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HOUSE BILL 2645

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State of Washington

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By Representatives Chase, Hasegawa, Flannigan, Williams, Hunt, Conway, Simpson, and Ormsby

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1 AN ACT Relating to tax preferences and the public interest; and  
2 amending RCW 43.136.011 and 43.136.055.

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

4 **Sec. 1.** RCW 43.136.011 and 2006 c 197 s 1 are each amended to read  
5 as follows:

6 (1) The legislature finds that scarce public resources, including  
7 tax preferences, are regularly used to promote state and local economic  
8 development. The legislature finds that tax preferences should be  
9 subject to the same rigorous requirements for efficiency and  
10 accountability as are other expenditure programs. In addition, the  
11 businesses benefiting from these exemptions, deductions, credits,  
12 deferrals, subsidies, and preferential rates, should be expected in  
13 return to demonstrate a certain level of commitment to our communities  
14 and citizens.

15 (2) The legislature recognizes that tax preferences are enacted to  
16 meet objectives which are determined to be in the public interest.  
17 However, some tax preferences may not be efficient or equitable tools  
18 for the achievement of current public policy objectives. Given the  
19 changing nature of the economy and tax structures of other states, the

1 legislature finds that periodic performance audits of tax preferences  
2 are needed to measure the public good created in the state by such  
3 preferences and to determine if their continued existence will serve  
4 the public interest.

5 **Sec. 2.** RCW 43.136.055 and 2006 c 197 s 5 are each amended to read  
6 as follows:

7 (1) The joint legislative audit and review committee shall review  
8 tax preferences according to the schedule developed under RCW  
9 43.136.045. The committee shall consider, but not be limited to, the  
10 following factors in the review:

11 (a) The classes of individuals, types of organizations, or types of  
12 industries whose state tax liabilities are directly affected by the tax  
13 preference;

14 (b) Public policy objectives that might provide a justification for  
15 the tax preference, including but not limited to the legislative  
16 history, any legislative intent, or the extent to which the tax  
17 preference encourages business growth or relocation into this state,  
18 promotes growth or retention of high wage jobs, ~~((or))~~ provides  
19 employment opportunities for the existing state workforce, increases  
20 tax receipts, helps stabilize and strengthen communities or otherwise  
21 provides a positive return on the state's investment of resources;

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

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

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

29 (f) The extent to which terminating the tax preference may have  
30 negative effects on the category of taxpayers that currently benefit  
31 from the tax preference, and the extent to which resulting higher taxes  
32 may have negative effects on employment and the economy;

33 (g) The feasibility of modifying the tax preference to provide for  
34 adjustment or recapture of the tax benefits of the tax preference if  
35 the objectives are not fulfilled;

36 (h) Fiscal impacts of the tax preference, including past impacts  
37 and expected future impacts if it is continued. For the purposes of

1 this subsection, "fiscal impact" includes an analysis of the general  
2 effects of the tax preference on the overall state economy, including,  
3 but not limited to, the effects of the tax preference on the  
4 consumption and expenditures of persons and businesses within the  
5 state;

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

8 (j) Consideration of similar tax preferences adopted in other  
9 states, and potential public policy benefits that might be gained by  
10 incorporating corresponding provisions in Washington.

11 (2) For each tax preference, the committee shall provide a  
12 recommendation as to whether the tax preference should be continued  
13 without modification, modified, scheduled for sunset review at a future  
14 date, or terminated immediately. The committee may recommend  
15 accountability standards for the future review of a tax preference.

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