
Finance Committee

HB 2879

Brief Description: Consolidating and simplifying the annual report and annual survey used for economic development tax incentives.

Sponsors: Representatives Nealey, Springer and Magendanz.

Brief Summary of Bill

- Consolidates and streamlines the Annual Report and Annual Survey into a single accountability document.

Hearing Date: 2/2/16

Staff: Jeffrey Mitchell (786-7139).

Background:

A tax preference confers reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences.

Over the last 20 years, the Legislature has required taxpayers to file the Annual Survey (Survey) or the Annual Report (Report) in order to qualify for a variety of new economic development-related tax preferences, or in some cases, when extending existing economic development-related preferences. There are currently 32 economic development-related tax preferences that require one of these supplemental filings. While the Report and the Survey are similar in that both documents require the annual reporting of employment and wage information, there are a couple of differences. Most notably, the Survey requires the taxpayer to report the tax savings associated with a tax preference and the taxpayer's savings amounts are subject to public disclosure; however, the Report does not require firm-specific tax savings to be reported. The table below highlights these distinctions:

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.

	Is Employment/ Wage Data Required to be Reported to DOR?	Is Employment/ Wage Data Subject to Public Disclosure?	Are Firm- Specific Taxpayer Savings Reported to DOR?	Are Firm- Specific Taxpayer Savings Subject to Public Disclosure?
Annual Report	Yes	Yes	No	No
Annual Survey	Yes	No	Yes	Yes

A taxpayer that qualifies for a tax preference that requires an annual survey or report but fails to submit the survey or report is subject to a penalty of 100 percent of the tax preference claimed. In addition to the penalty, interest applies.

In the 2013 session, the Legislature directed the Department of Revenue (Department), in consultation with the Joint Legislative Audit and Review Committee (JLARC), to recommend improvements for the Survey and the Report. The Department made the following six recommendations to ensure more meaningful data is provided, reduce the administrative burden on taxpayers, and improve transparency:

- combine the Report and the Survey into a single tax preference accountability document for all job creation and competitiveness preferences that currently utilize the Survey or the Report;
- eliminate reporting of information that does not help the Legislative Auditor provide meaningful recommendations on the legislation's effectiveness in creating jobs or improving competitiveness;
- requires usable tax data accessible from tax returns and employment data. For example, wage bands and detailed breakdowns of job types currently required on the Survey and the Report have been found to be of limited analytical value;
- for sales and use tax deferrals, require taxpayers to file for the calendar year in which they first purchase tax exempt goods and services. Taxpayers participating in current programs are not required to file the Survey until the construction or refurbishment project is certified by the Department as *operationally complete*. This means that certification could occur several years after the initial tax-exempt capital investment is made and the tax benefit is received by the taxpayer. The reporting delay impacts the timeliness of staff analysis of these preferences;
- allow taxpayers to qualify for a preference under an amended return even after the accountability document filing due date. The strict filing deadlines for the Report and the Survey can prevent taxpayers from fully utilizing tax preferences; and
- make disclosure of taxpayer information and disclosure waivers consistent.

Summary of Bill:

The Survey and the Report are consolidated into a single Annual Accountability Report reflecting the recommendations of the Department. More specifically, the consolidated

Accountability Report: (1) eliminates reporting of information that does not help the Legislative Auditor provide meaningful recommendations on the legislation's effectiveness in creating jobs or improving competitiveness. This would include questions such as the number of patents applied for or tons of product produced; (2) requires useable tax data accessible from tax returns and employment data. For example, requirements to report wage bands and detailed breakdowns of job types are no longer required; (3) for sales and use tax deferrals, taxpayers must initially file the Accountability Report in the calendar year in which the firm first purchases tax exempt goods and services; (4) taxpayers are allowed to qualify for a tax preference under an amended return even after the accountability document filing due date; and (5) makes public disclosure of tax savings information and employment information consistent, i.e. employment data and tax savings data is subject to public disclosure.

Also, the 100 percent penalty for failing to submit a survey or report is reduced to 10 percent.

Appropriation: None.

Fiscal Note: Available.

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