

SENATE BILL REPORT

SB 5810

As of February 21, 2019

Title: An act relating to providing a working families' tax credit.

Brief Description: Providing a working families' tax credit.

Sponsors: Senators Nguyen, Randall, Keiser, Wilson, C., Hunt, Takko, Kuderer, Palumbo, Cleveland, Saldaña, Das, Conway, Darneille, Liias, McCoy, Van De Wege, Billig and Frockt.

Brief History:

Committee Activity: Ways & Means: 2/21/19.

Brief Summary of Bill

- Expands the eligibility and benefits of the Working Families Tax Exemption Program.
- Makes other technical modifications to the administration and name of the program.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

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 25-64 with no qualifying children. Claimants must be either a United States citizen or a resident alien and have a valid social security number. For the purposes of the EITC, earned income includes wages, salaries, tips, and other employee compensation, plus net earnings from self-employment for the taxable year.

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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.

For tax year 2018, a qualifying individual's adjusted gross income (AGI) must be less than:

- \$49,194 (\$54,884 for married filing jointly) with three or more qualifying children;
- \$45,802 (\$51,492 for married filing jointly) with have two qualifying children;
- \$40,320 (\$46,010 for married filing jointly) with have one qualifying child; or
- \$15,270 (\$20,950 for married filing jointly) with no qualifying children.

For tax year 2018, the maximum credit available is as follows, for both single individuals and those married filing jointly:

- \$6,431 with three or more qualifying children;
- \$5,716 with two qualifying children;
- \$3,461 with one qualifying child; or
- \$519 with no qualifying children.

Working Families Tax Exemption. In 2008, the Washington State Legislature enacted a state-level benefit program called the Working Families Tax Exemption 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. The program has never been implemented or funded; however, if it were so, the remittance would be equal to the greater of 10 percent of the person's federal EITC credit or \$50.

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

Tax Preferences. 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 ten years unless an alternative expiration date is provided.

Summary of Bill: The Working Families Tax Exemption Program is renamed the Working Families Tax Credit (WFTC).

Eligibility under the WFTC is expanded to include individuals between the ages of 19-69 with no children, caregivers of elderly or disabled relatives, students enrolled in an institution of higher education who are eligible for the state need grant, and workers who file federal taxes using an individual taxpayer identification number. The remittance and income

thresholds are to be adjusted annually based on the consumer price index for urban consumers.

For either a single or married individual with one or fewer children, the WFTC is 5.1 percent of the first \$10,180 of earned income. For a single or married individual with two or more children, the credit is 15 percent of their federal EITC benefit. For an eligible caregiver or student, the credit is the greater of the remittance otherwise allowed or \$150. The minimum credit for any qualified individual is \$50.

The WFTC will be administered by the Employment Security Department (ESD). The ESD is directed to engage in rule-making, public outreach and education efforts, and other planning in advance of making benefit payments. Authorization for the WFTC in the omnibus operating budget is required before benefit payments may be made. The ESD is directed to evaluate whether the remittance may be provided on a monthly basis and without an application process.

A tax preference performance statement identifies the tax preference as one intended to provide individual tax relief. It identifies the public policy objective to allow workers to recover some or all of the sales tax paid as a way to increase economic security. The JLARC is to review the size of the benefit per household, the number of household beneficiaries statewide, and various demographic data about beneficiaries.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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