

Multiple Agency Fiscal Note Summary

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| Bill Number: 1477 S HB | Title: Working families' tax credit |
|-------------------------------|--|

Estimated Cash Receipts

NONE

Estimated Operating Expenditures

| Agency Name | 2023-25 | | | | 2025-27 | | | | 2027-29 | | | |
|--|------------|------------------|------------------|------------------|------------|------------------|------------------|------------------|------------|------------------|------------------|------------------|
| | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total |
| Joint Legislative Audit and Review Committee | .1 | 20,000 | 20,000 | 20,000 | .0 | 0 | 0 | 0 | .1 | 26,600 | 26,600 | 26,600 |
| Department of Revenue | 5.2 | 7,221,400 | 7,221,400 | 7,221,400 | 6.2 | 7,022,500 | 7,022,500 | 7,022,500 | 6.2 | 6,914,600 | 6,914,600 | 6,914,600 |
| Total \$ | 5.3 | 7,241,400 | 7,241,400 | 7,241,400 | 6.2 | 7,022,500 | 7,022,500 | 7,022,500 | 6.3 | 6,941,200 | 6,941,200 | 6,941,200 |

Estimated Capital Budget Expenditures

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|--|------------|----------|----------|------------|----------|----------|------------|----------|----------|
| | 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

| | | |
|---------------------------------------|---------------------------------|---|
| Prepared by: Cheri Keller, OFM | Phone: (360) 584-2207 | Date Published: Final 2/17/2023 |
|---------------------------------------|---------------------------------|---|

Individual State Agency Fiscal Note

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|-------------------------------|--|---|
| Bill Number: 1477 S HB | Title: Working families' tax credit | 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:

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Account | | | | | |
| General Fund-State 001-1 | 20,000 | 0 | 20,000 | 0 | 26,600 |
| Total \$ | 20,000 | 0 | 20,000 | 0 | 26,600 |

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: Rachele Harris | Phone: 360-786-7137 | Date: 02/11/2023 |
| Agency Preparation: Pete van Moorsel | Phone: 360-786-5185 | Date: 02/14/2023 |
| Agency Approval: Eric Thomas | Phone: 360 786-5182 | Date: 02/14/2023 |
| OFM Review: Gaius Horton | Phone: (360) 819-3112 | Date: 02/15/2023 |

Part II: Narrative Explanation

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

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

The bill expands eligibility for the Working Families' Tax Credit to persons filing federal tax returns as "married filing separately." The bill requires JLARC to notify DOR and the Legislature if the credit will expire pursuant to JLARC's review of the credit.

Section 1 amends RCW 82.08.0206(2) by expanding the definition of "eligible low-income person" to include persons filing federal tax returns as "married filing separately."

Section 2 requires that DOR report to the Legislature and post on its website a report including relevant data collected from administration of the WFTC, including demographic data. This report is due by December 31, 2025 and every 2 years thereafter.

TAX PERFORMANCE STATEMENT DETAILS

Section 3 amends the uncodified tax preference performance statement (TPPS). Currently the TPPS requires the Joint Legislative Audit and Review Committee (JLARC) to review the preference in 2028 and every 10 years thereafter, and notes that if a review finds the Working Families' Tax Credit does not provide meaningful financial relief to low-income and middle-income households, RCW 82.08.0206 expires at the end of the calendar year two years after the final JLARC report containing the finding is adopted.

The amendment to the TPPS requires JLARC to provide written notice of the expiration date of the WFTC to DOR, the House Chief Clerk, the Secretary of the Senate, the Office of the Code Reviser, and others as appropriate.

Section 4 provides the expiration date provisions in RCW 82.32.805 does not apply to the act.

Section 5 notes the act takes effect January 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC staff would contact and work with the Department of Revenue and other appropriate offices immediately after passage of the bill to ensure all parties agree on the impacts of this bill, and that appropriate contact information for affected parties and others are identified and available, if needed in the future.

Costs associated with the 2028 scheduled review of the Working Families' Tax Credit are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing contacts, determining contact processes, and collecting appropriate information.

This audit will require an estimated 2 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake

and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately \$22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

| Account | Account Title | Type | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|-----------------|---------------|-------|---------|---------|---------|---------|---------|
| 001-1 | General Fund | State | 20,000 | 0 | 20,000 | 0 | 26,600 |
| Total \$ | | | 20,000 | 0 | 20,000 | 0 | 26,600 |

III. B - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | 0.1 | | 0.1 | | 0.1 |
| A-Salaries and Wages | 12,900 | | 12,900 | | 17,200 |
| B-Employee Benefits | 4,100 | | 4,100 | | 5,400 |
| C-Professional Service Contracts | | | | | |
| E-Goods and Other Services | 2,700 | | 2,700 | | 3,600 |
| G-Travel | 300 | | 300 | | 400 |
| J-Capital Outlays | | | | | |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| Total \$ | 20,000 | 0 | 20,000 | 0 | 26,600 |

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*

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------|---------|---------|---------|---------|---------|---------|
| Research Analyst | 126,694 | 0.1 | | 0.1 | | 0.1 |
| Support staff | 89,671 | | | | | 0.1 |
| Total FTEs | | 0.1 | | 0.1 | | 0.1 |

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

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

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

| | | |
|-------------------------------|--|--|
| Bill Number: 1477 S HB | Title: Working families' tax credit | Agency: 140-Department of Revenue |
|-------------------------------|--|--|

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|----------------------|------------------|------------------|------------------|------------------|------------------|
| FTE Staff Years | 5.0 | 5.4 | 5.2 | 6.2 | 6.2 |
| Account | | | | | |
| GF-STATE-State 001-1 | 3,639,400 | 3,582,000 | 7,221,400 | 7,022,500 | 6,914,600 |
| Total \$ | 3,639,400 | 3,582,000 | 7,221,400 | 7,022,500 | 6,914,600 |

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: Rachelle Harris | Phone: 60-786-7137 | Date: 02/11/2023 |
| Agency Preparation: Tyler McLeod | Phone: 60-534-1531 | Date: 02/16/2023 |
| Agency Approval: Marianne McIntosh | Phone: 60-534-1505 | Date: 02/16/2023 |
| OFM Review: Cheri Keller | Phone: (360) 584-2207 | Date: 02/17/2023 |

Request # 1477-2-1

Part II: Narrative Explanation

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

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

Note: This fiscal note reflects language in SHB 1477, 2023 Legislative Session.

COMPARISON OF SUBSTITUTE BILL WITH ORIGINAL BILL:

The substitute clarifies language regarding applicants who filed their federal income tax return under the "married filing separately" status, clarifies language regarding the three year claim period, adjusts language regarding the report required by the Department of Revenue (department), and adjusts the language regarding the report required by the Joint Legislative Audit and Review Committee (JLARC).

CURRENT LAW:

The "Working Families Tax Credit" (WFTC) is a credit in the form of a refund of sales and use tax provided to eligible low-income individuals. This credit is based in part on the federal Earned Income Tax Credit (EITC).

To be eligible for the credit, individuals must qualify for the EITC or would otherwise qualify for the EITC except that they used an Individual Tax Identification Number instead of a Social Security Number to file their federal income tax return.

The maximum credit amount varies depending on an individual's income and number of qualifying children. The maximum credits are:

- \$300 for eligible persons with no qualifying children.
- \$600 for eligible persons with one qualifying child.
- \$900 for eligible persons with two qualifying children.
- \$1,200 for eligible persons with three or more qualifying children.

The minimum payment is \$50, regardless of the number of qualifying children.

The credit amounts are to 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.

For payments based on tax year 2022, the credit amounts 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 12% 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% 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 18% 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 24% per additional dollar of income until the minimum credit amount is reached.

The percentage reduction rates will be adjusted annually to align the WFTC maximum qualifying income with the maximum federal adjusted gross income limit for the EITC.

The eligible age limit is 25-64 years of age for individuals with no qualifying children.

PROPOSAL:

Request # 1477-2-1

This bill does the following:

Expands eligibility for the WFTC to all individuals who filed their federal income tax return under the “married filing separately” status.

Allows a person to apply for any WFTC payments for which they were eligible but did not claim for up to three years after the end of the calendar year in which the federal income tax return for that tax year was legally due for federal income tax purposes, without regard to any federal extensions. Applications for these payments must use the federal tax filing for the tax year for which a refund is being claimed to calculate the refund.

Requires the department to submit a report to the Finance Committee of the House of Representatives and the Ways and Means Committee of the Senate on a biennial basis. The report must include relevant data collected from administration of the WFTC, including demographic data. The first biennial report is due December 31, 2025, and must also be made available on the department’s public website.

EFFECTIVE DATE:

This proposal takes effect on January 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

This proposal has no impact to taxes administered by the department.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- This legislation will affect 6,000 persons who will be newly eligible for the WFTC.
- Expenditures assume the department will begin accepting applications April 2024, for sales and use taxes paid in 2023.

FIRST YEAR COSTS:

The department will incur total costs of \$3,639,400 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 4.96 FTEs.

- Amend one administrative rule.
- Set up, program, and test computer system changes.
- Update web pages, videos, publications, and forms.
- Provide administrative support.
- Provide supervisory functions for multiple teams.
- Review and approve reports, data, and returns.
- Perform desk examinations and complex cases.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Report fraud investigations.
- Provide revenue impact data for fiscal notes for tax-related initiatives.

Object Costs - \$3,092,000.

- Increased cost of refund payouts to eligible participants of \$3,000,000.
- Postage and Printing.

- Contract computer system programming.
- Computer services.
- Software.
- Training.
- Travel.

SECOND YEAR COSTS:

The department will incur total costs of \$3,582,000 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 5.4 FTEs.

- Continue updating of web pages, videos, publications, and forms.
- Provide administrative support.
- Provide supervisory functions for multiple teams.
- Review and approve reports, data, and returns.
- Perform desk examinations and complex cases.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Report fraud investigations.

Object Costs - \$3,027,700.

- Increased cost of refund payouts to eligible participants of \$3,000,000.
- Postage and Printing.
- Software.
- Training.
- Travel.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$7,022,500 and include similar activities described in the second-year costs. Time and effort equate to 6.2 FTEs each year.

The increased refund payout amounts to eligible participants:

- FY 2026: \$2,900,000
- FY 2027: \$2,800,000
- FY 2028: \$2,800,000
- FY 2029: \$2,800,000

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| FTE Staff Years | 5.0 | 5.4 | 5.2 | 6.2 | 6.2 |
| A-Salaries and Wages | 329,300 | 354,900 | 684,200 | 818,800 | 818,800 |
| B-Employee Benefits | 108,600 | 117,100 | 225,700 | 270,200 | 270,200 |
| C-Professional Service Contracts | 61,600 | | 61,600 | | |
| E-Goods and Other Services | 103,900 | 88,200 | 192,100 | 188,800 | 184,000 |
| G-Travel | 1,500 | 1,500 | 3,000 | 3,000 | 3,000 |
| J-Capital Outlays | 34,500 | 20,300 | 54,800 | 41,700 | 38,600 |
| N-Grants, Benefits & Client Services | 3,000,000 | 3,000,000 | 6,000,000 | 5,700,000 | 5,600,000 |
| Total \$ | \$3,639,400 | \$3,582,000 | \$7,221,400 | \$7,022,500 | \$6,914,600 |

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

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|------------------------------|---------|---------|---------|---------|---------|---------|
| EMS BAND 4 | 126,619 | 0.0 | | 0.0 | | |
| INVESTIGATOR 3 | 68,076 | 1.8 | 2.7 | 2.3 | 3.5 | 3.5 |
| IT SYS ADM-JOURNEY | 92,844 | 0.2 | | 0.1 | | |
| MGMT ANALYST4 | 73,260 | 0.4 | 0.2 | 0.3 | 0.2 | 0.2 |
| PUBLIC BENEFITS SPECIALIST 2 | 50,592 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| PUBLIC BENEFITS SPECIALIST 3 | 54,492 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| PUBLIC BENEFITS SPECIALIST 4 | 57,324 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| PUBLIC BENEFITS SPECIALIST 5 | 61,632 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| TAX POLICY SP 2 | 75,120 | 0.0 | | 0.0 | | |
| TAX POLICY SP 3 | 85,020 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| TAX POLICY SP 4 | 91,524 | 0.0 | | 0.0 | | |
| WMS BAND 3 | 107,685 | 0.0 | | 0.0 | | |
| Total FTEs | | 5.0 | 5.4 | 5.2 | 6.2 | 6.2 |

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill 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 458-20-285, titled: "Working families tax credit." Persons affected by this rulemaking would include individuals eligible for the WFTC.