

HOUSE BILL REPORT

HB 3234

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: Representatives Green, Darneille, Sullivan, Wood, Ormsby, Hasegawa, Pettigrew, McIntire, Appleton, Hunt, Moeller, Morrell, Rolfes, Dunn, Roberts, Sells, Simpson, Conway, O'Brien, Santos, Campbell, Lias, VanDeWege, Loomis, Kagi, Dickerson and Nelson.

Brief History:

Committee Activity:

Finance: 2/6/08, 2/12/08 [DPS].

Brief Summary of Substitute Bill

- Requires the Department of Revenue to perform a study looking at potential revenue sources for, and the fiscal cost of, a sales tax remittance program for low income workers.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. 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: Jeff Mitchell (786-7139).

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 varies but it is generally determined by income and family size. Some states with an income tax provide an 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 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 vary from 7 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. State sales and use tax revenues are deposited in the State General Fund.

Summary of Substitute Bill:

The Department of Revenue (Department) is required to conduct a study looking at potential revenue sources for, and the fiscal cost of, a sales tax remittance program for low income workers. The Department is required to report its findings to the Legislature by December 1, 2008.

Substitute Bill Compared to Original Bill:

The language of the bill is replaced with a Department of Revenue study to look at potential revenue sources for, and the fiscal cost of, a sales tax remittance program for low income workers. The substitute bill also adds a null and void clause, making the bill null and void unless funded in the budget.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) Thousands of families face the daily challenges of making ends meet. People are not earning enough money to cover the high costs of health care and transportation. This bill will provide a measure of tax relief, tax equity, and economic stimulus. This bill could impact up to 350,000 workers in Washington. The average family would get between \$150 and \$450. This bill would raise more families above the poverty level. This bill builds on the federal earned income tax credit, which is an extremely effective anti-poverty program. Almost two-thirds of the money distributed under a working families credit gets reinvested back into the economy.

(Opposed) None.

Persons Testifying: Representative Green, prime sponsor; Jeff Johnson, Washington State Labor Council/American Federation of Labor and Congress of Industrial Organizations; Dave Slaulaski; and Erica Benson Hallock, United Way of Washington.

Persons Signed In To Testify But Not Testifying: None.