# Washington State
# House of Representatives
**Office of Program Research**

# BILL ANALYSIS

# Finance Committee

# HB 1297

**Brief Description:** Concerning working families tax exemption.

**Sponsors:** Representatives Thai, Stokesbary, Ramel, Ryu, Robertson, Leavitt, Bateman, Fitzgibbon, Shewmake, Chapman, Johnson, J., Senn, Frame, Riccelli, Chopp, Wylie, Wicks, Simmons, Boehnke, Berry, Davis, Tharinger, Walsh, Eslick, Goodman, Peterson, Santos, Valdez, Cody, Chambers, Kloba, Ramos, Kirby, Bronoske, Gregerson, Macri, Callan, Paul, Sells, Bergquist, Ormsby, Pollet, Slatter, Stonier, Taylor and Harris-Talley.


**Brief Summary of Bill**

- Expands eligibility for the working families tax exemption to include Individual Taxpayer Identification Number filers.
- Expands the base remittance amount for the working families tax exemption and establishes phaseout rates for the remittance.


**Hearing Date:** 2/2/21

**Staff:** Rachelle Harris (786-7137).

**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.

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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 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.

For tax year 2020, in order to qualify for the EITC, an individual's adjusted gross income (AGI) must be less than:

- $15,820 ($21,710 for married filing jointly) with no qualifying children;
- $41,756 ($47,646 for married filing jointly) with have one qualifying child;
- $47,440 ($53,330 for married filing jointly) with have two qualifying children; or
- $50,594 ($56,844 for married filing jointly) with three or more qualifying children.

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 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 the Department of Revenue (DOR) for the remittance.

For remittances made in 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 authorized 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 an SSN. It is issued either by the Social Security Administration (SSA) or by the IRS. An SSN is issued by the SSA whereas all other ITINs are issued by the IRS.

**Summary of Bill:**

Individuals who file taxes using an ITIN in lieu of an SSN are added to those who qualify for the state WFTE program. The requirement that a person must have been granted a federal EITC is removed. The remittance of ten percent of the granted EITC is eliminated.

A new base remittance amount for the state WFTE program is established as follows:

- $500 for eligible persons with no qualifying children;
- $650 for eligible persons with one qualifying child;
- $800 for eligible persons with two qualifying children; or
- $950 for eligible persons with three or more qualifying children.

The minimum credit for qualifying persons is $50.

The base remittance amount for the WFTE is reduced by varying percentages beginning at particular income levels that vary based on the number of qualifying children:

- For eligible persons with no qualifying children, beginning at $2,500 of income below the federal maximum AGI, the base remittance is reduced by eighteen percent per additional dollar of income until the minimum credit amount is reached.
- For eligible persons with one qualifying child, beginning at $5,000 of income below the federal maximum AGI, the base remittance is reduced by twelve percent per additional dollar of income until the minimum credit amount is reached.
- For eligible persons with two qualifying children, beginning at $5,000 of income below the federal maximum AGI, the base remittance is reduced by fifteen percent per additional dollar of income until the minimum credit is reached.
- For eligible persons with three or more qualifying children, beginning at $5,000 of income below the federal maximum AGI, the base remittance is reduced by eighteen percent per additional dollar of income until the minimum credit is reached.

To receive a remittance, eligible persons must apply to the DOR. Receipt of the remittance may not be used in eligibility determinations for any state income support programs or in making public charge determinations.

Beginning in 2024 and annually thereafter, remittance amounts will be adjusted for inflation based on changes in the consumer price index. The DOR must design and implement a public information campaign to inform eligible persons of the existence of the working families tax exemption.

**Appropriation:** None.

**Fiscal Note:** Requested on January 19, 2021.

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