd-numbered year. A two-year biennial operating budget is adopted every odd-numbered year. Appropriations are made in the biennial budgets for the operation of state government and its various agencies and institutions, including higher education and the funding of K-12 public schools.

Governor's Budget Proposal.

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.

The Budget and Accounting Act establishes various requirements for the budget documents that the Governor must submit to the Legislature before each regular session. The required documents include the Governor's budget message, which explains the budget and outlines proposed fiscal policies for the period covered by the budget, the budget bill, and other supporting information.

Exemption Study.
The Department of Revenue (DOR) must produce and submit to the Legislature a tax exemption report every four years. The report includes a listing of the estimated revenue lost from the exemption and the beneficiary of the exemption. The report also includes the estimated revenue lost for other tax preferences including, preferential rates, deductions, and credits. The next report is due in January 2016.

The Citizen Commission and Joint Legislative Audit and Review: Tax Incentive Reports.
The Citizen Commission for Performance Measurement of Tax Preferences (Commission) was established by the 2006 Legislature. The Commission develops a schedule to review nearly all tax preferences at least once every 10 years. The Commission also schedules preferences with expiration dates for reviews two years before the tax preference expires. Tax preference reviews are conducted by the Joint Legislative Audit and Review Committee (JLARC) according to the schedule established by the Commission. For each tax preference, the JLARC provides recommendations to continue, modify, schedule for future review, or terminate the preference. The Commission reviews and comments on the JLARC report.

Summary of Bill:

The bill requires the operating budget for the state include a tax expenditure budget detailing all "discretionary state tax expenditures" with an estimate of state revenue impacts for the tax expenditure. The expenditure budget must also include the purpose and criteria for the need and continuation of the tax expenditure. "Discretionary state tax expenditure" means a tax preference that impacts revenues and not required by state constitution or the united states constitution.

The Governor must coordinate with the department of revenue and JLARC to complete the tax expenditure budget. This includes the list of tax expenditures that will expire during the next biennium and the recommendation to extend, continue with modifications or allow to expire. New or existing tax expenditures can be authorized or extended for 10 years or less. The House and Senate must hold a public hearing to adopt the tax expenditure budget.

The tax exemption report is modified. The DOR must submit a tax expenditure budget every biennium to the Governor when biennial budget requests are due. The tax expenditure budget analysis must include the amount of reduction for the current and next biennium in state revenues and local revenues from tax expenditures. In addition the tax expenditure budget must include:

- the purpose of the tax expenditure;
- the beneficiaries of the tax expenditure;
- tax expenditure rankings of high, medium or low with respect to meeting the state's priorities of government; and

- the criteria for the evaluation along with results of any review done by JLARC.

The Commission must include all tax expenditures in the schedule for review. Tax expenditures can be expedited if an expiration date of the tax expenditure is near. The Commission must publish online comments submitted during deliberations. Modifications to the JLARC reviews of tax expenditures are made and the following is included in future JLARC reviews:

- public policy objective;
- evidence of achievement of public policy objective;
- unintended benefits from any tax expenditure;
- feasibility of modifying or terminating a tax expenditure;
- fiscal impacts, past present and forecasted;
- economic impact of the tax expenditure compared to the economic impact of government activities that could be funded by the tax expenditure if not extended or enacted;
- requires the input-output model to be used in such analysis;
- extent to which the tax expenditure promotes a sustainable nonpolluting economy;
- ranking of high, medium, or low for the tax expenditure meeting the most recent "priorities of government;"
- opportunity or feasibility to use direct operating budget expenditures instead of tax expenditures to accomplish the economic goal of the tax expenditure; and
- recommendations by JLARC to continue, modify, or allow the tax expenditure to expire.

Additionally, if the purpose of the tax expenditure is to create or retain jobs a comparison of projected job totals with or without the tax expenditure and other job related metrics are required. If any review of a tax expenditure that is intended to create or retain jobs demonstrates that the net earnings of the jobs created does not exceed the amount of lost revenue from the tax expenditure, JLARC and the Commission must recommend that the tax expenditure be terminated.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Section 3 takes effect July 1, 2015. All other sections take effect immediately.