

# FINAL BILL REPORT

## SJM 8012

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As Passed Legislature

**Brief Description:** Requesting that unemployment benefits be removed from the IRS definition of taxable income.

**Sponsors:** Senators Newhouse, Heavey, Deccio, Hale, Palmer, Franklin, Fraser, Prentice, Prince and Oke; by request of Joint Task Force on Unemployment Insurance.

**Senate Committee on Labor, Commerce & Trade**

**House Committee on Commerce & Labor**

**Background:** Due to a 1978 change in the U.S. Internal Revenue Code, unemployment insurance (UI) benefits now are considered taxable income. Taxes are not withheld at the time of UI receipt, but are included in the calculation of year-end gross taxable income.

The Congressional Budget Office estimates that out of the 9.4 million UI beneficiaries in 1994, 8.4 million individuals were impacted by existing UI tax requirements. In monetary terms, of the \$18 billion in UI benefits paid annually to unemployed workers, approximately \$3.1 billion, or 17 percent, goes to pay federal taxes.

The Joint Task Force on Unemployment Insurance in its 1995 report found that "the taxation of UI benefits at existing income levels appears contrary to the initial purpose of the UI Program, by limiting the available funds to individuals that are experiencing interruptions in income and employment, along with limiting monies in local communities that might benefit from additional disposable income." The Task Force also recommended that the Legislature memorialize Congress to eliminate the taxation of UI benefits.

**Summary:** The Legislature of the state of Washington requests that Congress remove unemployment benefits from taxation under the Internal Revenue Code.

**Votes on Final Passage:**

Senate	47	0
House	94	2