

HOUSE BILL REPORT

HB 1895

As Passed Legislature

Title: An act relating to modifying the working families' tax credit by clarifying the refundable nature of the credit, the application requirements, and the eligibility verification process.

Brief Description: Modifying the working families' tax credit by clarifying the refundable nature of the credit, the application requirements, and the eligibility verification process.

Sponsors: Representatives Thai, Connors, Corry, Ryu, Ortiz-Self, Ramel, Ormsby, Doglio, Fosse, Orwall, Paul, Reeves, Lekanoff, Tharinger and Riccelli; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 1/9/24, 1/18/24 [DP].

Floor Activity:

Passed House: 1/29/24, 96-0.

Passed Senate: 2/19/24, 48-0.

Passed Legislature.

Brief Summary of Bill

- Makes administrative clarifications to the Working Families Tax Credit.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Thai, Walen, Wilcox and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Working Families' Tax Credit.

The Working Families' Tax Credit (WFTC) is a state program for low- to moderate-income families that offers a partial credit against sales and use taxes paid in the form of a refund.

To be eligible for credit payments, a person must:

- have filed a federal tax return;
- meet the requirements for the federal Earned Income Tax Credit (EITC), or would meet the requirements for the EITC, but are filing with an Individual Taxpayer Identification Number;
- be at least 25 and under 65 years of age, or have a qualifying child; and
- have lived in Washington for more than 183 days or be the spouse of someone who does.

There is no minimum or maximum age requirement for a person with a qualifying child.

The amount of the WFTC payment varies depending on the number of qualifying children in the household and the filer's income level. The minimum credit amount for all eligible persons that apply is \$50. The maximum credit amount is 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; and
- \$1200 for eligible persons with three or more qualifying children.

Credit amounts are adjusted for inflation based on changes in the Consumer Price Index.

Qualifying income levels are based around the maximum adjusted gross income for the federal EITC, which changes annually. The maximum credit amount for the WFTC is reduced by varying percentages depending on income levels. The Department of Revenue (DOR) must use an applicant's most recent federal tax filing for the tax year for which the refund is being claimed to calculate the refund. The DOR adjusts the rate of credit reductions annually to maintain the minimum credit being received at the maximum qualifying income level. The rates of credit reduction also vary based on the number of qualifying children.

To receive a credit, eligible persons must apply to the DOR. The DOR has authority to adopt rules necessary to implement and administer the program.

Summary of Bill:

The WFTC is clarified to be a refundable tax credit. A WFTC applicant must have paid retail sales or use tax. There is a rebuttable presumption that a person paid either retail sales tax or use tax, or both, if they were a Washington resident during the year for which the credit is claimed.

The DOR is allowed to use information provided by the individual to calculate the WFTC

refund amount.

Income reported on applications for the WFTC may be rounded to the nearest dollar. Applicants are required to keep records necessary for the DOR to determine eligibility, and the DOR is allowed to verify that information.

The DOR is authorized to use automated verification tools and other reasonable means to determine if the applicant qualifies as a Washington resident for purposes of the WFTC program. The requirement that the DOR must use an applicant's most recent federal tax filing to calculate the refund is removed.

The sources the DOR may use to verify eligibility requirements is expanded to include federal agencies, Washington agencies, third-party entities, or other persons. The DOR can accept a self-attestation to presumptively validate an individual's eligibility for the WFTC program. A signed attestation is subject to audit verification by the DOR to validate an individual's eligibility for the WFTC.

The bill applies both prospectively and retroactively to January 1, 2023.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill is just technical and administrative changes to the WFTC that will help with the process, and it was requested by the DOR. We now have one year of experience in administration and we have found a couple of areas where we can improve the process. The bill does not change the tone or character of the program. For some applicants, using federal filing language makes sense, but for others it does not, and instead creates unnecessary hurdles for applicants. The program has reached over 190,000 households, putting thousands of dollars into low-income households' pockets to pay for rent and groceries. The program improves racial justice in the tax code.

(Opposed) None.

Persons Testifying: Representative My-Linh Thai, prime sponsor; Steve Ewing, Department of Revenue; and Tracy Yeung, Washington State Budget and Policy Center.

Persons Signed In To Testify But Not Testifying: None.