

WASHINGTON STATE DEPARTMENT OF REVENUE



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2008 Tax Exemption Report Released

OLYMPIA, Wash., January 9, 2008—The Department of Revenue has released *Tax Exemptions 2008*, a compendium of state and local tax exemptions.

The legislatively mandated tax exemption study is updated every four years. It is available online at http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2008/Tax_Exemptions_2008/Default.aspx.

The 567 exemptions enacted since territorial days in 1854 represent an estimated \$98.5 billion in state and local tax savings during the 2007 – 2009 biennium. Of this, about 54 percent, or \$53.5 billion, involves state taxes and the remaining \$45 billion are local taxes.

The largest single exemption is the property tax exemption for intangibles, enacted in 1931. It accounts for 36.7 percent, or \$36.2 billion, of the total. Intangibles include assets such as money, stocks, bonds, bank deposits, and the value of corporate trademarks. Were it not for this exemption, businesses and individuals would have to pay property taxes on their financial assets as well as their real estate.

The second-largest is a use tax exemption on personal property owned by nonresidents who visit Washington and new residents who bring used household goods and vehicles with them. That one totals \$24.8 billion, or 25.2 percent of the total.

In third place is no sales tax on most services, at \$5.2 billion or 5.3 percent. Sales tax on services was excluded from the tax base when the current tax code was enacted in 1935, when services were a relative small component of the economy.

Fourth is exemption of employee income from taxation (no personal income tax) at \$2.6 billion or 2.6 percent.

Fifth largest is the voter-approved sales tax exemption on food, saving \$2.2 billion or 2.3 percent over a two-year period.

While business incentives receive a lot of public attention, they comprise a fairly small percentage of the total value of exemptions and preferential rates, \$3.9 billion or 4 percent of the total.

The report emphasizes that the revenue impacts reflect estimated savings to taxpayers but do not necessarily indicate the potential tax revenue that might be generated in the absence of the exemptions. The report assesses whether or not a tax actually could be collected if the exemption were repealed.

Because many of the exemptions are mandated by federal law or the state constitution, and other taxes would not be collected due to changes in taxpayer behavior if the exemptions were repealed, the report concludes that only about \$14.8 billion in additional state or local government revenue could potentially be generated through repeal of exemptions. Most of this – \$11.9 billion – would be generated by repealing sales and use tax exemptions, with 44 percent of that being the sales tax exemption for services.

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