

SENATE BILL REPORT

SB 6557

As of February 6, 2020

Title: An act relating to adding individual tax identification number filers to the working families tax credit.

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

Sponsors: Senators Saldaña, Nguyen, Hasegawa, Kuderer and Wilson, C.

Brief History:

Committee Activity: Human Services, Reentry & Rehabilitation: 2/04/20.

Brief Summary of Bill

- Expands the definition of an eligible low-income person for the working families tax credit to also include an individual who otherwise meets the requirement for the tax credit and would otherwise qualify for the federal earned income tax credit except for the fact that the individual filed a federal tax return in the prior year using an individual taxpayer identification number in lieu of a Social Security number.

SENATE COMMITTEE ON HUMAN SERVICES, REENTRY & REHABILITATION

Staff: Alison Mendiola (786-7488)

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 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 \$3,650 for the 2020 tax year.

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.

Generally, a taxpayer may be able to take the credit for tax year 2020 if they:

- have more than three qualifying children and earn less than \$50,594—\$56,844 if married filing jointly;
- have more than two qualifying children and earn less than \$47,440—\$53,330 if married filing jointly;
- have one qualifying child and earn less than \$41,756—\$47,646 if married filing jointly; or
- do not have a qualifying child and earn less than \$15,820—\$21,710 if married filing jointly.

For the 2020 tax year, the maximum credit is \$6,660 for a family with three or more qualifying children; \$5,920 with two qualifying children; \$3,584 for a family with one qualifying child, and \$538 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 up to 10.5 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.

The Working Families' Tax Exemption. In 2008, the Legislature enacted a state-level benefit program called the Working Families Tax Exemption that was based in part on 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 DOR for the remittance. The program has never been implemented or funded; however, if it were, 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 must 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 a tax processing number issued by the Internal Revenue Service (IRS). The IRS issues ITINs to individuals who must have a U.S. taxpayer identification number but who do not have, and are not eligible to obtain, a Social Security number. An ITIN does not authorize work in the U.S., provide eligibility for Social Security benefits, or qualify a dependent for EITC purposes.

People who must apply for an ITIN:

- must not have a Social Security number, and not be eligible to obtain one;
- have a requirement to provide a federal tax identification number or file a federal tax return; and

- fall in one of the following categories—nonresident alien who must file a U.S. tax return; a U.S. resident alien who is, based on days present in the United States, filing a U.S. tax return; dependent or spouse of a U.S. citizen or resident alien; dependent or spouse of a nonresident alien visa holder; nonresident alien claiming a tax treaty benefit; or a nonresident alien student, professor or researcher filing a U.S. tax return or claiming an exception.

Summary of Bill: Eligible low-income person means an individual who is eligible for, and is granted, the federal EITC and properly files a federal income tax return as a Washington resident, and has been a resident of the state of Washington more than 180 days of the year for which the exemption is claimed.

Eligible low-income person also means an individual who otherwise meets the requirement for the tax credit and would otherwise qualify for EITC except for the fact that the individual filed a federal tax return in the prior year using an ITIN in lieu of a Social Security number.

Individual means an individual and that individual's spouse if they file a federal joint income tax return.

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.

Staff Summary of Public Testimony: PRO: The expanded eligibility is a critical step in ensuring all those who are eligible qualify for this tax credit, even if they file a federal return with an ITIN. This could impact 41,000 households who make many contributions to society. This bill is really a technical adjustment to include undocumented people, making the credit accessible to a larger number of people, given the history of profiting off the backs of workers and immigrants. This is a matter of justice. When this legislation passed it was not funded when families needed it the most, during the recession. Many immigrants pay taxes, work two jobs, with little benefit. This bill is a recognition of their hard work and fights the myth that immigrants do not pay taxes. The fiscal note should reflect how many new people would be eligible with this bill, not what it costs to fund the whole tax credit.

Persons Testifying: PRO: Senator Rebecca Saldaña, Prime Sponsor; Emily Vahnnek, Washington State Budget & Policy Center; Beto Yarce, Ventures Nonprofit; Alex Hur, One America; Juan Bocanegra, All In for Washington; Julie Watts, Washington State Budget and Policy Center.

Persons Signed In To Testify But Not Testifying: No one.