

HOUSE BILL REPORT

HB 1477

As Reported by House Committee On:

Finance
Appropriations

Title: An act relating to making changes to the working families' tax credit that clarify program qualification requirements, allow applications to be submitted for up to three years, and require a biennial program report from the department of revenue.

Brief Description: Making changes to the working families' tax credit.

Sponsors: Representatives Thai, Street, Doglio, Berry, Chapman, Santos, Ryu, Alvarado, Ramel, Macri, Ormsby, Leavitt, Pollet and Fey.

Brief History:

Committee Activity:

Finance: 1/31/23, 2/9/23 [DPS];

Appropriations: 2/20/23, 2/23/23 [DP2S(w/o sub FIN)].

Brief Summary of Second Substitute Bill

- Allows individuals filing as "married filing separately" to qualify for the Working Families' Tax Credit.
- Permits individuals to apply for any Working Families' Tax Credit payments for which they were eligible but did not claim for up to three years.
- Requires the Department of Revenue to submit a biennial report to the Legislature containing relevant data about Working Families' Tax Credit program administration.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass.

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.

Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

Staff: Rachelle Harris (253-444-316).

Background:

Working Families' Tax Credit.

The Working Families' Tax Credit (WFTC) is a state program for low- to moderate-income families that offers a partial credit against sales and use taxes paid in the form of a refund.

To be eligible for credit payments, a person must:

- have filed a federal tax return;
- meet the requirements for the federal Earned Income Tax Credit (EITC), or would meet the requirements for the EITC, but are filing with an Individual Taxpayer Identification Number;
- be over 24 years old, but under 65 years of age, or have a qualifying child; and
- have lived in Washington for more than 183 days or be the spouse of someone who does.

There is no minimum or maximum age requirement for a person with a qualifying child. An applicant does not qualify if they are married but filing separately.

The amount of the WFTC payment varies depending on the number of qualifying children in the household and the filer's income level. The minimum credit amount for all eligible persons that apply is \$50. The maximum credit amount is 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.
- \$1,200 for eligible persons with three or more qualifying children.

Beginning in 2024 and annually thereafter, credit amounts will be adjusted for inflation based on changes in the consumer price index.

Qualifying income levels are based around the maximum adjusted gross income for the federal EITC, which changes annually. The maximum credit amount for the WFTC is reduced by varying percentages depending on income levels. The Department of Revenue (DOR) adjusts the rate of credit reductions annually to maintain the minimum credit being received at the maximum qualifying income level. The rates of credit reduction also vary based on the number of qualifying children.

To receive a credit, eligible persons must apply to the DOR. The DOR has authority to adopt rules necessary to implement and administer the program. The DOR must report to the Legislature within the first 18 months of program implementation on administrative or

resource issues that require legislative action.

Applications for the program open February 1, 2023.

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.

Joint Legislative Audit Review Committee Review of the Working Families Tax Credit.

The JLARC is required to review the WFTC in 2028 and every ten years thereafter. If a review finds that the WFTC does not provide meaningful financial relief to low-income and middle-income households, then the credit expires at the end of the calendar year two years after the final JLARC report containing the finding is adopted.

Summary of Substitute Bill:

Individuals filing as "married filing separately" can qualify for the WFTC. Individuals may apply for any WFTC payments for which they were eligible but did not claim for up to three years. The DOR must submit a biennial report to the Legislature containing relevant data about WFTC program administration. The first report is due December 31, 2025.

Substitute Bill Compared to Original Bill:

The substitute bill makes technical corrections and clarifications. The substitute removes portions of the DOR report requirement and applies the existing WFTC tax preference performance statement to the bill. The substitute also clarifies that the changes made in the bill are not subject to the automatic 10-year expiration for tax preferences.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 11, 2023.

Effective Date of Substitute Bill: The bill takes effect on January 1, 2024.

Staff Summary of Public Testimony:

(In support) Providing cash support to survivors of domestic violence is empowering. The ability to file as "married filing separately" and qualify for the credit can help survivors of domestic violence have access to the credit without having to file with a violent spouse. This bill will help filers not miss out on credits to which they are due. The Internal Revenue Service allows for the three year lookback for many credits. The ability to apply retroactively will help people who didn't know about it or who for other reasons didn't apply.

(Opposed) None.

(Other) The Department of Revenue has some minor technical feedback that has been shared with staff.

Persons Testifying: (In support) Representative My-Linh Thai, prime sponsor; Cynthia Stewart, League of Women Voters of Washington; Emily Vyhnanek, Working Families Tax Credit Coalition and Washington State Budget and Policy Center; Emily Stone, Washington State Coalition Against Domestic Violence; and Casey Lantz, United Way of King County.

(Other) Steve Ewing, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Finance. Signed by 29 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; Berg, Chandler, Chopp, Connors, Couture, Davis, Dye, Fitzgibbon, Harris, Lekanoff, Pollet, Riccelli, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Steele, Stonier and Tharinger.

Minority Report: Do not pass. Signed by 1 member: Representative Rude.

Staff: Jordan Clarke (786-7123).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Finance:

The Appropriations Committee recommended the addition of a null and void clause,

making the bill null and void unless funded in the budget.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect on January 1, 2024. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) The Working Families' Tax Credit (WFTC) will reach families in Washington for the first time this year. Since the passage and funding of the credit in 2021, advocates are dedicated to making sure the credits reach communities successfully and equitably. There were a number of changes that were identified during the program's start-up period which are necessary to increase the access of the credit and require the statutory changes included in this bill.

Cash supports like the WFTC are empowering for survivors of domestic violence, and the WFTC launch earlier this month was very exciting. Many survivors do not have the feasibility or safe option of filing jointly with their abusers, and thus may not have access to the tax credit. This small, technical change will allow individuals who are married filing separately to qualify for the WFTC program, and will make the program more equitable and accessible for survivors of domestic violence.

The changes in the bill will positively impact tax filers by extending the window of time to allow them to access the tax refunds available through the WFTC program. Already this year, many filers are looking to file back taxes in the hopes of being eligible for this program. Many life factors, including misunderstandings and personal or medical crises, can prevent a person from filing their taxes every year, and taxpayers should not have to miss the tax credit because they are late. This bill will help ensure that taxpayers do not miss out on the credits that they are entitled to.

(Opposed) None.

Persons Testifying: Emily Vyhnanek, Working Families Tax Credit Coalition and Washington State Budget and Policy Center; Emily Stone, Washington State Coalition Against Domestic Violence; and Casey Lantz, United Way of King County.

Persons Signed In To Testify But Not Testifying: None.