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HOUSE BILL 1778

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State of Washington

66th Legislature

2019 Regular Session

By Representatives Doglio, Entenman, Jinkins, Ormsby, Pollet, Frame, Robinson, and Macri

Read first time 01/30/19. Referred to Committee on Finance.

1 AN ACT Relating to funding the working families tax exemption by  
2 imposing a surcharge on publicly traded companies providing excessive  
3 executive compensation; amending RCW 82.08.0206; adding a new section  
4 to chapter 82.04 RCW; adding a new section to chapter 82.16 RCW;  
5 adding a new section to chapter 82.08 RCW; creating new sections; and  
6 providing an effective date.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** The legislature finds that the wages of  
9 workers continue to stagnate while chief executive officer (CEO) pay  
10 continues to grow rapidly. The pay for top executives is often  
11 hundreds, even thousands, of times that of the median worker at their  
12 companies. One study found that CEO pay grew nine hundred forty-three  
13 percent over thirty-five years, vastly outpacing growth in the cost  
14 of living, the productivity of the economy, and the stock market. In  
15 the past decade, average pay for CEOs in the Pacific Northwest has  
16 climbed five times faster than it has for workers. This pay gap  
17 contributes to the increasing income inequality in the United States  
18 and further consolidation of wealth with the top one percent. It is  
19 the intent of the legislature to impose a surcharge on corporations  
20 with excessive CEO pay and provide funding for the working families  
21 tax exemption provided in RCW 82.08.0206.

1        NEW SECTION.    **Sec. 2.**    A new section is added to chapter 82.04  
2    RCW to read as follows:

3        (1) Beginning January 1, 2020, in addition to the taxes imposed  
4    under this chapter, a surcharge is imposed on any person with an  
5    executive pay ratio of at least fifty to one in the previous calendar  
6    year. The surcharge will apply to the tax otherwise payable under  
7    this chapter after credits under RCW 82.04.440 have been applied.  
8    The surcharge is equal to:

9        (a) Ten percent if the executive pay ratio is at least fifty to  
10   one but less than one hundred fifty to one; and

11        (b) Twenty-five percent if the pay ratio is one hundred fifty to  
12   one or more.

13        (2) The surcharge applies to taxes due for the calendar year  
14   following the year in which the executive pay ratio under subsection  
15   (1) of this section occurred. If the executive pay ratio of a  
16   publicly traded company changes during the course of a calendar year,  
17   adjustments to the surcharge resulting from the change take effect  
18   January 1st of the calendar year following the year in which the  
19   change occurred.

20        (3) If the executive pay ratio as reported to the United States  
21   securities and exchange commission, or its successor agency, for the  
22   previous calendar year is not disclosed by the taxpayer to the  
23   department, the rate of surcharge imposed is twenty-five percent for  
24   the applicable calendar years.

25        (4) Companies not publicly traded, but listed as a subsidiary in  
26   the filings of the parent company with the United States securities  
27   and exchange commission, are subject to the surcharge if the parent  
28   is subject to the surcharge.

29        (5) All revenues collected under this subsection must be  
30   deposited into the working families tax exemption account created in  
31   section 5 of this act.

32        (6) For the purposes of this section, "executive pay ratio" means  
33   the ratio of the annual compensation of the chief executive officer  
34   compared to the median annual compensation of all other employees  
35   that is required to be disclosed pursuant to section 953 of the Dodd-  
36   Frank wall street reform and consumer protection act (P.L. 111-203)  
37   and reported to the United States securities and exchange commission,  
38   or its successor agency.

1        NEW SECTION.    **Sec. 3.**    A new section is added to chapter 82.16  
2    RCW to read as follows:

3        (1) Beginning January 1, 2020, in addition to the taxes imposed  
4    under this chapter, a surcharge is imposed on any person with an  
5    executive pay ratio of at least fifty to one in the previous calendar  
6    year. The surcharge will apply to the tax otherwise payable under  
7    this chapter after credits under RCW 82.04.440 have been applied.  
8    The surcharge is equal to:

9        (a) Ten percent if the executive pay ratio is at least fifty to  
10   one but less than one hundred fifty to one; and

11        (b) Twenty-five percent if the pay ratio is one hundred fifty to  
12   one or more.

13        (2) The surcharge applies to taxes due for the calendar year  
14   following the year in which the executive pay ratio under subsection  
15   (1) of this section occurred. If the executive pay ratio of a  
16   publicly traded company changes during the course of a calendar year,  
17   adjustments to the surcharge resulting from the change take effect  
18   January 1st of the calendar year following the year in which the  
19   change occurred.

20        (3) If the executive pay ratio as reported to the United States  
21   securities and exchange commission, or its successor agency, for the  
22   previous calendar year is not disclosed by the taxpayer to the  
23   department, the rate of surcharge imposed is twenty-five percent for  
24   the applicable calendar years.

25        (4) Companies not publicly traded, but listed as a subsidiary in  
26   the filings of the parent company with the United States securities  
27   and exchange commission, are subject to the surcharge if the parent  
28   is subject to the surcharge.

29        (5) All revenues collected under this subsection must be  
30   deposited into the working families tax exemption account created in  
31   section 5 of this act.

32        (6) For the purposes of this section, "executive pay ratio" means  
33   the ratio of the annual compensation of the chief executive officer  
34   compared to the median annual compensation of all other employees  
35   that is required to be disclosed pursuant to section 953 of the Dodd-  
36   Frank wall street reform and consumer protection act (P.L. 111-203)  
37   and reported to the United States securities and exchange commission,  
38   or its successor agency.

1        NEW SECTION.    **Sec. 4.**    By December 1, 2020, and in compliance  
2 with RCW 43.01.036, the department of revenue and the employment  
3 security department must submit a report to the legislature regarding  
4 the feasibility of extending this act to taxpayers not currently  
5 required to disclose executive pay ratio under the Dodd-Frank wall  
6 street reform and consumer protection act (P.L. 111-203).

7        **Sec. 5.**    RCW 82.08.0206 and 2008 c 325 s 2 are each amended to  
8 read as follows:

9        (1) A working families' tax exemption, in the form of a  
10 remittance tax due under this chapter and chapter 82.12 RCW, is  
11 provided to eligible low-income persons for sales and use taxes paid  
12 under this chapter and chapter 82.12 RCW after ((January 1, 2008))  
13 December 31, 2019.

14        (2) For purposes of the exemption in this section, an eligible  
15 low-income person is:

16        (a) An individual, or an individual and that individual's spouse  
17 if they file a federal joint income tax return;

18        (b) (({An individual who})) An individual who is eligible for,  
19 and ((is granted)) has claimed, the credit provided in Title 26  
20 U.S.C. Sec. 32; and

21        (c) (({An individual who})) An individual who properly files a  
22 federal income tax return as a Washington resident, and has been a  
23 resident of the state of Washington more than one hundred eighty days  
24 of the year for which the exemption is claimed.

25        (3) ((For remittances made in 2009 and 2010, the working  
26 families' tax exemption for the prior year is a retail sales tax  
27 exemption equal to the greater of five percent of the credit granted  
28 as a result of Title 26 U.S.C. Sec. 32 in the most recent year for  
29 which data is available or twenty-five dollars. For 2011 and  
30 thereafter,)) The working families' tax exemption for the prior year  
31 is equal to the greater of ten percent of the credit granted as a  
32 result of Title 26 U.S.C. Sec. 32 in the most recent year for which  
33 data is available or fifty dollars. However, remittances may be  
34 issued based on the amount of credit claimed by an eligible low-  
35 income person under Title 26 U.S.C. Sec. 32 on a federal income tax  
36 return for the prior calendar year, and the employment security  
37 department may subsequently verify the amount of such credit granted  
38 by the internal revenue service.

1 (4) For any fiscal period, the working families' tax exemption  
2 authorized under this section shall be approved by the legislature in  
3 the state omnibus appropriations act before persons may claim the  
4 exemption during the fiscal period.

5 (5) The working families' tax exemption (~~shall~~) must be  
6 administered as provided in this subsection.

7 (a) (i) An eligible low-income person claiming an exemption under  
8 this section must pay the tax imposed under chapters 82.08, 82.12,  
9 and 82.14 RCW in the year for which the exemption is claimed. The  
10 eligible low-income person may then apply to the department for the  
11 remittance as calculated under subsection (3) of this section.

12 (ii) A person may not claim an exemption on behalf of a deceased  
13 individual.

14 (iii) No individual may claim an exemption under this section for  
15 any year in a disallowance period under 26 U.S.C. Sec. 32(k)(1) or  
16 for any year in which the individual is ineligible to claim a credit  
17 under 26 U.S.C. Sec. 32 by reason of 26 U.S.C. Sec. 32(k)(2).

18 (b) Application (~~shall~~) must be made to the employment security  
19 department in a form and manner determined by the department, but the  
20 employment security department must provide alternative filing  
21 methods for applicants who do not have access to electronic filing.

22 (c) Application for the exemption remittance under this section  
23 must be made in the year following the year for which the federal  
24 return was filed, but in no case may any remittance be provided for  
25 any period before January 1, (~~2008~~) 2020. The department may use  
26 the best available data to process the exemption remittance. The  
27 department (~~shall~~) must begin accepting applications October 1,  
28 (~~2009~~) 2021.

29 (d) The department (~~shall~~) must review the application and  
30 determine eligibility for the working families' tax exemption based  
31 on information provided by the applicant and through audit and other  
32 administrative records, including, when it deems it necessary,  
33 verification through internal revenue service data.

34 (e) The employment security department (~~shall~~) must remit the  
35 exempted amounts to eligible low-income persons who submitted  
36 applications. Remittances may be made by electronic funds transfer or  
37 other means.

38 (f) The employment security department may, in conjunction with  
39 other agencies or organizations, design and implement a public

1 information campaign to inform potentially eligible persons of the  
2 existence of and requirements for this exemption.

3 (g) The employment security department may contact persons who  
4 appear to be eligible low-income persons as a result of information  
5 received from the internal revenue service under such conditions and  
6 requirements as the internal revenue service may by law require.

7 (6) The provisions of chapter (~~82.32~~) 50.12 RCW apply to the  
8 exemption in this section.

9 (7) The employment security department may adopt rules necessary  
10 to implement this section.

11 (8) The employment security department (~~shall~~) must limit its  
12 costs for the exemption program to the initial start-up costs to  
13 implement the program. The state omnibus appropriations act (~~shall~~)  
14 must specify funding to be used for the ongoing administrative costs  
15 of the program. These ongoing administrative costs include, but are  
16 not limited to, costs for: The processing of internet and mail  
17 applications, verification of application claims, compliance and  
18 collections, additional full-time employees at the employment  
19 security department's call center, processing warrants, updating  
20 printed materials and web information, media advertising, and support  
21 and maintenance of computer systems.

22 NEW SECTION. Sec. 6. A new section is added to chapter 82.08  
23 RCW to read as follows:

24 The working families tax exemption account is created in the  
25 state treasury. All receipts from sections 2 and 3 of this act must  
26 be deposited into the account. Moneys in the account may be spent  
27 only after appropriation. Expenditures from the account may be used  
28 only for funding the working families tax exemption created in RCW  
29 82.08.0206.

30 NEW SECTION. Sec. 7. This act takes effect January 1, 2020.

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