

## Chapter One - Introduction and Summary of Findings

### INTRODUCTION

The Tax Exemption Study lists exemptions for the major state and local taxes in Washington and is authorized by the Revised Code of Washington (RCW) 43.06.400.

#### Tax exemptions

The term *tax exemption* includes a variety of preferences that reduce tax liability for taxpayers.

Tax exemptions include:

- Exclusions.
- Deductions.
- Credits.
- Deferrals.
- Preferential tax rates.
- Exemptions.

Department of Revenue (department) staff estimated the impact of each exemption. Sales and use tax exemptions for the same product or activity are included as a single estimate. In other cases, there are multiple estimates for a single statute to illustrate the impacts better.

#### The summary of each exemption includes:

- A brief description.
- The purpose of the exemption.
- Taxpayer savings.
- Potential revenue gains from a full repeal of the exemption.
- Additional information.

#### Taxpayer savings versus potential revenue gain

Number of Incentives	STATE Taxpayer Savings (FY 2025)	STATE Revenues Realized from Repeal (FY 2025)
786	54,689,446,000	24,600,443,000

Savings to taxpayers do not indicate the potential revenue that governmental jurisdictions would accrue if the exemption did not exist. For example, some exemptions will not increase state revenues by the same amount as the taxpayer savings due to:

- Constitutional prohibitions against taxing certain activities.
- Possible changes in taxpayer reporting behavior.
- Actual cash receipts are lower because of compliance factors.

#### The Tax Exemption Study *does not* include:

- Locally administered taxes such as the municipal business taxes.
- Discussion regarding tax policy related to the exemption.
- Recommendations to keep or terminate existing exemptions.

#### Forecast

All estimates use the March 2023 Economic and Revenue Forecast Council forecast unless otherwise noted.

# Chapter One - Introduction and Summary of Findings

## Revised Code of Washington (RCW) Citation

The full RCW citation is included if it was available at the time that the exemption was analyzed.

## SUMMARY OF FINDINGS

The current study analyzes 786 tax exemptions. The state and local impacts of these tax exemptions combine for an estimated taxpayer savings of \$192.1 billion for the 2023-25 biennium. Approximately 56% of the total, or \$107.4 billion, are exemptions from state taxes. Exemptions from local government taxes amount to \$84.7 billion.

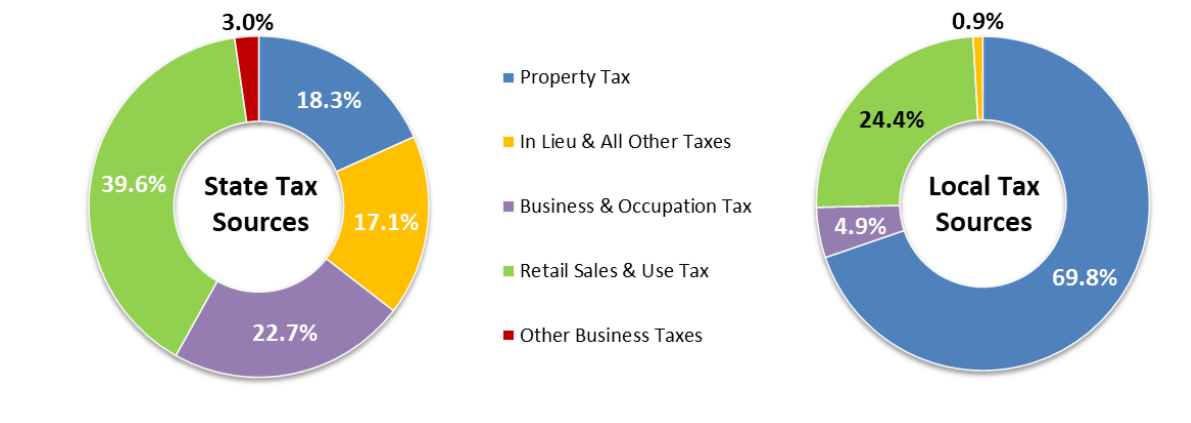
Table 1 summarizes the number of exemptions and the distribution of state and local impacts for the various types of taxes considered in this study.

**Table 1**  
**Summary of Tax Exemption Impacts by Tax Source**  
**Estimated Taxpayer Savings**  
**2023-25 Biennium (\$ millions)**

Tax Source	Number of Exemptions	State Tax Savings	Local Tax Savings	Total Savings for Biennium
Property Tax	119	\$19,654.732	\$59,062.284	\$78,717.016
In Lieu Excise Taxes	51	329.860	258.625	\$588.485
Business & Occupation Tax	205	24,370.901	4,127.380	\$28,498.281
Retail Sales & Use Tax	230	42,541.680	20,677.860	\$63,219.540
Other Business Taxes	96	2,451.265	0.000	\$2,451.265
All Other Taxes	85	18,094.121	540.908	\$18,635.029
<b>Total</b>	<b>786</b>	<b>\$107,442.559</b>	<b>\$84,667.057</b>	<b>\$192,109.616</b>

Chart 1 shows tax savings by tax source as a percent of the total. Nearly 40% of the state impact is from retail sales and use tax exemptions, while more than 69% of local tax impact is from property tax exemptions.

**Chart 1**  
**Taxpayer Savings by Tax Source**



## Chapter One - Introduction and Summary of Findings

### Taxpayer savings versus potential revenue gains from a full repeal

Savings to taxpayers do not indicate the potential revenue that governmental jurisdictions would accrue if the exemption did not exist. For this reason, each exemption provides the estimated taxpayer savings plus the potential revenue gain from a full repeal of the exemption.

- For many excise taxes, there is a one-to-one relationship between the amount the taxpayers save and the amount the government gives up in potential revenues.
- Other exemptions may cause possible changes in taxpayer reporting behavior, which could restrict the potential revenues realized.
- Several exemptions exist because of constitutional reasons and are not a reliable source of potential new governmental revenue.
- Depending on the year a property tax exemption is repealed, it may increase state revenues or shift property taxes back to currently exempt taxpayers.

Table 2a shows the taxpayer savings for the 2023-25 biennium and the amount of potential revenue gains with a full repeal of the exemptions as of July 1, 2024. The potential gains reflect no collections in fiscal year 2024 and 11 months of collections in fiscal year 2025, the second year of the biennium.

**Table 2a**  
**Taxpayer Savings versus Potential Revenue Gains by Tax Source**  
**2023-25 biennium (\$ millions)**

Tax Source	State Tax Savings	State Potential Revenue Gains	Difference	Local Tax Savings	Local Potential Revenue Gains	Difference
Property Tax	19,654.732	(1.303)	19,656.035	59,062.284	839.570	58,222.714
In Lieu Excise Taxes	329.860	127.100	202.760	258.625	97.941	160.684
Business & Occupation Tax	24,370.901	8,948.549	15,422.352	4,127.380	2,033.909	2,093.471
Retail Sales & Use Tax	42,541.680	12,165.508	30,376.172	20,677.860	6,302.011	14,375.849
Other Business Taxes	2,451.265	1,107.613	1,343.652	0.000	0.000	0.000
All Other Taxes	18,094.121	2,252.976	15,841.145	540.908	256.382	284.526
<b>Total</b>	<b>107,442.559</b>	<b>24,600.443</b>	<b>82,842.116</b>	<b>84,667.057</b>	<b>9,529.813</b>	<b>75,137.244</b>

## Chapter One - Introduction and Summary of Findings

Table 2b shows the taxpayer savings and potential revenue gains from a full repeal of the exemptions for the 2025-27 biennium to reflect a full 24-month impact for both the savings and gains.

**Table 2b**  
**Taxpayer Savings versus Potential Revenue Gains by Tax Source**  
**2025-27 biennium (\$ millions)**

Tax Source	State Tax Savings	State Potential Revenue Gains	Difference	Local Tax Savings	Local Potential Revenue Gains	Difference
Property Tax	18,986.031	(2.942)	18,988.973	60,650.915	3,243.347	57,407.568
In Lieu Excise Taxes	343.665	343.665	0.000	271.108	270.119	0.989
Business & Occupation Tax	28,050.805	23,294.861	4,755.944	5,121.130	5,120.099	1.031
Retail Sales & Use Tax	45,875.196	29,989.269	15,885.927	22,545.961	15,585.205	6,960.756
Other Business Taxes	2,695.481	2,431.170	264.311	0.000	0.000	0.000
All Other Taxes	19,038.823	11,714.294	7,324.529	666.234	666.234	0.000
<b>Total</b>	<b>114,990.001</b>	<b>67,770.317</b>	<b>47,219.684</b>	<b>89,255.348</b>	<b>24,885.004</b>	<b>64,370.344</b>

### Taxpayer savings versus forecasted revenue collections

Table 3 and Chart 2 compare the estimated taxpayer savings from exemptions for selected state taxes with the Economic and Revenue Forecast Council forecasted revenues for those same tax sources.

The total taxpayer savings for these state taxes is \$88.1 billion for the 2023-25 biennium, which is \$31.1 billion more than the forecasted revenues of \$57 billion.

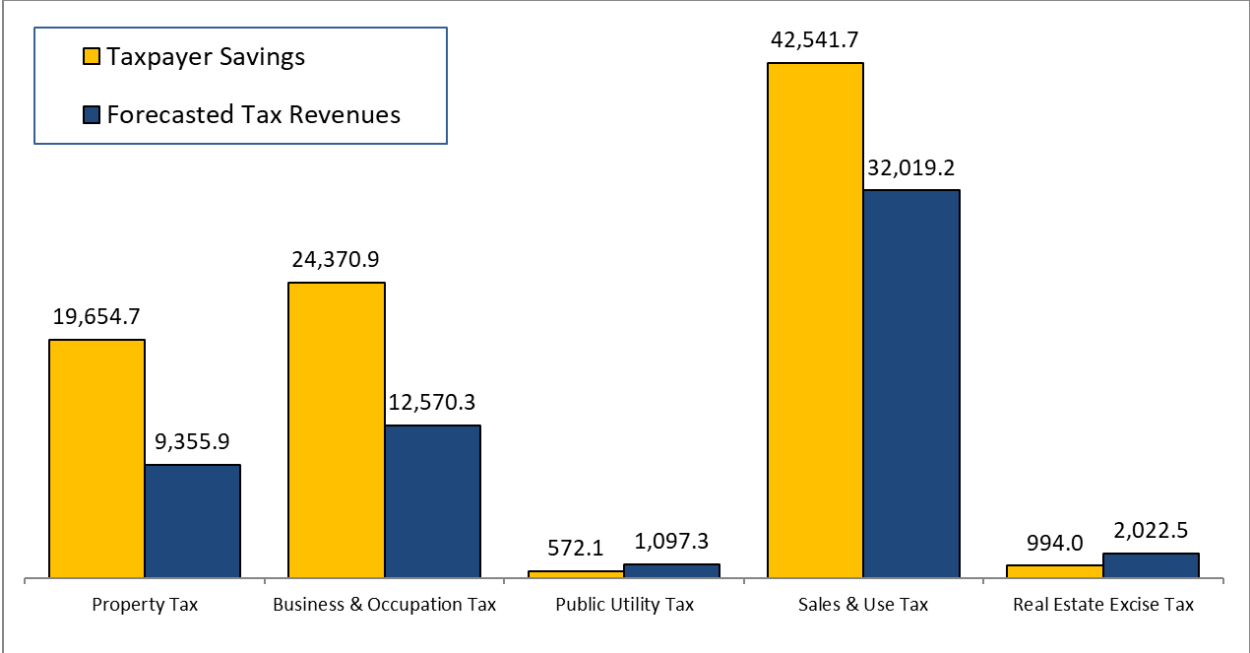
**Table 3**  
**Comparison between Taxpayer Savings and Revenues**  
**Selected Major State Tax Sources**  
**2023-25 biennium (\$ millions)**

State Tax Source	Taxpayer Savings from Exemptions	Forecasted Tax Revenues <sup>1</sup>	Exemptions as a Percent of Revenue
State Property Tax Levy	19,654.732	9,355.861	210.1%
State Business & Occupation Tax	24,370.901	12,570.308	193.9%
Public Utility Tax	572.129	1,097.299	52.1%
Retail Sales & Use Tax	42,541.680	32,019.201	132.9%
Real Estate Excise Tax	994.046	2,022.542	49.1%
<b>Total</b>	<b>88,133.488</b>	<b>57,065.212</b>	<b>154.4%</b>

<sup>1</sup>Economic and Revenue Forecast Council (March 2023 Forecast)

Taxpayer savings for state property tax and the business and occupation tax exemptions are significantly higher than the forecasted revenues for these tax sources in the 2023-25 biennium.

Chart 2  
Comparison between Taxpayer Savings and Revenues  
Selected Major State Tax Sources  
2023-25 biennium (\$ millions)



## Chapter One - Introduction and Summary of Findings

### Categorical Analysis

Tax exemptions are established for a variety of reasons. In an attempt to present more meaningful data for the various types of exemptions, eight categories were developed. Each exemption is assigned to the category that most closely represents its general purpose or type of beneficiary (recognizing that many exemptions serve multiple purposes).

A brief description of the exemption categories appears below:

Category	Number of Exemptions	Brief Description of Category
<b>Agriculture</b>	63	There are a variety of property, B&O, sales, and other tax exemptions for agricultural businesses.
<b>Business</b>	278	These exemptions generally benefit business entities.
<b>Government</b>	82	Governmental jurisdictions include the federal government, the state of Washington, local governments, and foreign countries.
<b>Individuals</b>	93	These exemptions generally benefit people as opposed to businesses or other entities.
<b>Interstate Commerce</b>	22	The U.S. Constitution prohibits direct taxation of interstate commerce. The Legislature has enacted exemptions to ensure Washington does not violate this requirement.
<b>Nonprofit</b>	95	There are a variety of property, B&O, and sales tax exemptions allowed for nonprofit organizations.
<b>Tax Base</b>	87	This category includes activities the Legislature purposefully excluded in the original tax base. For example, there is an exemption to assure employees are not subject to B&O tax on their salaries and wages.
<b>Other</b>	66	Some exemptions do not fit easily into one category. These are included in the "Other" category. As an example, the exemption for intangibles benefits the agricultural industry, businesses, and individuals.

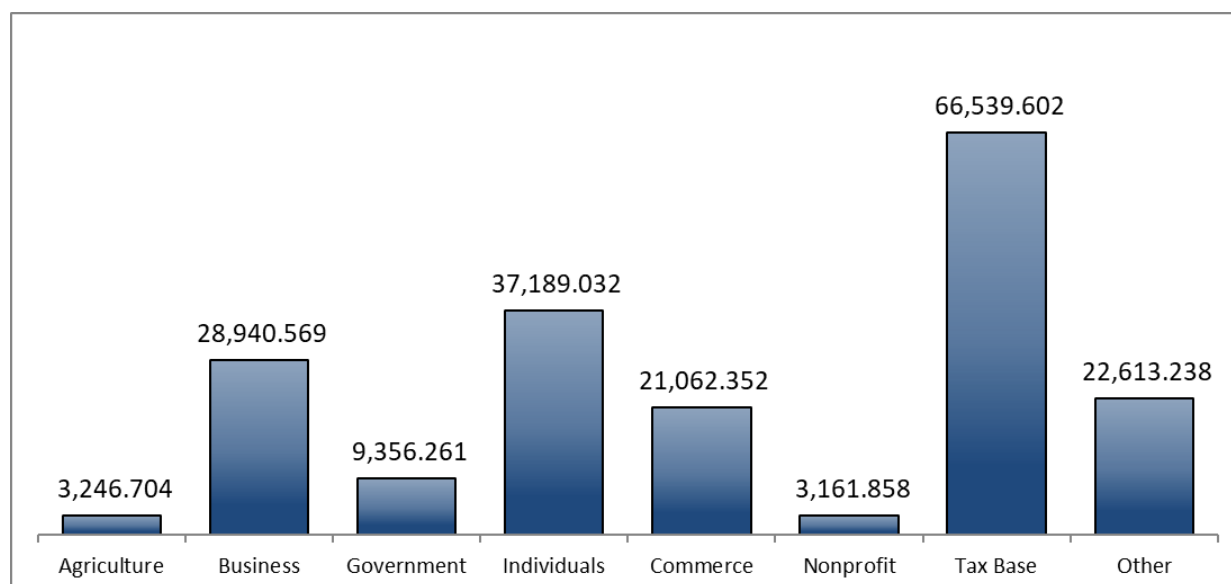
## Chapter One - Introduction and Summary of Findings

Table 4 summarizes the results of the categorical analysis. Tax base, individuals, and business represent the top three categories with 34.6%, 19.4%, and 15.1%, respectively.

**Table 4**  
**Tax Exemptions by Category**  
**2023-25 biennium (\$ millions)**

Category	Number of Exemptions	State Tax Savings	Local Tax Savings	Total Tax Savings	Percent of Total
Agriculture	63	2,286.161	960.543	3,246.704	1.7%
Business	278	19,073.115	9,867.454	28,940.569	15.1%
Government	82	3,153.403	6,202.858	9,356.261	4.9%
Individuals	93	28,359.498	8,829.534	37,189.032	19.4%
Interstate Commerce	22	16,623.831	4,438.521	21,062.352	11.0%
Nonprofit	95	2,357.251	804.607	3,161.858	1.6%
Tax base	87	17,982.826	48,556.776	66,539.602	34.6%
Other	66	17,606.474	5,006.764	22,613.238	11.8%
<b>Total</b>	<b>786</b>	<b>107,442.559</b>	<b>84,667.057</b>	<b>192,109.616</b>	<b>100.0%</b>

**Chart 3**  
**Tax Exemptions by Category**  
**2023-25 biennium (\$ millions)**



## Chapter One - Introduction and Summary of Findings

### Tax exemptions enacted by year

Until 1935, no more than a half dozen new exemptions appeared in any single year. With the adoption of the Revenue Act of 1935 came many new exemptions; 43 of which are still in statute today. These were associated with:

- Retail sales and use taxes.
- B&O tax.
- Various other new state excise taxes.

Table 5 shows the number of current tax exemption statutes over time, starting in Washington's territorial days.

**Table 5**  
**Current Tax Exemptions by Year of Enactment**

Year Adopted	Number	Year Adopted	Number	Year Adopted	Number	Year Adopted	Number
1854	4	1951	9	1983	13	2005	20
1871	1	1953	2	1984	6	2006	15
1886	1	1955	7	1985	8	2007	15
1889	5	1957	1	1986	9	2008	14
1890	3	1959	3	1987	16	2009	25
1891	2	1961	5	1988	3	2010	9
1911	1	1963	4	1989	28	2011	9
1915	3	1965	9	1991	8	2012	6
1923	3	1967	20	1992	4	2013	12
1925	2	1970	11	1993	13	2014	5
1929	1	1971	14	1994	4	2015	17
1931	4	1972	1	1995	15	2016	4
1933	4	1973	5	1996	10	2017	12
1935	43	1974	5	1997	18	2018	5
1937	2	1975	12	1998	21	2019	26
1940	2	1976	12	1999	6	2020	7
1941	1	1977	4	2000	8	2021	25
1943	3	1979	12	2001	22	2022	15
1945	5	1980	12	2002	5	2023	15
1947	3	1981	7	2003	29		
1949	13	1982	4	2004	19	<b>Total</b>	<b>786</b>



## Chapter One - Introduction and Summary of Findings

The following two charts show tax exemptions in current statutes:

- Enacted by year.
- The cumulative number by decade.

Chart 4

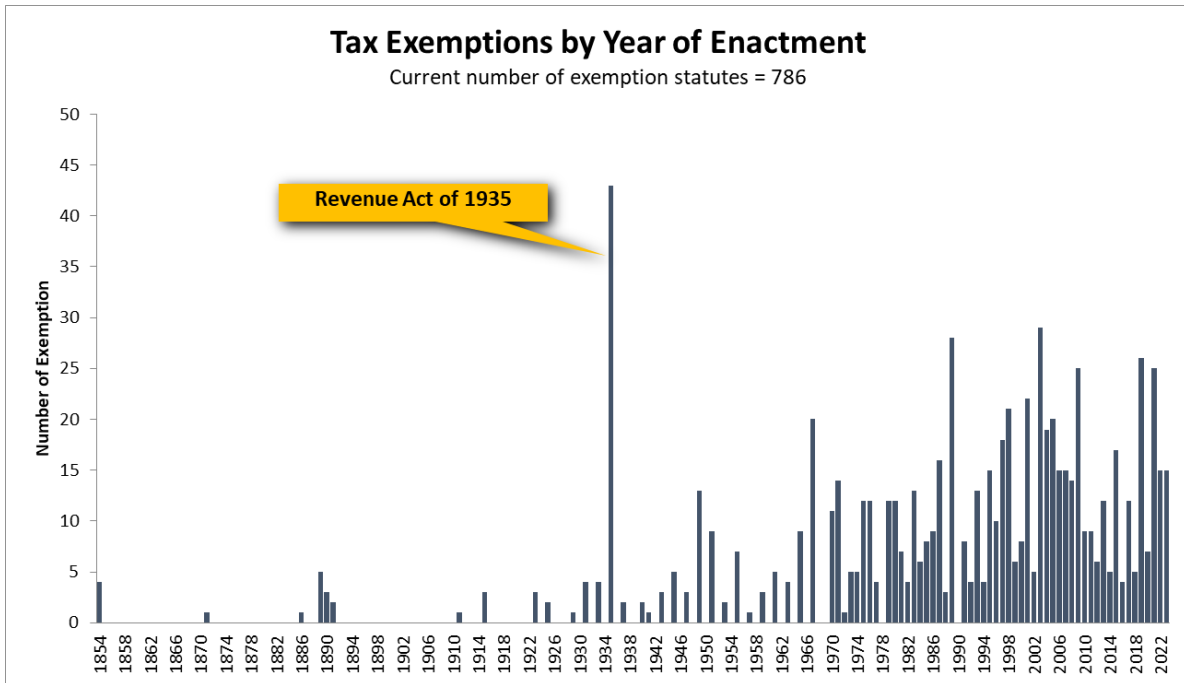


Chart 5

Cumulative Number of Tax Exemption Enacted by Decade

