HOUSE BILL REPORT
ESSB 6809

As Reported by House Committee On:
Finance

Title: An act relating to providing a tax exemption for working families measured by the federal earned income tax credit.

Brief Description: Providing a tax exemption for working families measured by the federal earned income tax credit.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Pridemore, McAuliffe, Rockefeller, Eide, Oemig, Hatfield, Regala, Fraser, Brown, Fairley, Tom, Kilmer, Keiser, Franklin, Kauffman, Kline, Rasmussen, Spanel, Jacobsen and Kohl-Welles).

Brief History:
Committee Activity:
Finance: 3/3/08 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by House Committee)

- Creates a sales tax remittance equal to 5 percent of the federal Earned Income Tax Credit received by Washington residents on their federal earned income return. Increases tax remittance to 10 percent for 2011 and thereafter.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Roach.

Staff: Rick Peterson (786-7150).

Background:

The Earned Income Tax Credit (EITC) is a refundable tax credit available to eligible workers earning relatively low wages. Because the credit is refundable, an EITC recipient need not

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owe taxes to receive the benefits. The amount of the credit is determined by income and family size. Some states with an income tax provide a state EITC.

For purposes of the EITC, "earned income" includes wages, salaries, tips, and other taxable employee pay. The following types of income are not considered earned income: retired persons' disability benefits, pensions and annuities, social security, child support, welfare benefits, workers' compensation benefits, and veterans' benefits. The EITC cannot be claimed unless investment income is less than $2,900 for the 2007 tax year.

To qualify for the EITC in tax year 2007, earned income and adjusted gross income must each be less than:

- $37,783 ($39,783 married filing jointly) with two or more qualifying children;
- $33,241 ($35,241 married filing jointly) with one qualifying child; or
- $12,590 ($14,590 married filing jointly) with no qualifying children.

The maximum amounts of the EITC for tax year 2007 are:

- $4,716 with two or more qualifying children;
- $2,853 with one qualifying child; and
- $428 with no qualifying children.

The sales and use tax is imposed on the retail sales of most items of tangible personal property and some services. The use tax is imposed on the privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state and local governments. Total rates range from 7 percent to 8.9 percent.

Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue (DOR). State sales and use tax revenues are deposited in the State General Fund.

Summary of Amended Bill:

A sales tax exemption in the form of a remittance is available to persons that have paid the Washington state and local sales and use tax, resided inWashington for more than 180 days, filed a federal income tax return as a Washington resident, received a federal EITC, and applied to the DOR for the remittance.

Sales tax remittances applied for in 2009 and 2010 are equal to 5 percent of the EITC for which data is available or $25, whichever is greater. Remittance applied for in 2011 and after is the greater of 10 percent of the EITC for which data is available or $50.

The DOR determines eligibility based on information provided by the applicant, and through audit, administrative records, and verification of Internal Revenue Service records. The DOR may use the best data available to process the remittance. The DOR may, in conjunction with other agencies or organizations, design a public information campaign to inform potentially eligible persons of the exemption. The DOR may contact persons who appear to be eligible.

The DOR must report back to the Legislature by December 1, 2012, to identify administrative or resource issues that require legislative action. The Washington State Institute for Public Policy must conduct a study to compare and contrast the sales tax remittance with alternative proposals that would invest in early learning, K-12, or higher education for lower income families and report to the Legislature by December 1, 2012.

The Legislature is required to re-authorize the program each year by a bill separate from the Omnibus Appropriations Act. The sales tax remittance program expires July 1, 2013.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill requires re-authorization of the program in a separate bill rather than allow suspension of the program in the Omnibus Appropriations Act and adds the expiration date. The amended bill adds the study by the Washington State Institute for Public Policy.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void if not funded in the budget.

Staff Summary of Public Testimony:

(In support) None.

(Opposed) The state sales tax is regressive and unfair to the poor but this legislation does not address the problem. It creates a bureaucracy of 48 people and creates administrative costs equal to 5 percent of program costs. Other states have addressed this problem in a more efficient manner, for example, exemptions for children's clothing, or sales tax holidays for back-to-school shopping. There are many options available that do not require a massive bureaucracy. There is no correlation between the sales tax paid and the amount of the exemption received. If this is intended to be a stimulus package then we need to see proof that the program is effective as a stimulus. An Internal Revenue Service report shows that there is a substantial (27 percent to 31 percent) overpayment problem with the federal Earned Income Tax Credit. The administration of this new program will take resources away from the full implementation of the Streamline Sales Tax Project at the Department of Revenue.

Persons Testifying: Mary Jean Hrbacek; and Amber Carter, Association of Washington Business.

Persons Signed In To Testify But Not Testifying: None.