

# Everybody Else Gets One

## An Analysis of Tax Breaks in Washington State

BY MARILYN P. WATKINS

*Washington had 567 tax exemptions on the books at the end of 2007. These tax breaks added up to \$15 billion in lost state and local revenue that could improve education, health, the environment, transportation, or other public services. Providing piecemeal tax breaks is a poor economic development strategy and has made Washington's tax structure even more unfair and inadequate for the needs of the 21<sup>st</sup> century economy. Washington's families, workers, and businesses would be better off with a modernized tax structure and well-financed, high-quality public structures and services. The economic downturn of 2008 and projected budget deficits provide an opportunity for Washington's policy makers to develop a more coherent tax policy.*

### Key Findings

**Of 567 tax breaks, 302 would result in new public revenue if repealed.**

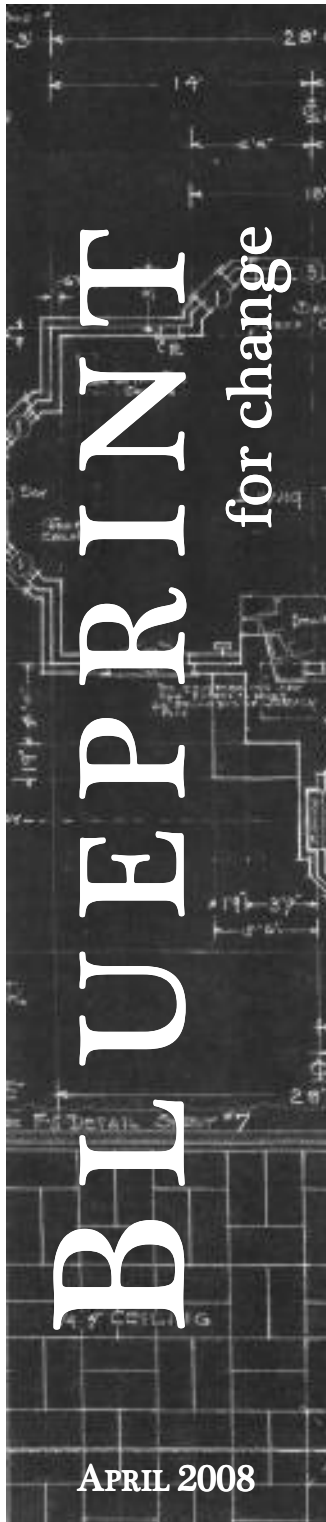
- The state would gain \$12 billion in revenue, and local governments would gain almost \$3 billion.
- The top 20 tax breaks account for most of the lost revenue. These include popular exemptions that benefit all citizens, such as the sales tax exemptions on food and prescription drugs.

**Business tax breaks have proliferated since the 1990s.**

- In the five legislative sessions from 2003 through 2007, the legislature passed 77 business tax breaks that reduce state revenue in the 2007-09 biennium by nearly \$600 million.
- Aerospace industry tax breaks cost the state \$207 million in 2007-09.
- High tech and rural investment incentives that were renewed in 2004 cost the state another \$200 million.

**Washington's legislature has taken steps to improve accountability for tax breaks, but must go much further.**

- Investing in high-quality education and infrastructure is a better route to sustainable economic development than piecemeal tax breaks.
- Washington needs a fairer and adequate tax structure suited to the modern economy, not new tax exemptions.



## Introduction

Washington had 567 tax exemptions on the books at the end of 2007.<sup>1</sup> State taxes fund services that lay the foundation for individual opportunity and a thriving economy. Public education, transportation, public health and safety all rely on revenues from tax dollars. By many measures, Washington is an attractive place in which to live and do business. But we're losing ground by failing to invest enough in public services and structures we need to maintain a thriving economy in rapidly changing times.<sup>2</sup>

Tax exemptions – or breaks, preferences, loopholes, expenditures – add up to a lot of money that could instead improve public services. According to a 2008 analysis by the Washington Department of Revenue, state and local governments could collect revenue from 302 tax breaks if they were repealed. In the 2007-09 biennium, these exemptions saved certain taxpayers roughly \$15 billion in state and local taxes.<sup>3</sup>

PROJECTED BUDGET  
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TO DEVELOP A  
STRONGER AND  
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SYSTEM.

That missing money becomes particularly important as the economy and tax receipts slow down, and pressure mounts to invest more in education and transportation. Spending for schools and the full range of public services has to be reauthorized with every budget. Teacher pay, full-day kindergarten, help for struggling high school students, access to college, and expanding quality preschool end up competing with each other along with other state services for an increasingly inadequate pool of money. But once on the books, tax exemptions keep siphoning away money without ever being evaluated against other priorities.

Certainly not all tax breaks are bad. Washington's overall tax structure falls unfairly on low- and moderate-income households and smaller businesses. The sales tax exemptions on food and prescription drugs and the small business B&O tax break help mitigate this problem. But in the long run, continually poking holes in the tax base is a poor way to pursue either fairer taxes or economic development.

The economic downturn of 2008 and projected budget deficits provide an opportunity for Washington's policymakers to develop a more coherent tax policy.

### Recommendations for the 2009 Washington Legislature:

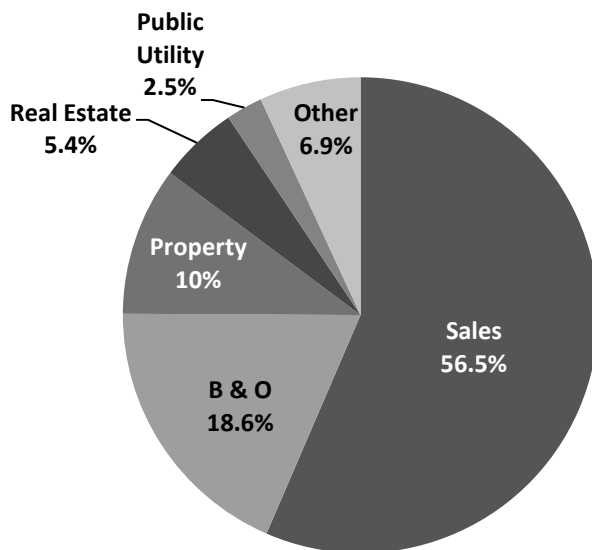
- Ensure all business and economic development tax breaks are rare, temporary in nature, and regularly re-evaluated.
- Enlarge the Citizen Commission for Performance Measurement of Tax Preferences and grant it greater flexibility.
- Put tax breaks on the table for elimination in times of budget shortfalls.
- Begin a comprehensive overhaul of Washington's tax structure.

# An Overview of Tax Exemptions

Washington’s basic tax structure was adopted in 1935. Since then, the Legislature has responded to changes in the economy and political environment by modifying – but never truly overhauling – the tax code. Some of these actions changed rates and a few expanded the tax base. However, over the past two decades most changes to the tax code have reduced revenues and narrowed the tax base.

Washington has three major taxes that together account for 85% of General Fund revenue – retail sales and use tax, the business and occupation tax (B&O), and property tax. There are also a number of other taxes, including real estate, liquor, tobacco, public utilities, and estate taxes.

**FIGURE 1. WASHINGTON’S GENERAL FUND REVENUE SOURCES, 2007-09**



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*Source: Washington State Economic and Revenue Forecast Council, November 2007*

Exemptions have been carved out of all types of taxes. Some tax exemptions reduce revenues for city, county, and other units of local government, as well as the state. This is particularly true with sales tax exemptions. The state collects a retail sales tax of 6.5%. Cities, counties, transit districts, and other local units are authorized to collect additional tax, but typically only on those items or services also subject to the state sales tax.<sup>4</sup> The 158 sales tax exemptions reduced state revenues by \$9 billion and local government revenues by \$2.8 billion in the 2007-09 biennium.<sup>5</sup>

Property tax collections are also shared between the state and local governments, with the state collecting about one fourth of the total. Property tax exemptions have relatively little effect on total public revenues, however. Instead, reduced taxes on one group of property owners results in increased taxes on other property owners in the same taxing district.<sup>6</sup>

While in theory the 567 tax exemptions total nearly \$100 billion in tax-payer savings, only about half would actually generate additional revenues to the state and local governments if repealed. Some exemptions relate to interstate commerce, which the U.S. Constitution prohibits states from taxing. Others are for taxes that if in place, would be difficult to collect or would prompt a change in behavior to avoid the tax. The remaining 302 tax exemptions would raise revenue if repealed, and account for \$12 billion in reduced state revenues in the 2007-09 biennium, out of a \$30 billion General Fund budget.

**TABLE 1. TAX EXEMPTIONS THAT WOULD RAISE REVENUE IF REPEALED**

Type of beneficiary	Exemptions	Cost in 2007-09		Cost in 2009-11	
		State	Local	State	Local
Agriculture	45	\$185.1 million	\$19.5 million	\$196.1 million	\$20 million
Business incentive	87	\$1.1 billion	\$195 million	\$1.2 billion	\$206 million
Other business	60	\$681.7 million	\$24.4 million	\$737.5 million	\$26.8 million
Government	19	\$247 million	\$73.2 million	\$276.4 million	\$82 million
Individuals	20	\$4.523 billion	\$1.202 billion	\$4.963 billion	\$1.382 billion
Non profit	39	\$388.8 million	\$8.4 million	\$418 million	\$8.9 million
Services	3	\$4.144 billion	\$1.293 billion	\$4.452 billion	\$1.388 billion
Other	29	\$770 million	\$10 million	\$892 million	\$16 million
<b>Total</b>	<b>302</b>	<b>\$12.016 billion</b>	<b>\$2.825 billion</b>	<b>\$13.091 billion</b>	<b>\$3.077 billion</b>

Source: Washington Department of Revenue, Tax Exemptions 2008.

Problems related to tax exemptions of course extend far beyond Washington State.<sup>7</sup> But the inequity and inadequacy of our outmoded tax structure make the problems particularly acute here. Washington has the most regressive tax system in the country, with low-income residents here paying a higher percentage of their income in state and local taxes than in any other state.<sup>8</sup> With the tax base shrinking, public revenues in Washington grow more slowly than the economy and the public's demand for services.<sup>9</sup> Both of these problems are mitigated in most other states by a state income tax. An income tax is far more fair than consumption taxes, and growth in personal income over time consistently keeps pace with overall economic growth. However, Washington lacks this progressive, flexible, and reliable public financing tool.

EXEMPTIONS  
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OUT OF A \$30  
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## The Largest Tax Exemptions

Washington’s twenty largest “collectable” exemptions account for 90% of lost state revenue and nearly all lost local revenue (see Table 2). Four of these tax breaks date back to 1935 when Washington adopted its current tax structure. These include the exemption of motor vehicle fuel from sales tax<sup>10</sup>; a B&O deduction for investment income for non-financial businesses; and a B&O tax exemption for farmers – reflecting the severe agricultural depression of the 1930s and the continuing fluctuations in agricultural prices.<sup>11</sup>

**THE 20 LARGEST  
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**TABLE 2. TOP 20 TAX BREAKS THAT COULD BE COLLECTED (IN \$MILLIONS)**

Description	Date enacted	Cost in 2007-09		Cost in 2009-11	
		State loss	Local loss	State loss	Local loss
Personal & professional services sales tax exemption	1935	\$ 3,942	\$1,231	\$4,177	\$1,304
Food products sales tax exemption	1977 1982	\$ 1,709	\$526	\$1,884	\$580
Motor vehicle/special fuel used on public highways	1935	\$968	\$302	\$1,009	\$315
Investments by nonfinancial firms B&O deduction	1935	\$700	0	\$799	0
Estate tax threshold (1st \$2 million)	2005	\$629	0	\$ 657	0
Prescription drugs sales tax exemption	1974	\$613	\$189	\$742	\$228
Manufacturing machinery sales tax exemption	1995	\$422	\$131	\$454	\$141
Trade-ins sales tax exemption	1984	\$315	\$97	\$344	\$106
Labor for local road construction sales tax exemption	1943	\$ 210	\$66	\$234	\$74
Customized computer software sales tax exemption	1998	\$189	\$58	\$ 262	\$81
Medical devices sales tax exemption	1975	\$156	\$48	\$189	\$58
Government grants to nonprofit organizations	1979	\$150	0	\$159	0
Interest on real estate loans	1970	\$149	0	\$168	0
Public/nonprofit hospitals; Medicare receipts	2002	\$144	0	\$158	0
Manufacturing commercial airplanes B&O rate	2003	\$150	0	\$200	0
High technology sales tax deferral	1994 2004	\$103	\$32	\$111	\$34
\$28,000 minimum for filing B&O tax return	1996	\$82	0	\$ 82	0
Airplane pre-production expenditures B&O credit	2003	\$44	0	\$12	0
Local residential & coin-op telephone service	1983	\$76	\$24	\$ 76	\$24
Agricultural producers B&O exemption	1935	\$62	0	\$66	0
<b>Total Top 20</b>		<b>\$10,814</b>	<b>\$2,704</b>	<b>\$ 11,782</b>	<b>\$2,945</b>

Source: Washington Department of Revenue, Tax Exemptions 2008.

SALES TAX  
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The sales tax exemption for personal and professional services, ranging from barbers and cable TV to lawyers and doctors, also dates back to 1935. Worth over \$5 billion per biennium, it is the single largest tax break that results in real revenue loss. However, any evaluation of this exemption should consider different types of services separately, since the issues regarding collecting a sales tax differ so much.<sup>12</sup> Table 3 breaks the total down by consumer, business & professional, financial, and medical services. The exemption on blue collar repair and construction services was lifted in 1941, permanently adding them to the tax base.<sup>13</sup> However, exempting certain businesses from the sales tax on construction is now a favorite new form of business incentive.

**TABLE 3. REVENUE LOSS FROM SALES TAX EXEMPTION ON SERVICES**

	Cost in 2007-09		Cost in 2009-11	
	State	Local	State	Local
Consumer	\$396 million	\$124 million	\$420 million	\$131 million
Business & Profession	\$1,421 million	\$443 million	\$1,505 million	\$470 million
Financial	\$669 million	\$209 million	\$709 million	\$221 million
Medical	\$1,456 million	\$455 million	\$1,542 million	\$481 million
<b>Total</b>	<b>\$3,942 million</b>	<b>\$1,231 million</b>	<b>\$4,177 million</b>	<b>\$1,304 million</b>

Source: Washington Department of Revenue, *Tax Exemptions 2008*.

MANY  
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Most individuals throughout the state benefit from sales tax exemptions on food, prescription drugs, medical devices, and residential telephone service, as well as the \$2 million threshold for the state estate tax. Although costly in terms of state revenue, these exemptions have the positive effect of making the state tax structure less regressive. The sales tax exemption on food originally passed by voter initiative in 1977, and was temporarily repealed during the recession of the early 1980s. The exclusion of the value of trade-ins from the taxable sales price was also adopted by initiative in 1984, most often applying to vehicle sales.<sup>14</sup>

Tens of thousands of businesses benefit from the B&O tax exemption for the lowest-grossing firms and the sales tax exemption on manufacturing machinery.<sup>15</sup> Other business tax breaks in the top twenty are more specialized. Sales tax exemptions on construction by high technology companies engaged in research and development, first enacted as a deferral in 1994 and renewed in 2004, and for customizing computer software, enacted in 1998, together reduce state revenues by \$292 million in 2007-09. Two out of the ten components of the “Boeing” tax breaks make it into the top twenty, costing the state \$195 million this biennium. All ten total \$207 million.

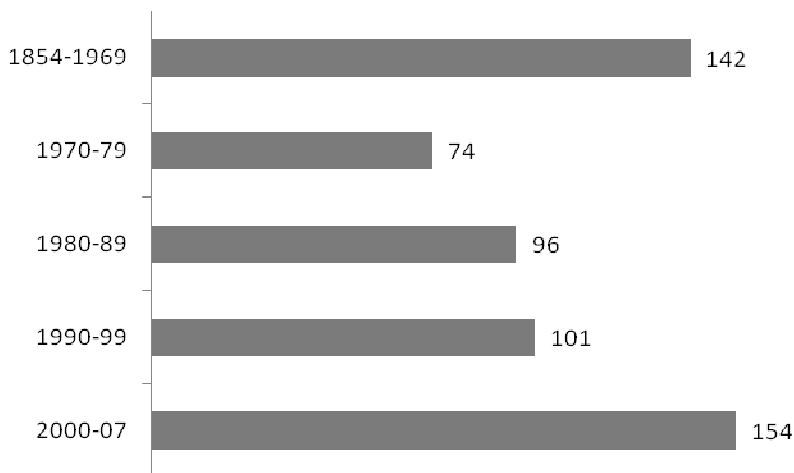
## Proliferating Business Tax Breaks

In the 1990s, the pace at which new tax exemptions were passed picked up considerably. From 1995 through 2007, the state adopted 226 new tax breaks, over 17 per year on average. One hundred sixty six of those represent actual revenue loss to the state. In 2008, the legislature added another 14 tax reductions to the total.

In the five sessions from 2003 to 2007, the legislature enacted or renewed 77 tax breaks for businesses. Legislators were responding to a combination of pressures, including: the economic downturn that began in 2001; the long term decline in manufacturing employment; and specific threats by Boeing to manufacture its new airplane in another state.<sup>16</sup>

Washington was particularly hard hit by the 2001 recession, and continued to lose jobs through mid-2003. Strong job growth did not begin again until 2005. The slide in manufacturing jobs began in 1998, although manufacturing had been steadily falling as a share of jobs for decades. Between 1998 and 2004, the state lost nearly 100,000 manufacturing jobs. Close to half of those were in aerospace, with the others spread across nearly every manufacturing sector, from fruit and vegetable processing to high tech electronics. The loss of manufacturing jobs has been a national phenomenon, with many of those jobs moving overseas.<sup>17</sup>

**FIGURE 2. NUMBER OF NEW TAX BREAKS PASSED, 1984-2007**



Source: Washington Department of Revenue, *Tax Exemptions 2008*.

Although the economic downturn also caused budget shortfalls, business lobbyists had an easy time selling the notion that targeted tax cuts would keep and attract new jobs that would make up for the loss of revenue. Boeing had already moved its headquarters from Seattle to Chicago in 2001 after inviting states to compete for the privilege of housing it. The company similarly invited states to compete on incentive packages for the manufacturing site of its new airplane in 2003.<sup>18</sup> Washington

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\$360 MILLION.**

responded by offering a package of 10 aerospace tax breaks and “won” the competition. Together, the aerospace tax breaks reduced state revenues in the 2007-09 biennium by over \$207 million.

In 2004, the legislature renewed two expiring tax incentive packages that cost the current biennial budget another \$200 million. High technology companies engaged in research and development had been granted both sales tax and B&O tax reductions in 1994. Certain employers in rural counties also had both sales tax and B&O incentives dating from the mid-1980s. Both the high tech and rural tax breaks were set to expire in 2004, but were renewed for additional periods.

**TABLE 4. BUSINESS TAX BREAKS PASSED OR RENEWED 2003-2007**  
(REALIZABLE REVENUE IN MILLIONS)

Type	Passed 2003-2007	Revenue Loss 2007-09		Revenue Loss 2009-11	
		State	Local	State	Local
Aerospace	10	\$207.2	\$2.3	\$219.1	\$0.7
High tech	2	\$154.6	\$31.9	\$172.5	\$34.5
Rural county	2	\$46.2	\$12.4	\$54.9	\$15.2
Agricultural	7	\$27.2	\$7.5	\$29.3	\$7.8
Business incentive & other	56	\$142.4	10.5	\$145.8	\$11.2
<b>Total</b>	<b>77</b>	<b>\$577.6</b>	<b>\$64.6</b>	<b>\$621.6</b>	<b>\$69.4</b>

Source: Washington Department of Revenue, *Tax Exemptions 2008*.

## Accountability for Business Tax Breaks

WE DON'T KNOW  
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BUSINESS TAX  
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NEW AND BETTER  
JOBS.

Washington has made significant progress in including reporting requirements and sunset dates in some new business tax incentives, and the legislature has become more careful in passing new tax breaks. However, the state still has a long way to go to achieve real accountability, and has not moved to repeal any significant tax exemptions.

The Department of Revenue now produces an annual report summarizing statistics on the number and size of firms benefitting from certain incentive programs, and the total number of jobs those firms provide by pay range and availability of benefits. The report covering calendar year 2006 included summaries from 11 incentive programs, and the report for 2007 will include 13.<sup>19</sup> While instructive, these reports publish only aggregate numbers and do not include individual firm data or much in the way of evaluation. We have no way to tell from these reports whether the tax breaks produced new and better jobs, or whether companies got the money for actions they would have taken anyway.



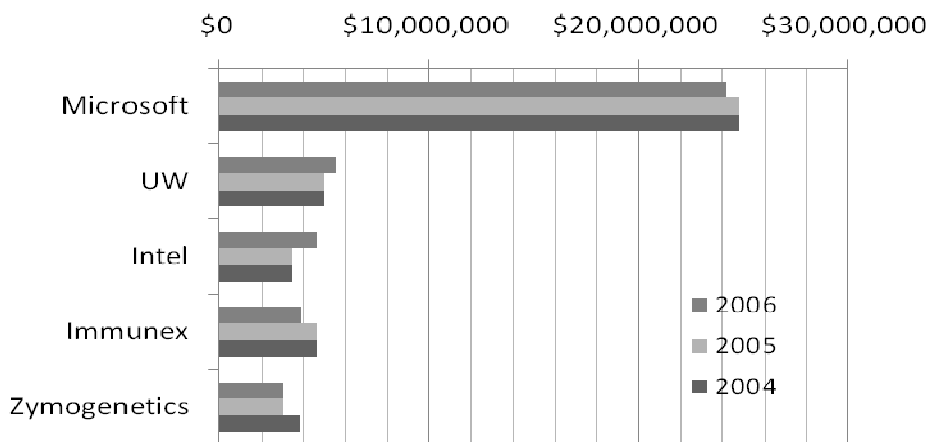
The aerospace package approved in 2003 requires an annual reporting of employment, wages, benefits and other information that is open to the public upon request, but is not publicly posted.<sup>20</sup> Aerospace jobs have grown by over 18,000 in Washington since those incentives were enacted, but much of that increase is due to increased demand for airplanes generally, and are not specifically related to construction of the 787. Moreover, Boeing’s in-state contractors, who also qualify for the tax breaks, provide much lower pay and benefits than Boeing’s unionized workforce receives.<sup>21</sup>

The original 1994 legislation approving high technology tax breaks called for three Department of Revenue studies of those incentives to be completed at intervals prior to the 2004 expiration date. Those studies found that high tech jobs grew significantly in Washington after the incentives were passed, but that Washington’s share of high tech jobs nationally did not change.<sup>22</sup> The Department also contracted for an econometric study of job creation associated with those incentives in 2003, which found no connection between the B&O credit and job growth, but did find job growth associated with those companies that took the sales tax incentive for new or expanded facilities.<sup>23</sup> The 2004 legislature renewed both the B&O and sales tax incentives until 2015.

The reauthorization legislation for the high tech incentives allows the public to learn the amount of tax reduction claimed by each company. In 2004, 2005, and 2006 Microsoft was by far the largest beneficiary of the high tech sales tax break, claiming between \$24 million and \$25 million each year. The company was also the only firm to claim the maximum B&O credit of \$2 million each year. Among the other consistent large users of the programs, claiming sales tax credits of between \$3 million and \$6 million in most years, were the University of Washington, Intel, Immunex, and Zymogenetics.<sup>24</sup> Company-specific tax savings are also publically available for the sales tax deferral for investments in rural counties and the B&O credit for fruit and vegetable processors.<sup>25</sup>

**THE LEGISLATURE  
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SIGNIFICANT TAX  
BREAKS.**

**FIGURE 3. TOP USERS OF HIGH TECH SALES TAX BREAK, 2004-2006**



Source: Washington Department of Revenue, High Technology Survey Reports.

In 2006, the legislature made a step toward more systematic accountability by establishing a seven-person Citizen Commission for Performance Measurement of Tax Preferences. The Joint Legislative Audit and Review Committee (JLARC) conducts evaluations for the commissioners to consider, including recommendations to continue, modify, or terminate each tax exemption. The legislature excluded some tax preferences from review and also directed that the oldest tax breaks be reviewed first. As yet, the commission has not brought any significant recommendations to the full legislature.<sup>26</sup>

Bills to require the Department of Revenue (DOR) to produce a full tally of all tax exemptions every two years to coincide with consideration of the state's biennial budget have failed to pass.<sup>27</sup> Instead, DOR compiles tax exemptions every four years and in years when the full state budget is not under consideration.<sup>28</sup>

## Conclusion and Recommendations

TOO MANY SPECIAL  
EXEMPTIONS TAKE  
MONEY FROM  
SERVICES THAT  
COULD HELP ALL OF  
US PROSPER.

As Washington's tax system has aged, it has become increasingly out of sync with the state's economy. Compared to other states, Washington relies too heavily on sales tax and specific business taxes, and leaves important components of the modern economy – including personal income and intangible wealth – untaxed. And as in other states, Washington policymakers have responded to pressures from globalization and interstate competition for jobs by cutting taxes for certain businesses.

However, numerous economic analyses of tax incentives have failed to establish a strong link between tax breaks and good jobs and economic development. Companies make investment and location decisions based on multiple factors. Demand for their product, access to materials and markets, proximity to universities and centers of innovation, affordable land and energy, and availability of suitable labor are critical to those decisions. Tax-supported state services in education, transportation, and other infrastructure are therefore essential to luring investment to Washington. State and local taxes, on the other hand, represent a tiny fraction of overall costs, and at best only make a difference in firm decisions on the margins.<sup>29</sup>

Our state's piecemeal approach is not working well, either for "fixing" problems with the tax structure or for promoting economic growth that benefits all Washington residents. Instead, the number of tax breaks continues to grow, exceeding 580 at the close of the 2008 legislative session. These exemptions are exacerbating inequities of the tax system and shrinking the tax base, while draining money from the public services that are necessary for broad-based growth and economic innovation.

## Recommendations for the 2009 Washington Legislature:

- Ensure business and economic development tax breaks are rare, temporary in nature, with clear performance measures attached.
- Enlarge the Citizen Commission for Performance Measurement of Tax Preferences from seven to eleven members, to include representatives of Washington workers and families, alongside current business and academic representatives. The Commission should also be granted greater flexibility in the review process, so that similar types of exemptions can be evaluated together and prioritized.
- Evaluate tax breaks against other priorities, and especially in times of budget shortfalls or high demand for expanded public investments, keep them on the table for possible elimination.
- Give Washington's tax structure a thorough overhaul. Ensure it is: fair to middle- and low- income families; utilizes balanced sources of revenue; and provides adequate support for public services needed in the 21<sup>st</sup> century economy.

**BUSINESS TAX  
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## Appendix

**TABLE 5. NEW TAX BREAKS IN WASHINGTON'S 2008 SUPPLEMENTAL BUDGET**

Bill #	Description	Cost in 2007-09		Cost in 2011-13	
		State	Local	State	Local
1621	Real estate excise tax exemption for sellers of mobile home parks to qualified tenant associations.	\$20,000		\$94,000	
2544	Exempts facilities providing temporary housing to medical patients and families from sales and lodging taxes	\$31,000	\$34,650	\$73,000	\$84,150
2585	Makes newspaper internet ads subject to the manufacturers B&O rate rather than the service rate	\$946,000		\$4.5 million	
2678	Adds recycled paper products to timber-related activities qualifying for reduced B&O rate	\$34,000		\$34,000	
2847	Exempts materials and services used for federal Weatherization Assistance Program from sales tax.	\$276,000	\$88,000	\$613,000	\$196,000
3096	Sales tax deferral for 520 bridge	\$251,000	\$93,000	\$23.2 million	\$8.6 million
3275	Expands exemption from B&O tax for distributors to grocery co-ops, originally adopted in 2001.	\$1.17 million		\$3.84 million	
3283	Relieves active duty personnel of interest and penalty charges on delinquent excise taxes	\$53,000		\$116,000	
3360	Expands linked deposit program to provide more short term loans to women, minority, and veteran owned businesses. State foregoes interest income.	\$191,000		\$1.6 million	
3362	Allows B&O credit for purchases of energy efficient equipment between July 2008 and July 2010, by businesses with less than \$750,000 gross income.	\$106,000			
6111	Sales tax exemption for tidal and wave energy generation devices, expiring 2018.	\$324,000	\$99,000	\$4,000	
6375	Exempts trail grooming services from sales tax.	\$6,000	\$2,000	\$14,000	\$4,000
6468	B&O and sales tax exemptions for honey beekeepers, expiring July 2013.	\$74,000	\$8,000	\$162,000	\$18,000
6828	Extends aerospace tax incentives to additional contractors.	\$2.167 million	\$123,750	\$6.1 million	\$330,660
	<b>Total</b>	<b>\$5.649 million</b>	<b>\$448,400</b>	<b>\$40.374 million</b>	<b>\$9.203 million</b>

Source: Washington State Legislature

# Endnotes

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- <sup>1</sup> Washington Department of Revenue, Tax Exemptions 2008: A Study of Tax Exemptions, Exclusions, Deductions, Deferrals, Differential Rants and Credits for Major Washington State and Local Taxes, [http://dor.wa.gov/docs/reports/2008/Tax\\_Exemptions\\_2008/](http://dor.wa.gov/docs/reports/2008/Tax_Exemptions_2008/).
- <sup>2</sup> In 2006 Washington ranked 37<sup>th</sup> among the states in per pupil spending on K-12 education, and ranked 46<sup>th</sup> in spending per \$1,000 personal income. U.S. Census Bureau, Public Education Finances, 2006, April 2008, <http://ftp2.census.gov/govs/school/06f33pub.pdf>.
- <sup>3</sup> DOR, Tax Exemptions 2008,
- <sup>4</sup> In 2007, the highest combined local total for most items was 2.4%, for a top overall rate of 8.9%. Washington Department of Revenue, Tax Reference Manual, January 2007, pp. 21-47, [www.dor.wa.gov](http://www.dor.wa.gov).
- <sup>5</sup> The revenue totals include only revenues DOR lists as likely to be collected if repealed. DOR, Tax Exemptions 2008, [http://dor.wa.gov/docs/reports/2008/Tax\\_Exemptions\\_2008/SummaryNotes.xls](http://dor.wa.gov/docs/reports/2008/Tax_Exemptions_2008/SummaryNotes.xls).
- <sup>6</sup> DOR, Tax Reference Manual, p. 153.
- <sup>7</sup> See [www.goodjobsfirst.org](http://www.goodjobsfirst.org).
- <sup>8</sup> The Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2002, January, 2003, <http://www.ctj.org/itep/whopays.htm>.
- <sup>9</sup> Washington Office of Financial Management, "Adequacy of State Revenues, Presentation to the Washington State Tax Structure Committee", Feb. 8, 2002, <http://www.ofm.wa.gov/fiscal/adequacy/ofm20020208.pdf>.
- <sup>10</sup> In January 2008, Washington's 36 cent per gallon "users' fee" to support highways (scheduled to rise to 37.5 cents on July 1, 2008) was the highest gasoline tax among the states, but at least 8 states add general sales tax to their gas tax rate. Federation of Tax Administrators, "State Motor Fuel Tax Rates," January 1, 2008, <http://www.taxadmin.org/fta/rate/mf.pdf>.
- <sup>11</sup> DOR, Tax Exemptions, p. 85.
- <sup>12</sup> The Washington State Tax Structure Study Committee in 2002 recommended extending sales tax to consumer services but not other services. Washington State Tax Structure Study Committee, *Tax Alternatives for Washington State*, vol. 1, November 2002, p. 73-76, [www.dor.wa.gov](http://www.dor.wa.gov).
- <sup>13</sup> Washington Department of Revenue, Tax Reference Manual: Information on State and Local Taxes in Washington State, 2007, p. 28, [www.dor.wa.gov](http://www.dor.wa.gov).
- <sup>14</sup> DOR, Tax Exemptions, pp. 249, 255.
- <sup>15</sup> Firms with less than \$28,000 in annual gross revenue do not need to file B&O taxes. DOR, Tax Exemptions, pp. 203 and 101.
- <sup>16</sup> Seattle Times, "Locke to woo Boeing with bold tax cuts," June 6, 2003, <http://archives.seattletimes.nwsource.com/cgi-bin/texis.cgi/web/vortex/display?slug=taxlockeo6m&date=20030606>; Seattle Post-Intelligencer, "Tax break for Boeing proposed," June 10, 2003, [http://seattlepi.nwsource.com/business/125887\\_locke10.html](http://seattlepi.nwsource.com/business/125887_locke10.html).
- <sup>17</sup> See Marilyn P. Watkins and Cara Saunto, *The State of Working Washington 2007*, September 2007, Economic Opportunity Institute, [www.eoionline.org](http://www.eoionline.org); and Washington Employment Security Department, *Workforce Explorer Washington, Nonfarm Industry Employment*, <http://www.workforceexplorer.com/cgi/dataanalysis?PAGEID=94&SUBID=149>.
- <sup>18</sup> Seattle Times, "Boeing shops around for 7E7 building site," March 29, 2003, [http://seattletimes.nwsource.com/cgi-bin/PrintStory.pl?document\\_id=134664449&slug=boeingwichita29&date=20030329](http://seattletimes.nwsource.com/cgi-bin/PrintStory.pl?document_id=134664449&slug=boeingwichita29&date=20030329).
- <sup>19</sup> DOR, "Descriptive Statistics for Tax Incentive Programs: 2007 Report Covering Activity During Calendar Year 2006," September 1, 2007, <http://dor.wa.gov/docs/reports/2007/DescriptiveStatistics2007.pdf>.
- <sup>20</sup> See bill report for HB 2294 (2003), <http://www.leg.wa.gov/pub/billinfo/2003-04/Pdf/Bill%20Reports/House%20Final/2294.FBR.pdf>.
- <sup>21</sup> Job data from Washington Employment Security Department, *Nonagricultural Wage and Salary Employment in Washington State*, Workforceexplorer.com. See also Seattle Times, "Huge tax breaks for aerospace didn't deliver many new jobs," December 17, 2007,

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[http://seattletimes.nwsourc.com/cgi-bin/PrintStory.pl?document\\_id=2004077616&zsection\\_id=2003750727&slug=787jobs17&date=20071217](http://seattletimes.nwsourc.com/cgi-bin/PrintStory.pl?document_id=2004077616&zsection_id=2003750727&slug=787jobs17&date=20071217).

- <sup>22</sup> Washington Department of Revenue, High Technology R&D Tax Incentives Study, September 2003, [http://dor.wa.gov/docs/reports/2003/High\\_Tech\\_RandD\\_Study\\_2003/Exec\\_Summary.pdf](http://dor.wa.gov/docs/reports/2003/High_Tech_RandD_Study_2003/Exec_Summary.pdf).
- <sup>23</sup> DOR, High Technology R&D Tax Incentives Study, September 2003, [http://dor.wa.gov/content/statistics/2003/High\\_Tech\\_RandD\\_Study\\_2003/default.aspx](http://dor.wa.gov/content/statistics/2003/High_Tech_RandD_Study_2003/default.aspx); and DOR, "High Tech Study Addendum: The Effect of High Tech R&D Incentives on Jobs," January 19, 2004.
- <sup>24</sup> DOR, Annual High Tech Survey reports for 2004, 2005, and 2006, available from DOR by request.
- <sup>25</sup> Available from DOR upon request.
- <sup>26</sup> Each tax break is to be reviewed at least every 10 years according to a schedule the commission sets, except for those: the commission deems a critical part of the tax structure, are legally required, and several that the legislature excluded from the commission's review, including the sales tax exemptions for food and drugs, the senior property tax break, and exemptions for manufacturing equipment, research and development, and testing. See website of Citizen Commission for Performance Measurement of Tax Preferences, <http://www.citizentaxpref.wa.gov/>.
- <sup>27</sup> House bill 1096 passed the House but not Senate in 2005. HB 1827 was introduced but did not pass either chamber in 2007, [www.leg.wa.gov](http://www.leg.wa.gov).
- <sup>28</sup> The two most recent volumes were published in January 2008 and in January 2004. [www.dor.wa.gov](http://www.dor.wa.gov).
- <sup>29</sup> Robert G. Lynch, Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development, 2004, Economic Policy Institute, [http://www.epi.org/books/rethinking\\_growth\\_\(full\).pdf](http://www.epi.org/books/rethinking_growth_(full).pdf).



## About Us

The Economic Opportunity Institute (EOI) is a nonpartisan, non-profit public policy organization founded in 1998 and based in Seattle, Washington. Our mission is to forge realistic public policies that promote long-term economic security and opportunity for Washington's middle-class and low-income workers and families, ensuring the benefits of prosperity are broadly available to all those who contribute to it. We utilize research, education and advocacy to shape public debate and advance new policy ideas that support high-quality education, modern work-life standards, retirement security, and shared investments in our common future.

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