FINAL BILL REPORT
ESHB 1297

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Synopsis as Enacted

Brief Description: Concerning working families tax exemption.

Sponsors: House Committee on Appropriations (originally sponsored by 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).

House Committee on Finance
House Committee on Appropriations
Senate Committee on Human Services, Reentry & Rehabilitation
Senate Committee on Ways & Means

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 employee compensation, plus net earnings from self-employment for the taxable year. Persons are not eligible for the EITC if their aggregate amount of

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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 one qualifying child;
- $47,440 ($53,330 for married filing jointly) with 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 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 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:

Individuals who file taxes using an ITIN in lieu of an SSN are added to those who qualify for the state WFTE program. The definition of a qualifying child is expanded to include a child with an ITIN in lieu of an SSN. The requirement that a person must have been granted a federal EITC is removed. The remittance of 10 percent of the granted EITC is eliminated.

A new base remittance amount for the state WFTE program is established as follows:
- $300 for eligible persons with no qualifying children;
- $600 for eligible persons with one qualifying child;
- $900 for eligible persons with two qualifying children; or
- $1,200 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 18 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 12 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 15 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 18 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 WFTE.

A TPPS requires the JLARC to review the program in 2028 and every 10 years thereafter, and expires the program at the end of the calendar year two years after the adoption of a final report by the JLARC that finds that the program does not provide meaningful financial relief to low-income and middle-income households.

Votes on Final Passage:

House	94	2	
Senate	47	2	(Senate amended)
House	93	3	(House concurred)

Effective: July 25, 2021