SENATE BILL REPORT
2SHB 1477

As of March 13, 2023

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: House Committee on Appropriations (originally sponsored by Representatives Thai, Street, Doglio, Berry, Chapman, Santos, Ryu, Alvarado, Ramel, Macri, Ormsby, Leavitt, Pollet and Fey).

Brief History: Passed House: 3/3/23, 96-1.
Committee Activity: Ways & Means: 3/13/23.

Brief Summary of 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.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

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

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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; and
- $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 DOR. DOR has authority to adopt rules necessary to implement and administer the program. 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.

<u>Tax Preference Performance Statement.</u> 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. 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 ten years unless an alternative expiration date is provided.

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

DOR must submit a biennial report to the Legislature containing relevant data about WFTC program administration. The first report is due December 31, 2025.

JLARC, as part of its tax preference performance review, is required to provide written notice of the expiration date of the WFTC to affected parties, DOR, the chief clerk of the House of Representatives, the secretary of the Senate, the Office of the Code Reviser, and others as JLARC deems appropriate.

Appropriation: The bill contains a null and void clause requiring specific funding be provided in an omnibus appropriation act.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: The Working Families Tax Credit is actively reaching families across the state and already surpassed its application benchmark. This bill is a statutory fix to increase access to the credit. Cash support like the Working Families Tax Credit is so empowering for survivors of domestic violence. This bill is necessary because many survivors of domestic violence do not have the option to file jointly with their abusers and thus may not have access to the tax credit. This small technical change to allow individuals married filing separately will have big impacts on making the tax credit more equitable and accessible to survivors of domestic violence. Giving taxpayers up to three years to file for the credit would be congruent with the federal earned income credit which provides this same filing period. Allowing persons to access unclaimed prior years credits would have a big impact on those who get their taxes done through the free file program and would engage tax filing. Many types of life factors can prevent someone from filing, including medical issues.

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

Persons Signed In To Testify But Not Testifying: No one.