FINAL BILL REPORT
ESSB 6809

C 325 L 08

Synopsis as Enacted

Brief Description: Providing a tax exemption for working families measured by the federal earned income tax credit.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Pridemore, McAuliffe, Rockefeller, Eide, Oemig, Hatfield, Regala, Fraser, Brown, Fairley, Tom, Kilmer, Keiser, Franklin, Kauffman, Kline, Rasmussen, Spanel, Jacobsen and Kohl-Welles).

Senate Committee on Ways & Means
House Committee on Finance

Background: The Federal Earned Income Tax Credit. The earned income tax credit (EITC), established in the federal tax code in 1975, is a refundable tax credit available to eligible workers earning relatively low wages. Because the credit is refundable, an EITC recipient need not 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.

Generally, a taxpayer may be able to take the credit for tax year 2007 if the taxpayer:
- has more than one qualifying child and earns less than $37,783 ($39,783 if married filing jointly);
- has one qualifying child and earns less than $33,241 ($35,241 if married filing jointly); or
- does not have a qualifying child and earns less than $12,590 ($14,590 if married filing jointly).

For the 2007 tax year, the maximum credit is $4,716 for a family with two or more children; $2,853 for a family with one child and $428 if the taxpayer does not reside with children.

Sales and Use Tax. Sales 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, counties, and cities, and 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 (DOR). State sales and use tax revenues are deposited in the state General Fund.

Summary: A working families' tax exemption is created in the form of a state sales tax remittance, equal to a percentage of the EITC.

Persons eligible for the credit must file a federal income tax return, receive an EITC, and have resided in Washington for more than 180 days in the year which the exemption is claimed. Eligible persons must pay the sales tax in the year for which the exemption is claimed.

Beginning October 1, 2009, eligible persons may electronically apply to DOR for a remittance. There must be alternative filing methods for applicants who do not have access to electronic filing. The remittances may be made by electronic funds transfer. For remittances in 2009 and 2010, the exemption for the prior year is $25 or equal to 5 percent of the EITC for which data is available, whichever is greater. For 2011 and thereafter, the exemption for the prior year is $50 or equal to 10 percent of the EITC for which data is available, whichever is greater. For any fiscal period, the working families' tax exemption must be approved in the state omnibus appropriations act.

DOR determines eligibility based on information provided by the applicant, and through audit, administrative records, and verification of Internal Revenue Service records. DOR may use the best data available to process the remittance. DOR may, in conjunction with other agencies or organizations, design a public information campaign to inform potentially eligible persons of the exemption. DOR may contact persons who appear to be eligible. The administrative provisions of chapter 82.32 RCW apply and DOR is granted rulemaking authority. DOR must limit its costs to the initial start-up costs to implement the program. The state omnibus appropriations act must specify funding to be used for the ongoing administrative costs of the program.

DOR must report back to the Legislature by December 1, 2012, to identify administrative or resource issues that require legislative action.

Votes on Final Passage:

Senate	32	16	
House	57	37	(House amended)
Senate	29	17	(Senate concurred)

Effective: June 12, 2008