

NOTES ON SUMMARY LISTING OF TAX EXEMPTIONS

Description of Contents and Categories

Tax Type

The 2004 Tax Exemption report lists some 503 tax preference items according to three general types of taxes: (1) Property Tax and In-Lieu Excise Taxes; (2) Business Taxes; and (3) Sales Taxes. Each of the major taxes has further subclassifications intended to group similar tax preferences together.

RCW Citation

Only the principal statute for each exemption is listed in this table. In some cases, an exemption will have more than one statute (e.g., retail sales and use tax), while in others the Exemption Study will break down a single statute into several major components.

Description

A short statement intended to summarize the particular exemption.

Category

In an attempt to group tax preference items according to the major type of beneficiary or the principal purpose, each has been assigned to one of eleven categories. It should be remembered that exemptions can address multiple goals and often benefit different types of taxpayers. The eleven categories are summarized below; see the published report for more details on these categories:

Tax Base - Activities or sources of income that were not intended to be included in the base of the tax.

Government - Property owned by, activities engaged in by, or purchases made by federal, state or local governmental jurisdictions.

Commerce - The U.S. Constitution prohibits direct taxation or interstate commerce.

Intangibles - The property tax exemption for financial personal property is so large and benefits both individuals and businesses that it is included as a separate category.

Services - Originally, the retail sales tax applied only to tangible personal property. Since the tax was not intended to apply to personal or professional services, there is no specific exemption for such services. Over the years the tax base has been extended to a few specified services, and there has been interest in extending it further to include all services. As a result, it is included here as a separate category.

Nonprofit - a variety of tax exemptions are provided to nonprofit organizations.

To provide additional detail, these are further subdivided as follows:

Nonprofit - H = health or social welfare organizations

Nonprofit - C = charitable or religious organizations

Nonprofit - A = arts or cultural organizations

Nonprofit - O = other nonprofit organizations

Individuals - Exemptions which directly benefit citizens of the state are grouped together.

Business Incentive - This category comprises tax preferences whose principal purpose is targeted to attract or retain a particular firm or industry to the state. It also includes those that encourage business to engage in a particular behavior, e.g., locate in rural areas, create new jobs, or expand R&D activities.

Other Business - This category includes all other tax preferences that principally benefit business (even though the benefit may ultimately be passed on to consumers).

Agriculture - Many tax preferences have been provided for the agricultural industry. Therefore, these are shown as a specific category.

Other - Some tax preferences do not fit well into other groupings; these are included in this final category.

Year Enacted

This refers to the year that the tax exemption first appeared in the Revised Code of Washington. In most cases, the Exemption Study does not indicate subsequent years that the statute may have been amended. Former exemption statutes which have been repealed are no longer listed, unless they continue to confer benefits for taxpayers.

Would Revenue Be Realized?

In most instances, the existence of a tax preference implies that state and/or local government revenues are reduced. Conversely, the repeal of an exemption statute is often believed to result in a revenue gain. For the exemptions with "Yes" in this column the amount of savings to taxpayers should equate with the amount of potential revenue to be realized from a repeal of the statute. However, the repeal of some exemptions do not realistically imply increased revenues. In the first place, some exemptions are required for constitutional reasons (e.g., interstate commerce). Others simply help to define the intended base of the tax. Finally, some taxes are constrained by limitations (e.g., property taxes). For these, broadening of the tax base (via repeal of exemptions) would merely result in reduced tax rates, thus spreading the benefit to other taxpayers. For such exemptions, the revenue "potential" is indicated as "No" or "Partially" in Column F of the spreadsheet.

Savings to Taxpayers

There are eight columns in the spreadsheet (Columns G - O) which contain estimates of the fiscal impact of the exemptions. The dollar amounts indicated are the tax savings that accrue to individuals or businesses that would otherwise be required to pay the tax. These amounts do not necessarily equate with the amount of tax revenue that is foregone as a result of the exemption (see above).

Figures are provided for each of four fiscal years, with state impacts shown separately from the aggregate local impact. FY 2004 and FY 2005 comprise the 2003-05 biennium, while the latter two years can be summed to arrive at a total for the 2005-07 biennium. (NOTE: property tax estimates are based on calendar years, as a proxy for fiscal years.)

A zero entry either indicates that no taxpayer is currently using the exemption or that the amounts are believed to be minimal.

Astericks indicate that the amounts cannot be disclosed for confidentiality reasons, because it is believed that fewer than three taxpayers are involved.