
Finance Committee

HB 2521

Brief Description: Adding individual tax identification number filers to the working families tax credit.

Sponsors: Representatives Thai, Ortiz-Self, Ryu, Lekanoff, Senn, Kilduff, Walen, Gregerson, Davis, Slatter, Frame, Kloba, Macri, Doglio and Riccelli.

Brief Summary of Bill

- Adds individuals who file taxes using an Individual Taxpayer Identification Number (ITIN) to those who qualify for the state Working Families Tax Exemption.
- For ITIN filers, sets the state Working Families Tax Exemption credit to be the greater of 10 percent of the federal Earned Income Tax Credit they would receive if they qualified or \$50.

Hearing Date: 2/10/20

Staff: Nick Tucker (786-7383).

Background:

Earned Income Tax Credit.

The Earned income Tax Credit (EITC) is a federal refundable tax credit for individuals with low to moderate income. Qualified individuals receive a credit on their federal tax return. The size of an individual's benefit from the EITC depends on the recipient's income, marital status, and number of children. The credit amount is a fixed percentage of earnings that increases with each dollar earned until it reaches a maximum level and then begins to phase out at higher income levels. The EITC is "refundable," meaning it can exceed an individual's income tax liability.

To be eligible for the Federal EITC, an individual must either be of any age and have at least one qualifying child or be between the ages of 25 to 64 with no qualifying children. Claimants must be either a United States citizen or a resident alien and have a valid social security number (SSN). For the purposes of the EITC, "earned income" includes wages, salaries, tips, and other

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employee compensation, plus net earnings from self-employment for the taxable year. A person is not eligible for the EITC if their aggregate amount of disqualified income such as interest, dividends, or capital gain income exceeds \$3,500 in the taxable year.

Working Families Tax Exemption.

In 2008, the Washington State Legislature enacted a state-level benefit program called the Working Families Tax Exemption (WFTE) that was based in part off of the federal EITC program. The state exemption is modeled as a sales and use tax remittance program. To be eligible, a person must have paid Washington state and local sales and use taxes, received a federal EITC benefit, have been a resident of Washington for more than 180 days for the year in which the exemption is claimed, and apply to the Department of Revenue (DOR) for the remittance. For remittances made in 2009 and 2010, the benefit for the prior year was equal to the greater of 5 percent of the credit granted from the EITC or \$25. For 2011 and thereafter, the remittance for the prior year is equal to the greater of 10 percent of the credit granted from the EITC or \$50.

The exemption program is under the administrative purview of the DOR, and is required to be approved in the state operating budget act before any exemption benefits may be paid. The program has never been fully funded or authorized in an enacted state operating budget.

Individual Taxpayer Identification Number.

An Individual Taxpayer Identification Number (ITIN) is an identification number used by the Internal Revenue Service (IRS) in the administration of tax laws. It is a tax processing number only available for certain nonresident and resident aliens, their spouses, and dependents who cannot get a SSN. It is issued either by the Social Security Administration (SSA) or by the IRS. A SSN is issued by the SSA whereas all other ITINs are issued by the IRS.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Individuals who file taxes using an ITIN in lieu of a SSN are added to those who qualify for the state WFTE program. For ITIN filers, the state WFTE credit is set to be the greater of 10 percent of the federal EITC they would receive if they qualified or \$50.

The bill is exempt from TPPS requirements, JLARC review, and the automatic 10 year expiration.

Appropriation: None.

Fiscal Note: Requested on February 6, 2020.

Effective Date: The bill takes effect on October 1, 2021.