

---

**Finance Committee**

---

**HB 1890**

**Brief Description:** Modifying sales tax exemptions for working families.

**Sponsors:** Representatives Reykdal, Jinkins, Appleton, Moscoso, Sawyer, Lytton, Fitzgibbon, Ormsby, Freeman, Green, Ryu, Roberts, Goodman, McCoy, Hunt, Hudgins, Pollet, Sells, Bergquist, Van De Wege, Fey, Liias, Dunshee, Riccelli, Kirby, Farrell and Tarleton.

**Brief Summary of Bill**

- Repeals the nonresident sales tax exemption.
- Changes the minimum remittance amount for the Working Families Tax Exemption.
- Modifies the definition of low-income individual.

**Hearing Date:** 2/27/13

**Staff:** Dominique Meyers (786-7150).

**Background:**

Nonresident Sales Tax Exemption.

Retail sales and use taxes are imposed by the state, cities, and counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property, digital products, and some services when used in this state. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3.0 percent, depending on the location.

A sales tax exemption is allowed to a resident of a state, possession, or Canadian province that does not impose a retail sales tax, use tax, value added tax, gross receipts tax or similar generally applicable tax of 3 percent or more on purchases of goods for use outside the state. The exemption does not apply to items or services consumed in the state such as hotel stays or meals at restaurants. Retailers are not required to make tax exempt sales to qualifying nonresidents. A

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

vendor may choose to collect sales tax on purchases made by qualifying nonresidents or to sell merchandise tax-free.

**Working Families Tax Exemption.**

In 2008, the Legislature enacted a working families' tax exemption in the form of a state sales tax remittance, equal to a percentage of the federal Earned Income Tax Credit (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 that the exemption is claimed. Eligible persons must pay the sales tax in the year for which the exemption is claimed. The exemption for taxes paid in the prior year, is \$50 or equal to 10 percent of the EITC, whichever is greater. For any fiscal period, the working families' tax exemption must be approved in the state omnibus appropriations act.

The Department of Revenue (DOR) determines eligibility based on information provided by the applicant, and through audit, administrative records, and verification of Internal Revenue Service records. The DOR may use the best data available to process the remittance. The timeframe for the DOR to receive verified federal EITC data from the IRS is 18 months. The state Omnibus Appropriations Act must specify funding to be used for the ongoing administrative costs of the program.

**Summary of Bill:**

The nonresident sales and use tax exemption is repealed.

The minimum remittance amount for the WFTE is changed starting in 2014 from 10 percent of the federal EITC to 3.5 percent. The Legislature may appropriate additional funding to increase the amount of exemption in the state Omnibus Appropriations Act.

The definition of eligible low-income person is modified. The requirement that an individual be granted the federal EITC is removed and instead an eligible individual that applies for the federal EITC is eligible for the WFTE. All other requirements of eligibility remain the same.

**Appropriation:** None.

**Fiscal Note:** Requested on February 15, 2013.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.