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"Washington is flying blind in a storm of corporate tax breaks...The accountability situation is so bad that Washington ranks behind states like Texas and South Carolina, according to a report on state subsidies and accountability measures written by Cafcas and his colleagues..."

# Washington State Is Flying Blind in a Storm of Corporate Tax Breaks

We Often Don't Know Who Gets Them, Why They Were Created, and What We Get in Return. Why Is Olympia Keeping This Secret?

BY DARWIN BONDGRAHAM



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Last year, the legislature rushed forward like a plane with its throttle wide open to approve a tax incentive package for Boeing. The cost to taxpayers: \$8.7 billion through 2040. With the next legislative session beginning in January, the question now is: At what speed will lawmakers address the systemic lack of transparency and accountability in Washington's tax incentive programs?

There are more than 600 different tax breaks in Washington that reduce or eliminate taxes on sales, property, and gross receipts for several thousand companies. In 2011, the total amount this state was giving away through all its various tax loopholes was estimated at \$6.5 billion a year—an amount that's almost certainly grown since. At least one of those tax breaks could be viewed as populist: the loophole that keeps you from paying any tax on food. But on whole, it's a small number of big, highly profitable corporations in aerospace and high tech that are claiming the bulk of Washington's most lucrative tax breaks.

The public has subsidized companies like Microsoft since 1996, giving tech firms \$9.3 billion over the last 18 years, according to a Department of Revenue study published last year. Aerospace firms got their first big tax breaks in 2003, and will benefit from probably \$498 million in subsidies over the next two years alone.

How much are these corporations actually paying in taxes after claiming their share of subsidies? Only a few state officials know, and they are legally barred from telling the public, or even their colleagues in government. Blind as to the actual levels of subsidies, and with weak employment data and other metrics collected from beneficiaries of these tax breaks, it's impossible to tell if they're fulfilling any economic purpose—like, say, actually creating jobs and spurring growth. Put simply, Washington is flying blind, and lawmakers may be wasting taxpayer money by enriching already profitable corporations. But no one really knows for sure. The information that could conclusively tell us is cloaked as a trade secret, or not collected at all.

Representative Reuven Carlyle has made it his "mission" as chair of the House Finance Committee in Olympia to fix this mess. The Democrat from Seattle's 36th District wants to "aggressively raise the level of rigor for our tax decisions, to bring it up to the same level we expect of our spending decisions."

Until recently, tax breaks were simply rubber-stamped without any attempt to gather data that could be used to determine if the incentives were achieving economic goals. "We've made a lot of progress in transparency, in opening up the books and paying attention to the tax side of the ledger to see if there's been a return on investment for taxpayers," Carlyle continued. "Too many corporate interests have talked the talk regarding the government's needing to get its house in order, to spend money carefully, while at the same time these corporations have been the primary employer of the lobbyists that are pleading for preferential tax treatment."

"You don't get it both ways," he went on. "You can't demand rigor on the budget side, and require an independent 30-page analysis of a \$2 million program to send foster youth to college, and then resist a serious analytical review of a tax preference worth hundreds of millions."

In this spirit, last year the legislature passed a bill requiring that every new tax preference include a statement of legislative intent. Tax breaks must also include an expiration date, otherwise they sunset in 10 years. Companies claiming tax preferences also have to report "clear, relevant, and ascertainable metrics and data."

Last January, Carlyle and six colleagues went further, introducing another bill that would have required



any publicly traded corporation claiming a state tax preference to report their total tax contribution to the state. This would have helped shed a little light on already-existing tax breaks, but corporate lobbyists balked, and the transparency effort died in the Republican-controlled senate.

Carlyle said Washingtonians like to think their state is open and transparent, "but the dark and ugly secret is that we're no better than anyone else when it comes to tax transparency."

**S**lowly, with pushes from Carlyle and others, things are changing. But not much.

"We are making modest but significant steps in the right direction on the broader transparency and accountability issues with respect to these tax breaks," said Andy Nicholas of the Washington State Budget and Policy Center.

As an example, Nicholas cites the ongoing audits of specific tax incentives by a mouthful of an organization known as the Citizen Commission for Performance Measurement of Tax Preferences. It was created by the legislature in 2006. Unfortunately, the audit report process has its own limitations, said Nicholas. Many existing tax breaks have no language describing their intended purpose, or metrics to judge the performance of companies benefitting. Therefore, auditors can't say whether or not they're working, or even why they were put there in the first place.

The audit reports also withhold information—including the names of many companies claiming tax preference subsidies, and the amounts of money being claimed.

"There's certainly not enough public data out there, but there's not even enough closely held government data," said Nicholas, referring to the kind of confidential information that Carlyle and a few other officials have access to.

Thomas Cafcas of Good Jobs First said Washington's new transparency requirements will help the public and lawmakers understand the true cost of tax incentives, but that the state is still failing to hold corporations accountable for the tax subsidies they claim. The accountability situation is so bad that Washington ranks behind states like Texas and South Carolina, according to a report on state subsidies and accountability measures written by Cafcas and his colleagues.

**"T**his is especially true in terms of high-tech and aerospace companies—there's no teeth to these tax incentive agreements," said Cafcas. "In the legislation for aerospace tax preferences, the only requirement is to open a facility. There's nothing tied to jobs or wages, and what happens if the recipients of these tax breaks fail to live up to their end of the bargain?"

Boeing and its \$8.7 billion tax break are a bitter case in point. "A lot of people are upset about what's going on with Boeing," said Nicholas. "They started sending out pink slips before the ink was even dry on the 2013 incentives package."

In December 2013, just a few weeks after Governor Inslee and the legislature convened a special session to get Boeing that \$8.7 billion in tax breaks, Boeing eliminated 1,200 jobs in Washington. Then in April of 2014, the company announced it was moving 1,000 engineering jobs to California. Most recently, in September, Boeing exported another 2,000 jobs out of state. Boeing has erased an estimated 6,300 jobs in Puget Sound since the spring of 2013, according to the *Seattle Times*.

Cafcas said the legislature should only grant tax incentives that are performance-based. "Performance-based means that you must do X in order to receive Y," he explained. In the case of Boeing, X would be the retention or creation of specific numbers of jobs in Washington State that pay certain wage levels, or similar performance measures. "For the program not to be structured that way is really out of the norm," he said. "It's not what best practices are in the field of economic development."

But all of this assumes that corporate tax breaks actually create jobs and spur growth. "I've not seen a case with robust data where it was convincing," said Stephan Goetz, an economist at Pennsylvania State University who studies state economic development. "A business got a tax break, they hired 10 more people, but did they do it because there was a tax break, or did they hire more people because the economy as a whole was improving? There are instances where tax incentives work, and people can hang their hats on that, but on average it doesn't work."

Carlyle, who has seen more Washington tax incentive data than probably anyone, said he hopes greater transparency will fuel a public debate about which incentives should be scrapped, and which should be modified, and how companies can be held accountable for shipping jobs out of state.

"If a tax preference proves a strong return on investment for the public, then by all means that's a legitimate policy," said Carlyle. "But if it can't survive even a middle-school level of scrutiny, then we have to wake up and acknowledge it's not working, and instead of doubling tuition and shutting down group foster homes, we should ask every company that's been carved out of paying taxes to join us in paying its fair share." 🌟

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