

HOUSE BILL REPORT

ESHB 1297

As Passed Legislature

Title: An act relating to the working families tax exemption.

Brief Description: Concerning working families tax exemption.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Thai, Stokesbary, Ramel, Ryu, Robertson, Leavitt, Bateman, Fitzgibbon, Shewmake, Chapman, Johnson, J., Senn, Frame, Riccelli, Chopp, Wylie, Wicks, Simmons, Boehnke, Berry, Davis, Tharinger, Walsh, Eslick, Goodman, Peterson, Santos, Valdez, Cody, Chambers, Kloba, Ramos, Kirby, Bronoske, Gregerson, Macri, Callan, Paul, Sells, Bergquist, Ormsby, Pollet, Slatter, Stonier, Taylor and Harris-Talley).

Brief History:

Committee Activity:

Finance: 2/2/21, 2/4/21 [DP];
Appropriations: 2/18/21, 2/19/21 [DPS].

Floor Activity:

Passed House: 3/9/21, 94-2.
Senate Amended.
Passed Senate: 4/11/21, 47-2.
House Concurred.
Passed House: 4/15/21, 93-3.
Passed Legislature.

Brief Summary of Engrossed Substitute Bill

- Expands eligibility for the working families tax exemption to include Individual Taxpayer Identification Number filers.
- Expands the base remittance amount for the working families tax exemption and establishes phaseout rates for the remittance.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Stokesbary, Thai and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Chase and Vick.

Minority Report: Without recommendation. Signed by 1 member: Representative Young.

Staff: Rachelle Harris (786-7137).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 28 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Boehnke, Caldier, Chandler, Chopp, Cody, Dolan, Fitzgibbon, Frame, Hansen, Harris, Jacobsen, Johnson, J., Lekanoff, Pollet, Ryu, Senn, Springer, Stonier, Sullivan and Tharinger.

Minority Report: Without recommendation. Signed by 5 members: Representatives Dye, Hoff, Rude, Schmick and Steele.

Staff: Jessica Van Horne (786-7288).

Background:

Earned Income Tax Credit.

The Earned Income Tax Credit (EITC) is a federal refundable tax credit for individuals with low to moderate income. Qualified individuals receive a credit on their federal tax return. The size of an individual's benefit from the EITC depends on the recipient's income, marital status, and number of children. The credit amount is a fixed percentage of earnings that increases with each dollar earned until it reaches a maximum level and then begins to phase out at higher income levels. The EITC is refundable, meaning it can exceed an individual's income tax liability.

To be eligible for the federal EITC, an individual must either be of any age and have at least one qualifying child or be between the ages of 25 to 64 with no qualifying children. Claimants must be either a United States citizen or a resident alien and have a valid Social Security number (SSN). For the purposes of the EITC, "earned income" includes wages,

salaries, tips, and other employee compensation, plus net earnings from self-employment for the taxable year. A person is not eligible for the EITC if their aggregate amount of disqualified income such as interest, dividends, or capital gain income exceeds \$3,500 in the taxable year.

For tax year 2020, in order to qualify for the EITC, an individual's adjusted gross income (AGI) must be less than:

- \$15,820 (\$21,710 for married filing jointly) with no qualifying children;
- \$41,756 (\$47,646 for married filing jointly) with one qualifying child;
- \$47,440 (\$53,330 for married filing jointly) with two qualifying children; or
- \$50,594 (\$56,844 for married filing jointly) with three or more qualifying children.

Working Families Tax Exemption.

In 2008 the Legislature enacted a state-level benefit program called the Working Families Tax Exemption (WFTE) that was based in part on the federal EITC program. The state exemption is modeled as a sales and use tax remittance program. To be eligible, a person must have paid Washington state and local sales and use taxes, received a federal EITC benefit, have been a resident of Washington for more than 180 days for the year in which the exemption is claimed, and apply to the Department of Revenue (DOR) for the remittance.

For remittances made in 2011 and thereafter, the remittance for the prior year is equal to the greater of 10 percent of the credit granted from the EITC or \$50.

The exemption program is under the administrative purview of the DOR, and is required to be authorized in the state operating budget act before any exemption benefits may be paid. The program has never been fully funded or authorized in an enacted state operating budget.

Individual Taxpayer Identification Number.

An Individual Taxpayer Identification Number (ITIN) is an identification number used by the Internal Revenue Service (IRS) in the administration of tax laws. It is a tax processing number only available for certain nonresident and resident aliens, their spouses, and dependents who cannot get an SSN. It is issued either by the Social Security Administration (SSA) or by the IRS. An SSN is issued by the SSA whereas all other ITINs are issued by the IRS.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as

specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Engrossed Substitute Bill:

Individuals who file taxes using an ITIN in lieu of an SSN are added to those who qualify for the state WFTE program. The requirement that a person must have been granted a federal EITC is removed. The remittance of 10 percent of the granted EITC is eliminated.

A new base remittance amount for the state WFTE program is established as follows:

- \$300 for eligible persons with no qualifying children;
- \$600 for eligible persons with one qualifying child;
- \$900 for eligible persons with two qualifying children; or
- \$1,200 for eligible persons with three or more qualifying children.

The minimum credit for qualifying persons is \$50.

The base remittance amount for the WFTE is reduced by varying percentages beginning at particular income levels that vary based on the number of qualifying children:

- For eligible persons with no qualifying children, beginning at \$2,500 of income below the federal maximum AGI, the base remittance is reduced by 18 percent per additional dollar of income until the minimum credit amount is reached.
- For eligible persons with one qualifying child, beginning at \$5,000 of income below the federal maximum AGI, the base remittance is reduced by 12 percent per additional dollar of income until the minimum credit amount is reached.
- For eligible persons with two qualifying children, beginning at \$5,000 of income below the federal maximum AGI, the base remittance is reduced by 15 percent per additional dollar of income until the minimum credit is reached.
- For eligible persons with three or more qualifying children, beginning at \$5,000 of income below the federal maximum AGI, the base remittance is reduced by 18 percent per additional dollar of income until the minimum credit is reached.

To receive a remittance, eligible persons must apply to the DOR. A child may qualify as a dependent if they have an ITIN. Receipt of the remittance may not be used in eligibility determinations for any state income support programs or in making public charge determinations.

Beginning in 2024 and annually thereafter, remittance amounts will be adjusted for inflation based on changes in the consumer price index. The DOR must design and implement a public information campaign to inform eligible persons of the existence of the working families tax exemption.

A TPPS requires the JLARC to review the program in 2028 and every 10 years thereafter,

and expires the program at the end of the calendar year two years after the adoption of a final report by the JLARC that finds that the program does not provide meaningful financial relief to low-income and middle-income households.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony (Finance):

(In support) The WFTE has previously not been prioritized by this state, but there is so much support for expanding and implementing this program. This bill is focused on helping working people who often work multiple jobs and are important consumers supporting our economy. We should prioritize working families in our path to economic recovery. People of color would account for nearly 40 percent of eligible households under this program. This would help low income families with the ability to pay off debt and buy healthy food. This bill would be an important lifeline for so many people during difficult economic times. Low-income families pay a disproportionate amount of their income in taxes, and the amount of refunds available under this proposal would open many opportunities to those households. Reliance on food banks is on the rise in this state, and direct cash assistance can help with people who do not qualify for other government benefits. Working people, immigrants, the disabled, and others most impacted by the pandemic are struggling more than ever. Everyone pays sales tax regardless of citizenship status. Those who file taxes using ITINs pay taxes and pay for benefits that they never receive. Limited financial resources can entrap people in abusive relationships, and providing more access to cash gives survivors more choices and resources such as the ability to travel away from their abusers, mental health treatment, and other necessary items. People all over the state are struggling to make ends meet. This tax credit would help struggling families to pay for basic necessities, rent, and health care. Our current tax system is neither fair nor equitable. Taxes include both social policy and economic policy, and our current tax policy fails when looked at from both perspectives. If we pass this without additional funding, it will just be taking money away from other supportive programs. This is an important opportunity to make good on promises made 13 years ago. This would reach kids and rural communities in the state at very high rates.

(Opposed) None.

Staff Summary of Public Testimony (Appropriations):

(In support) The Working Families Tax Exemption (WFTE) program will help families with rent, utilities, and other mounting expenses. While there would be costs to the state to

administer the program, the benefits for working class families would be significant. Many low-income families are under economic strain due to the pandemic. The federal government has been slow to act to provide additional stimulus funding. Funding the WFTE is one way for the state to act. The program is vital for our state's economic recovery. Programs like the WFTE have shown a stimulative effect. The WFTE recipients will spend the remittances they receive within their communities and at local businesses. Funding the WFTE presents an opportunity to change the narrative around providing welfare, which has historically been tied to harmful stereotypes.

The changes in the bill improve upon the original program as it was enacted in 2008. Including individuals who use an Individual Tax Identification Number (ITIN) is an especially positive change, as it allows all taxpayers to access the program. Individuals using an ITIN pay state and federal taxes but are generally excluded from benefit programs. The WFTE will help ITIN filers pay for basic expenses. Because of Washington's tax code, low-income residents, including ITIN filers, pay a higher proportion of their income in taxes than other residents. All residents, including ITIN filers, should have equal access to relief.

(Opposed) None.

Persons Testifying (Finance): Representative Thai, prime sponsor; Alexander Shackles, Sylvia Abenis, and Alyssa Evans, Service Employees International Union 775; Cynthia Stewart, League of Women Voters of Washington; Maya Manus, Urban League of Metropolitan Seattle; Brenda Holland, Statewide Poverty Action Network and UNITE HERE; Beth Shea, Ventures Nonprofit; Chris Suh, Northwest Harvest; Socorro Garcia, MomsRising; Maricela Rodriguez, OneAmerica; Traci Underwood, Washington State Coalition Against Domestic Violence; Patricia Moreno, Firelands; Emily Vyhnanek, Washington State Budget and Policy Center and Working Families Tax Credit Coalition; Darrell Johnson; Aaron Czyzewski, Food Lifeline; and Matthew Lang, Transit Riders Union.

Persons Testifying (Appropriations): Shaun Scott, Statewide Poverty Action Network; Margaret Babayan, Washington State Budget & Policy Center; and Eli Goss, OneAmerica.

Persons Signed In To Testify But Not Testifying (Finance): None.

Persons Signed In To Testify But Not Testifying (Appropriations): None.