

HOUSE BILL REPORT

HB 2585

As Passed House:

February 6, 1996

Title: An act relating to the voluntary withholding of federal income tax from unemployment insurance benefit payments.

Brief Description: Providing for federal income tax withholding from unemployment compensation benefits.

Sponsors: Representatives McMorris and Romero; by request of Employment Security Department.

Brief History:

Committee Activity:

Commerce & Labor: 2/1/96 [DP].

Floor Activity:

Passed House: 2/6/96, 98-0.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass. Signed by 12 members: Representatives McMorris, Chairman; Hargrove, Vice Chairman; Thompson, Vice Chairman; Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cairnes; Cody; Cole; Fuhrman; Goldsmith; Horn and Lisk.

Staff: Chris Cordes (786-7117).

Background: In 1978, the federal Internal Revenue Code was amended to tax unemployment benefits of claimants above certain household income levels. Over the next decade, the income levels were eliminated, and by 1986 all unemployment compensation became subject to federal income tax. However, federal income tax is not withheld from the compensation.

In 1994, federal law was changed to require the states' unemployment insurance programs to offer voluntary withholding of federal income tax from unemployment compensation. The amount to be deducted is 15 percent of the payment to the claimant. The voluntary withholding program must be in effect for payments made after December 31, 1996.

Summary of Bill:

Legislative findings

The Legislature finds that (1) states have special responsibilities under the unique federal and state partnership of the unemployment insurance program; (2) to maintain conformity with federal law, the states must offer unemployment insurance claimants the option of agency withholding of federal income tax from unemployment compensation; and (3) offering a withholding program responds to the needs of claimants and is a reasonable strategy for claimants to spread the payment of their federal income tax over a period of time.

Voluntary withholding program

When a claimant files a new claim for unemployment insurance, the claimant must be advised of the following:

- (1) unemployment insurance is subject to federal income tax;
- (2) taxpayers are subject to requirements for estimating tax payments; and
- (3) claimants may elect to have federal income tax withheld at the amount specified in the federal Internal Revenue Code and may change a previous election.

Amounts withheld will remain in the unemployment trust fund until transferred to the federal taxing authority. The commissioner of the Employment Security Department must follow all procedures specified in federal law regarding the withholding of income tax. Deductions will be made in accordance with priorities established in department rules.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on December 31, 1996, and applies to payments made after December 31, 1996.

Testimony For: This bill is conformity legislation needed to comply with the federal law relating to unemployment insurance. It provides a needed service to unemployed workers by allowing them to choose to have federal income tax withheld from their benefits, but they can also change this status. Many unemployed workers do not even know that their benefits are subject to income tax, and this program will help remedy that.

Testimony Against: None.

Testified: Graeme Sackrison, Employment Security Department; and Amber Balch, Association of Washington Business.