
HOUSE BILL 1681

State of Washington

66th Legislature

2019 Regular Session

By Representatives Doglio, Entenman, Macri, Reeves, Robinson, Cody, Frame, Pollet, Ormsby, Appleton, Ryu, and Jinkins

Read first time 01/28/19. Referred to Committee on Finance.

1 AN ACT Relating to funding the working families tax exemption by
2 imposing a surcharge on publicly traded companies providing excessive
3 executive compensation; amending RCW 82.08.0206; adding a new section
4 to chapter 82.04 RCW; adding a new section to chapter 82.16 RCW;
5 adding a new section to chapter 82.08 RCW; creating new sections; and
6 providing an effective date.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** The legislature finds that the wages of
9 workers continue to stagnate while chief executive officer (CEO) pay
10 continues to grow rapidly. The pay for top executives is often
11 hundreds, even thousands, of times that of the median worker at their
12 companies. One study found that CEO pay grew nine hundred forty-three
13 percent over thirty-five years, vastly outpacing growth in the cost
14 of living, the productivity of the economy, and the stock market. In
15 the past decade, average pay for CEOs in the Pacific Northwest has
16 climbed five times faster than it has for workers. This pay gap
17 contributes to the increasing income inequality in the United States
18 and further consolidation of wealth with the top one percent. It is
19 the intent of the legislature to impose a surcharge on corporations
20 with excessive CEO pay and provide funding for the working families
21 tax exemption provided in RCW 82.08.0206.

1 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.04
2 RCW to read as follows:

3 (1) Beginning January 1, 2020, in addition to the taxes imposed
4 under this chapter, a surcharge is imposed on any person with an
5 executive pay ratio of at least fifty to one in the previous calendar
6 year. Except as provided in subsection (3) of this section, the
7 surcharge is equal to ten percent of the tax otherwise payable under
8 this chapter after credits pursuant to RCW 82.04.440 have been
9 applied.

10 (2) The surcharge applies to taxes due for the calendar year
11 following the year in which the executive pay ratio under subsection
12 (1) of this section occurred. If the executive pay ratio of a
13 publicly traded company changes during the course of a calendar year,
14 adjustments to the surcharge resulting from the change take effect
15 January 1st of the calendar year following the year in which the
16 change occurred.

17 (3) If the executive pay ratio as reported to the United States
18 securities and exchange commission, or its successor agency, for the
19 previous calendar year is not disclosed by the taxpayer to the
20 department, the rate of surcharge imposed is twenty-five percent for
21 the applicable calendar years.

22 (4) Companies not publicly traded, but listed as a subsidiary in
23 the filings of the parent company with the United States securities
24 and exchange commission, are subject to the surcharge if the parent
25 is subject to the surcharge.

26 (5) All revenues collected under this subsection must be
27 deposited into the working families tax exemption account created in
28 section 5 of this act.

29 (6) For the purposes of this section, "executive pay ratio" means
30 the ratio of the annual compensation of the chief executive officer
31 compared to the median annual compensation of all other employees
32 that is required to be disclosed pursuant to section 953 of the Dodd-
33 Frank wall street reform and consumer protection act (P.L. 111-203)
34 and reported to the United States securities and exchange commission,
35 or its successor agency.

36 NEW SECTION. **Sec. 3.** A new section is added to chapter 82.16
37 RCW to read as follows:

38 (1) Beginning January 1, 2020, in addition to the taxes imposed
39 under this chapter, a surcharge is imposed on any person with an

1 executive pay ratio of at least fifty to one in the previous calendar
2 year. Except as provided in subsection (3) of this section, the
3 surcharge is equal to ten percent of the tax otherwise payable under
4 this chapter.

5 (2) The surcharge applies to taxes due for the calendar year
6 following the year in which the executive pay ratio under subsection
7 (1) of this section occurred. If the executive pay ratio of a
8 publicly traded company changes during the course of a calendar year,
9 adjustments to the surcharge resulting from the change take effect
10 January 1st of the calendar year following the year in which the
11 change occurred.

12 (3) If the executive pay ratio as reported to the United States
13 securities and exchange commission, or its successor agency, for the
14 previous calendar year is not disclosed by the taxpayer to the
15 department, the rate of surcharge imposed is twenty-five percent for
16 the applicable calendar years.

17 (4) Companies not publicly traded, but listed as a subsidiary in
18 the filings of the parent company with the United States securities
19 and exchange commission, are subject to the surcharge if the parent
20 is subject to the surcharge.

21 (5) All revenues collected under this subsection must be
22 deposited into the working families tax exemption account created in
23 section 5 of this act.

24 (6) For the purposes of this section, "executive pay ratio" means
25 the ratio of the annual compensation of the chief executive officer
26 compared to the median annual compensation of all other employees
27 that is required to be disclosed pursuant to section 953 of the Dodd-
28 Frank wall street reform and consumer protection act (P.L. 111-203)
29 and reported to the United States securities and exchange commission,
30 or its successor agency.

31 NEW SECTION. **Sec. 4.** By December 1, 2020, and in compliance
32 with RCW 43.01.036, the department of revenue and the employment
33 security department must submit a report to the legislature regarding
34 the feasibility of extending this act to taxpayers not currently
35 required to disclose executive pay ratio under the Dodd-Frank wall
36 street reform and consumer protection act (P.L. 111-203).

37 **Sec. 5.** RCW 82.08.0206 and 2008 c 325 s 2 are each amended to
38 read as follows:

1 (1) A working families' tax exemption, in the form of a
2 remittance tax due under this chapter and chapter 82.12 RCW, is
3 provided to eligible low-income persons for sales and use taxes paid
4 under this chapter and chapter 82.12 RCW after ~~((January 1, 2008))~~
5 December 31, 2019.

6 (2) For purposes of the exemption in this section, an eligible
7 low-income person is:

8 (a) An individual, or an individual and that individual's spouse
9 if they file a federal joint income tax return;

10 (b) ~~((An individual who))~~ An individual who is eligible for,
11 and ~~((is granted))~~ has claimed, the credit provided in Title 26
12 U.S.C. Sec. 32; and

13 (c) ~~((An individual who))~~ An individual who properly files a
14 federal income tax return as a Washington resident, and has been a
15 resident of the state of Washington more than one hundred eighty days
16 of the year for which the exemption is claimed.

17 (3) ~~((For remittances made in 2009 and 2010, the working
18 families' tax exemption for the prior year is a retail sales tax
19 exemption equal to the greater of five percent of the credit granted
20 as a result of Title 26 U.S.C. Sec. 32 in the most recent year for
21 which data is available or twenty-five dollars. For 2011 and
22 thereafter,))~~ The working families' tax exemption for the prior year
23 is equal to the greater of ten percent of the credit granted as a
24 result of Title 26 U.S.C. Sec. 32 in the most recent year for which
25 data is available or fifty dollars. However, remittances may be
26 issued based on the amount of credit claimed by an eligible low-
27 income person under Title 26 U.S.C. Sec. 32 on a federal income tax
28 return for the prior calendar year, and the employment security
29 department may subsequently verify the amount of such credit granted
30 by the internal revenue service.

31 (4) For any fiscal period, the working families' tax exemption
32 authorized under this section shall be approved by the legislature in
33 the state omnibus appropriations act before persons may claim the
34 exemption during the fiscal period.

35 (5) The working families' tax exemption ~~((shall))~~ must be
36 administered as provided in this subsection.

37 (a) (i) An eligible low-income person claiming an exemption under
38 this section must pay the tax imposed under chapters 82.08, 82.12,
39 and 82.14 RCW in the year for which the exemption is claimed. The

1 eligible low-income person may then apply to the department for the
2 remittance as calculated under subsection (3) of this section.

3 (ii) A person may not claim an exemption on behalf of a deceased
4 individual.

5 (iii) No individual may claim an exemption under this section for
6 any year in a disallowance period under 26 U.S.C. Sec. 32(k)(1) or
7 for any year in which the individual is ineligible to claim a credit
8 under 26 U.S.C. Sec. 32 by reason of 26 U.S.C. Sec. 32(k)(2).

9 (b) Application (~~(shall)~~) must be made to the employment security
10 department in a form and manner determined by the department, but the
11 employment security department must provide alternative filing
12 methods for applicants who do not have access to electronic filing.

13 (c) Application for the exemption remittance under this section
14 must be made in the year following the year for which the federal
15 return was filed, but in no case may any remittance be provided for
16 any period before January 1, (~~(2008)~~) 2020. The department may use
17 the best available data to process the exemption remittance. The
18 department (~~(shall)~~) must begin accepting applications October 1,
19 (~~(2009)~~) 2021.

20 (d) The department (~~(shall)~~) must review the application and
21 determine eligibility for the working families' tax exemption based
22 on information provided by the applicant and through audit and other
23 administrative records, including, when it deems it necessary,
24 verification through internal revenue service data.

25 (e) The employment security department (~~(shall)~~) must remit the
26 exempted amounts to eligible low-income persons who submitted
27 applications. Remittances may be made by electronic funds transfer or
28 other means.

29 (f) The employment security department may, in conjunction with
30 other agencies or organizations, design and implement a public
31 information campaign to inform potentially eligible persons of the
32 existence of and requirements for this exemption.

33 (g) The employment security department may contact persons who
34 appear to be eligible low-income persons as a result of information
35 received from the internal revenue service under such conditions and
36 requirements as the internal revenue service may by law require.

37 (6) The provisions of chapter (~~(82-32)~~) 50.12 RCW apply to the
38 exemption in this section.

39 (7) The employment security department may adopt rules necessary
40 to implement this section.

1 (8) The employment security department (~~shall~~) must limit its
2 costs for the exemption program to the initial start-up costs to
3 implement the program. The state omnibus appropriations act (~~shall~~)
4 must specify funding to be used for the ongoing administrative costs
5 of the program. These ongoing administrative costs include, but are
6 not limited to, costs for: The processing of internet and mail
7 applications, verification of application claims, compliance and
8 collections, additional full-time employees at the employment
9 security department's call center, processing warrants, updating
10 printed materials and web information, media advertising, and support
11 and maintenance of computer systems.

12 NEW SECTION. **Sec. 6.** A new section is added to chapter 82.08
13 RCW to read as follows:

14 The working families tax exemption account is created in the
15 state treasury. All receipts from sections 2 and 3 of this act must
16 be deposited into the account. Moneys in the account may be spent
17 only after appropriation. Expenditures from the account may be used
18 only for funding the working families tax exemption created in RCW
19 82.08.0206.

20 NEW SECTION. **Sec. 7.** This act takes effect January 1, 2020.

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