

HOUSE BILL REPORT

HJM 4010

As Passed House:

March 8, 1995

Brief Description: Requesting that unemployment benefits be removed from the IRS definition of taxable income.

Sponsors: Representatives Lisk, Chandler, Veloria, Wolfe and Conway; by request of Joint Task Force on Unemployment Insurance.

Brief History:

Committee Activity:

Commerce & Labor: 2/1/95, 2/8/95 [DP].

Floor Activity:

Passed House: 3/8/95, 97-1.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass. Signed by 11 members: Representatives Lisk, Chairman; Hargrove, Vice Chairman; Thompson, Vice Chairman; Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cairnes; Cody; Cole; Fuhrman; Goldsmith and Horn.

Staff: Chris Cordes (786-7117).

Background: In 1978, unemployment insurance benefits were included as taxable income under the Internal Revenue Code for persons with incomes above certain thresholds. The income thresholds were eliminated in 1986 so that all unemployment benefits are considered taxable income. These benefits are not subject to withholding at the time a claimant receives the benefits, but must be reported as part of total income.

According to the Congressional Research Service, the legislative purposes of making unemployment benefits taxable were to increase federal revenues and to decrease net wage replacement rates for high-income households compared to low-income households.

The Joint Task Force on Unemployment Insurance reviewed this issue during the 1994 interim and recommended in its draft report that the legislature should petition the United States Congress to adopt legislation removing unemployment benefits from income taxation.

Summary of Bill: The Washington State Legislature requests the United States Congress to enact legislation removing unemployment insurance benefits from taxation under the Internal Revenue Code.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This tax hurts workers. Benefits that are given to workers for subsistence during unemployment should not be taxed. In addition, because there is no automatic withholding of this tax from the benefits, the worker faces an extra burden at tax time.

Testimony Against: None.

Testified: Clif Finch, Association of Washington Business; and Robert Dilger, Washington State Building and Construction Trades Council.