

Multiple Agency Fiscal Note Summary

Bill Number: 1297 S HB	Title: Working families tax exempt.
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Estimated Cash Receipts

Agency Name	2021-23			2023-25			2025-27		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total \$	0	0	0	0	0	0	0	0	0

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	Non-zero but indeterminate cost and/or savings. Please see discussion.											
Total \$	0.0	0	0	0	0.0	0	0	0	0.0	0	0	0

Estimated Capital Budget Expenditures

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

Prepared by: Ramona Nabors, OFM	Phone: (360) 902-0547	Date Published: Final 3/ 8/2021
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Individual State Agency Fiscal Note

Bill Number: 1297 S HB	Title: Working families tax exempt.	Agency: 014-Joint Legislative Audit and Review Committee
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Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Nick Tucker	Phone: 360-786-7383	Date: 02/26/2021
Agency Preparation: Eric Whitaker	Phone: 3607865618	Date: 03/02/2021
Agency Approval: Keenan Konopaski	Phone: 360-786-5187	Date: 03/02/2021
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 03/03/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill amends the working families tax exemptions, adds new sections to statute, and prescribes penalties.

The working families tax exemption is a state remittance program for state sales tax paid in the previous year and eligibility is based on qualifying for the federal earned income tax credit (EITC). To qualify for the EITC, federal tax filers must meet five basic rules: (1) Show proof of earned income; (2) Have investments income below \$3,650; (3) Have a valid social security number (SSN); (4) Claim a certain filing status; and (5) Be a U.S. citizen or resident alien for the full year. Individual taxpayers must apply to the Department of Revenue (DOR) in the year following the year for which the federal return was filed.

Section 1 describes economic challenges facing many Washington families, the eligibility requirements for the tax preference, and the impact of the earned income tax credit (EITC) on local economies.

- Subsection 5 identifies a public policy objective of stimulating economic activity, promoting racial equity, promoting economic stability for lower-income people, and simplifying the structure of the tax preference.

Section 2 would amend portions of RCW 82.08.0206 and add new sections.

- Subsection 1 modifies the date after which the remittance may be claimed.
- Subsection 2 modifies existing definitions and adds other definitions. The definition of “eligible low-income person” expands who can qualify for the remittance program by including individual taxpayers who file using a tax identification number or a family member without a valid SSN.
- Subsection 3 details the remittance amounts.
- Subsection 4 details the administration of the tax preference.
- Subsection 5 disqualifies remittance amounts from eligibility determinations for any state support program.
- Subsections 6-10 provides guidance to the DOR on matters such as rulemaking, application review, and applicable penalties.
- Subsection 11 stipulates the Legislature must approve the working families tax exemption in the omnibus appropriations act before qualifying taxpayers may claim the remittance.
- Subsection 12 subjects the tax preference to the general administrative provisions of 82.32 RCW.

Section 3 exempts the tax preference from the provisions of RCW 82.32.805 and 82.32.808 do not apply.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill modifies an existing tax preference, and states that the preference is exempted from requirements for a performance statement and expiration date. As a result, it’s unlikely to require a new review by JLARC staff and therefore is assumed to have no fiscal impact.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Department of Revenue Fiscal Note

Bill Number: 1297 S HB	Title: Working families tax exempt.	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☒ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Nick Tucker	Phone: 360-786-7383	Date: 02/26/2021
Agency Preparation: Tyler McLeod	Phone: 360-534-1531	Date: 03/08/2021
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 03/08/2021
OFM Review: Ramona Nabors	Phone: (360) 902-0547	Date: 03/08/2021

Request # 1297-3-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects language in SHB 1297, 2021 Legislative Session.

CURRENT LAW:

The Working Families' Tax Exemption (exemption) is a state sales tax exemption in the form of a refund, equal to a percentage of the federal Earned Income Tax Credit (EITC).

To be eligible for a given tax year, a taxpayer must meet the following requirements:

- Qualified for and was later granted the EITC.
- Resided in Washington for more than 180 days.
- Paid the retail sales tax.

To be implemented, the exemption must be approved in the state operating budget. Taxpayers may apply to the Department of Revenue for a refund. For each year, the exemption amount is \$50 or 10 percent of the EITC, whichever is greater.

The exemption is subject to the tax administration provisions of Chapter 82.32 RCW.

COMPARISON OF HB 1297 (H-0412.1) WITH SHB 1297 (H-1091.1):

SHB 1297 (H-1091.1) adds additional information regarding administrative provisions.

PROPOSED:

Eligibility for the exemption is extended to individuals who would otherwise qualify for the EITC except for the fact that the individuals do not have social security numbers and used an individual tax identification number on their federal income tax return, or the individuals have a spouse or dependent without a social security number.

The calculation for the exemption is changed to include a maximum credit amount with a phase-out based on income and number of children.

Maximum exemption amounts are changed to the following:

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

If the refund for an eligible person, as calculated, is greater than one cent, but less than \$50, the refund amount is \$50.

The refund amounts above must be adjusted for inflation every year, beginning January 1, 2024, based on changes in the average consumer price index for the Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the Bureau of Labor Statistics, United States Department of Labor.

The exemption amounts referenced above are reduced, rounded to the nearest dollar, as follows:

- For eligible persons with no qualifying children, beginning at \$2,500 of income below the federal phase-out income for the prior year, 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 phase-out income for the prior federal tax year, 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 phase-out income for the

prior federal tax year, by 15 percent per additional dollar of income until the minimum credit amount is reached.
- For eligible persons with three or more qualifying children, beginning at \$5,000 of income below the federal phase-out income for the prior federal tax year, by 18 percent per additional dollar of income until the minimum credit amount is reached.

The exemption is only available if it is funded and approved in the state operating budget.

The tax preferences in this legislation are not subject to the transparency and 10-year expiration date provisions of RCW 82.32.805 and 82.32.808.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session in which it is enacted.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

Since it is unknown when or if the Legislature will fund this program, the refund payout amounts are indeterminate.

While this bill does not authorize the Department to issue any Working Families' Tax Exemption refunds, the information inside this fiscal note assumes that during the 2021 Legislative Session the Legislature will approve, in the state operating budget, the issuance of refunds beginning January 2023, for sales and use taxes paid in 2022.

- The first eligible tax year is Calendar Year 2022, with payments being issued in Fiscal Year 2023.
- A "qualifying child" is a dependent who is:
 - 18 or younger at the close of the tax year, or
 - 23 or younger at the close of the tax year AND at least a half-time student.
- Seattle consumer price index was used to inflate refund amounts and chained consumer price index was used to project IRS phase-out thresholds.
- All taxpayers in the dataset used for analysis resided in Washington for more than 180 days during the tax year.
- Participation rates, Year 1 are:
 - Among EITC filers - 88 percent also participate in the Washington program.
 - Among ITIN filers who were "otherwise eligible" for EITC - 68 percent of those eligible participate.
- Participation rates, for subsequent years are:
 - Among EITC filers - 90 percent also participate in the Washington program.
 - Among ITIN filers who were "otherwise eligible" for EITC - 69 percent of those eligible participate.

DATA SOURCES

- Internal Revenue Service (IRS): Individual income tax returns data, Federal Tax Year 2018, source for taxpayer eligibility information (Form 1040, W-2, 1098-T).
- Personal Income Forecast, November 2020, which provides forecasted growth rates for the EITC amount and the number of tax returns.
- Center for Budget and Policy Priorities (2019): "How Much Would a State Earned Income Tax Credit Cost in Fiscal Year 2020?"
- U.S. Bureau of Labor Statistics, chained consumer price index (CPI-Chained), all-urban, historical series.

REFUND PAYOUT ESTIMATES

TOTAL REFUND PAYOUT OF PROGRAM UNDER CURRENT LAW:

State Government (cash basis, \$000):

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FY 2022 -	\$ 0
FY 2023 -	(\$ 83,000)
FY 2024 -	(\$ 86,000)
FY 2025 -	(\$ 88,000)
FY 2026 -	(\$ 89,000)
FY 2027 -	(\$ 91,000)

TOTAL REFUND PAYOUT OF PROGRAM AS EXPANDED IN THIS LEGISLATION:

State Government (cash basis, \$000):

FY 2022 -	\$ 0
FY 2023 -	(\$ 250,000)
FY 2024 -	(\$ 263,000)
FY 2025 -	(\$ 273,000)
FY 2026 -	(\$ 281,000)
FY 2027 -	(\$ 290,000)

TOTAL REFUND PAYOUT INCREASE FOR PROGRAM AS EXPANDED IN THIS LEGISLATION AS COMPARED TO CURRENT LAW:

State Government (cash basis, \$000):

FY 2022 -	\$ 0
FY 2023 -	(\$ 167,000)
FY 2024 -	(\$ 177,000)
FY 2025 -	(\$ 185,000)
FY 2026 -	(\$ 192,000)
FY 2027 -	(\$ 199,000)

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

Since it is unknown when or if the Legislature will fund this program as part of the state operating budget, the expenditures for this legislation are indeterminate.

The following represent the cost to the Department of Revenue if the Legislature does decide to appropriate funds for the program during the 2021 Legislative Session.

ASSUMPTIONS:

- The Department will administer the tax exemption.
- This proposal affects 420,000 taxpayers.
- Expenditures assume that applications will be accepted beginning April 2023, for sales and use taxes paid in 2022.

FIRST YEAR COSTS:

The Department will incur total costs of \$5,083,000 in Fiscal Year 2022. These costs include:

Labor Costs – Time and effort equates to 28.77 FTEs.

- Amend one administrative rule.
- Adopt one new administrative rule.
- Provide increased interpretation and analysis of new laws.

- Program, test and verify computer systems to accept and process exemption/refund applications for payment, including an internet-based application process, processing queues, tracking, imaging, and electronic funds transfers.
- Identify publications, printed materials, web information and media advertising that needs to be created to publicize the tax exemption.
- Organize an exemption group within the Department to administer the exemption, develop policies and procedures, and create a new call center for all exemption phone calls.
- Create printed materials, web information and media advertising.
- Design and develop forms and other materials to enable the processing of exemption applications.
- Answer telephone questions concerning the qualifications and application process for the exemption.
- Respond to email and written correspondence.

Object Costs - \$1,511,200.

- Contract computer system programming.
- Translation services for various media uses.
- Print and mail exemption applications and other correspondence for those who cannot apply electronically.

SECOND YEAR COSTS:

The Department will incur total costs of \$13,128,100 in Fiscal Year 2023. These costs include:

Labor Costs – Time and effort equates to 82.3 FTEs.

- Provide increased technical advice and interpretation services.
- Continuing computer system programming and testing.
- Further development of the exemption group, including organization, policies and procedures and a new call center for all exemption phone calls.
- Further development of printed materials, web information and media advertising.
- Continued design and development of forms and other materials to enable the processing of exemption applications.
- Answer telephone questions concerning the qualifications and application process for the exemption.
- Respond to email and written correspondence.
- Develop training materials for those receiving and processing claims for exemption.

Object Costs - \$4,790,800.

- Contract computer system programming.
- Acquire additional server equipment.
- Acquire additional software licenses and computer support services.
- Acquire printers/scanners for field office kiosks.
- Brochures and other outreach materials for use in field offices.
- Print and mail exemption applications and other correspondence for those who cannot apply electronically.

THIRD YEAR COSTS:

The Department will incur total costs of \$15,177,800 in Fiscal Year 2024. These costs include:

Labor Costs - Time and effort equates to 112.8 FTEs.

- Provide increased technical advice and interpretation services.
- Continued computer system programming and testing.
- Additional staff for system administration, service desk, network and telephony.
- Updating of web and printed informational materials.

- Answer telephone questions concerning the qualifications and application process for the exemption.
- Respond to email and written correspondence.
- Preparation and training of new staff to process and respond to exemption applications.
- Additional staff in the Department's field offices to provide assistance to applicants.
- Establish new accounts for all applications received.
- Receive mail and paper correspondence, key-in application information, process paper documents for scanning, index data items and verify imaging.
- Manually process certain applications, including verification of application claims, calculation of exemption and issuing refunds.
- Review electronic applications, including verification of application claims and issue refunds.
- Review reports, scrutinize data, and examine accounts, then make corrections as necessary. Correspond with taxpayers impacted by these account or application changes to resolve discrepancies.
- Issue billings where refunds were requested or granted in error.
- Resolve disputes concerning denied applications.
- Increase in payroll, human resource, and administrative functions to service new employees.
- Increased collection efforts to investigate, assess and resolve outstanding delinquencies.
- Acquire access to 2022 federal tax information and, through automated and manual systems, receive and use this data to identify accounts for collection where refunds have been made in error.

Object Costs - \$4,370,400.

- Acquire an additional document scanner.
- Contract computer system programming.
- Acquire additional server equipment.
- Acquire additional agent seat licenses for the Telephone Information Center.
- Print and mail exemption applications and other correspondence for those who cannot apply electronically.
- Brochures and other outreach materials for use in field offices.
- Locate and research services for application verification.
- Services for issuing refund payments.
- Warrant filing fees and postage for collection of additional delinquent accounts.

FOURTH YEAR COSTS:

The Department will incur total costs of \$11,902,900 in Fiscal Year 2025. These costs include:

Labor Costs - Time and effort equates to 103.6 FTEs.

- Provide increased technical advice and interpretation services.
- Ongoing computer system maintenance, programming and testing.
- Additional staff for system administration, service desk, network and telephony.
- Update web and printed informational materials.
- Update and revisions of forms and other materials to enable the processing of exemption claims.
- Answer telephone questions concerning the exemption.
- Respond to email and written correspondence.
- Additional staff in the Department's field offices to provide assistance to applicants.
- Establish new accounts for those who have not previously submitted an exemption application.
- Update and maintenance of account information for those who have previously submitted an exemption application.
- Receive mail and paper correspondence, key-in application information, process paper documents for scanning, index data items and verify imaging.

- Manually process certain applications, including verification of application claims, calculation of credit and issuing refunds.
- Review electronic applications including verification of application claims and issuing refunds.
- Review reports, scrutinize data, and examine accounts, then make corrections as necessary. Correspond with taxpayers impacted by these account or application changes to resolve discrepancies.
- Issue billings where refunds were requested or granted in error.
- Resolve disputes concerning denied applications.
- Increased collection efforts to investigate, assess and resolve outstanding delinquencies.
- Increase in payroll, human resource, and administrative functions to service new employees.

Object Costs - \$2,401,000.

- Acquire additional server equipment.
- Acquire additional software licenses and computer support services.
- Print and mail exemption applications and other correspondence for those who cannot apply electronically.
- Brochures and other outreach materials for use in field offices.
- Locate and research services for application verification.
- Services for issuing refund payments.

ONGOING COSTS:

Ongoing costs for the 2025-27 Biennium equal \$23,675,600 and include similar activities described in the fourth year costs. Time and effort equates to 103.1 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

None.

Request # 1297-3-1

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited process to amend WAC 458-20-100, titled: "Informal administrative reviews." The Department will also adopt one new rule under chapter 458-20 WAC.

Persons affected by this rule-making would include all Washington State residents that qualify or would otherwise qualify (if they used a TIN instead of a SSN the prior year) for the federal earned income tax credit.