STATE OF WASHINGTON

DEPARTMENT OF REVENUE

OFFICE OF THE DIRECTOR

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December 17, 2012

TO: Tom Hoemann, Secretary
              Washington State Senate

              Barbara Baker, Chief Clerk
              Washington State House of Representatives

FROM: Brad Flaherty, Director

SUBJECT: **WORKING FAMILY TAX EXEMPTION**

The Department of Revenue (Department) is submitting this report pursuant to RCW 82.08.02061:

> *The department must assess the implementation of the working families' tax exemption in a report to the legislature to identify administrative or resource issues that require legislative action.*

This report contains a brief summary of the implementation activity to date for the Working Family Tax Exemption (WFTE) program (adopted by the 2008 Legislature) and identifies future resources and legislative action required to continue implementation of this program.

This report was prepared by the Department's Special Programs Division. If you have questions about this program, please contact the Department's Assistant Director of Legislation and Policy, Drew Shirk at (360) 534-1547.

cc: The Honorable Ed Murray, Chair Senate Ways & Means
       The Honorable Ross Hunter, Chair House Ways & Means
       Stan Marshburn, Director, Office of Financial Management
       Jennifer Ziegler, Director of Legislative Affairs, Office of the Governor
       Members, Senate Ways and Means Committee
       Members, House Ways and Means Committee

Working Family Tax Exemption
Summary Report from the Department of Revenue
December 2012

This report is required by RCW 82.08.02061. It summarizes the implementation activity of the Working Family Tax Exemption (WFTE) enacted in 2008 under RCW 82.08.0206 and identifies administrative or resource issues that require legislative action. This law created a sales tax exemption in the form of a refund for low-income families, using the federal Earned Income Tax Credit (EITC) as a proxy for sales tax paid.

Note: The program was initially considered a credit, but later determined to be an exemption. Any reference to Working Family Tax Credit (WFTC) should now be Working Family Tax Exemption (WFTE).

Summary of Law

The 2008 Legislature found that many Washington families do not earn enough annually to keep pace with increasing health care, child care, and work-related expenses. Because the state relies so heavily on sales tax revenue, families in Washington with the lowest incomes pay proportionately four to five times as much in state taxes as the most affluent households. To help address this, the legislature passed the WFTE.

The WFTE is calculated using federal EITC. The exemption amount is equal to 10 percent of the granted EITC amount or $50, whichever amount is higher. In order to qualify for the WFTE an applicant must first be eligible for and have been granted the federal EITC, been a Washington resident for at least 180 days, and have paid Washington sales tax.

The application method to be used by the Department of Revenue (Department) must include alternative filing methods, such as electronic and/or paper filing. The application for the credit would be made in the year following the federal tax year that the EITC was granted (e.g., the application in 2013 would be for the federal EITC granted for 2012 tax year). The Department may use best available data to calculate the amount of the refund. The law also provides the Department the options of allowing for electronic funds transfer, an advertising campaign for the exemption, and sending notices to potential eligible persons.

Stakeholders

The following organizations were key stakeholders in the development of the WFTE project and were included in the project planning:

- Washington Budget & Policy Center
- United Way of King County
- Department of Commerce
- Statewide Poverty Action
- Washington Appleseed
- Children's Alliance
- UW School of Social Work
- CCH Small Firm Services
- Washington Asset Building Coalition
- Democratic Caucus

Program Activity Summary

In July 2008 the Department began work on the development of the WFTE program, which included:

- Developing computer system requirements;
- Hiring two computer system contractors;
- Reallocating two existing Department programmers;
- Rule drafting;
- Stakeholder outreach;
- Hiring a WFTE program coordinator and supervisor for the project development;
- Developing internal procedures and work processes;
- Developing a public outreach program, including forms and publications;
- Establishing work unit positions and preparing for fiscal year 2012 hiring; and
- Initiating acquisition of the unit facility and equipment.

In September 2008, the WFTE program was suspended by Governor Gregoire due to budget shortfalls.

In July 2010, the legislature allocated $1,192,100 in fiscal year 2011 to the Department to again begin the development of the program. The new allocation dollars were for the initial start-up costs only and were aimed at development of the necessary computer systems. At the time there was an expectation that the Department would begin issuing refunds in January 2012.

In September 2010, the Director of the Department of Revenue suspended all work on the program due to budget shortfalls.   The remaining start-up funding allocated to the Department was removed by the legislature in the supplemental budget for fiscal year 2011 during the 2011 Legislative Session. At the time of suspension, it was estimated that 394,000 Washington citizens may qualify for the credit. The estimated cost of funding the credit payments was $71 million.

Work Completed

From July 2010 through October 31, 2010, the Department completed the following:

- System requirements document outlining the steps necessary to build the WFTE internal and external systems;
- Design of a paper claim form to be used by applicants as an alternate form of filing (See Attachment A);
- An online application process to file for the WFTE including screen designs (See Attachment B); and
- An outline of the initial workflow process for administration of the exemption, which included the application and payment processes and the internal workflow processes for approving and denying applications (See below).
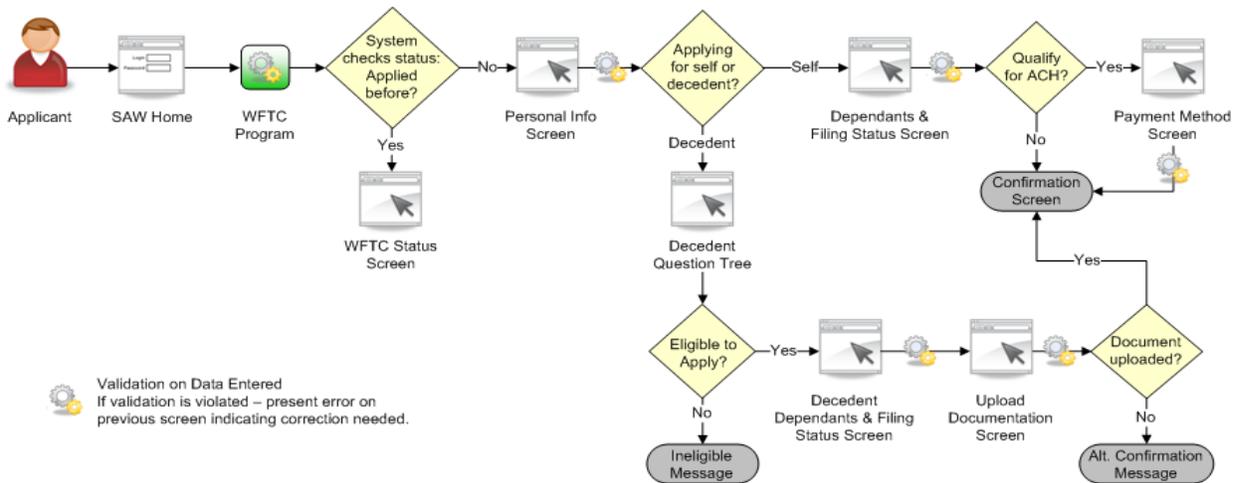
The following diagrams illustrate a few of the processes for the application and payment of the WFTE
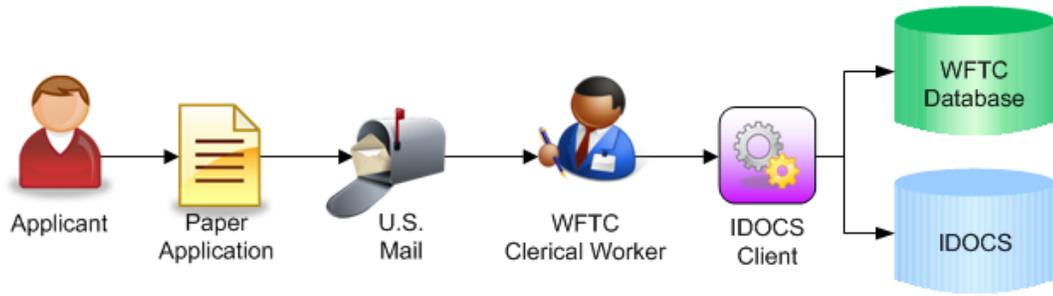
Apply on-line for self
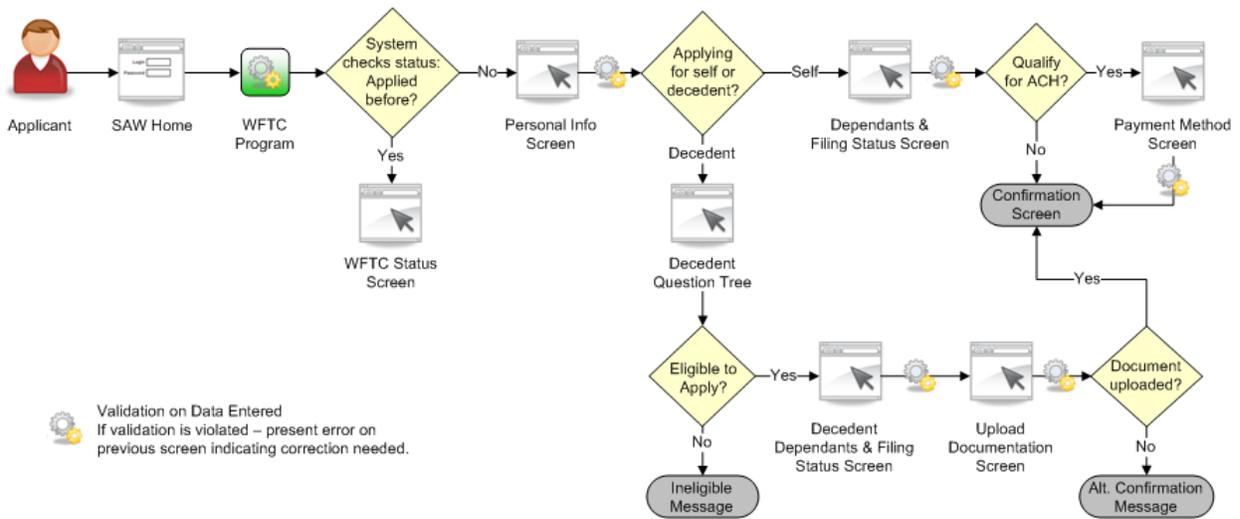
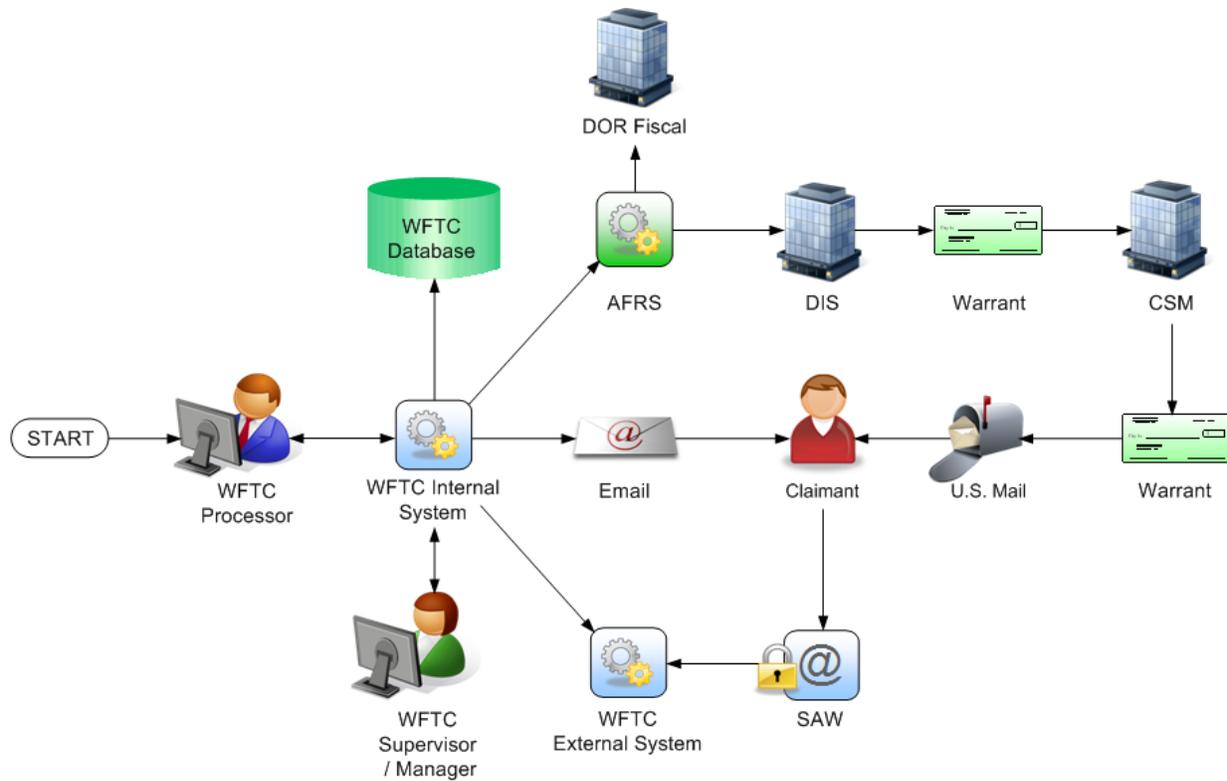Last Updated: 10/26/10

Apply Online for Deceased Person
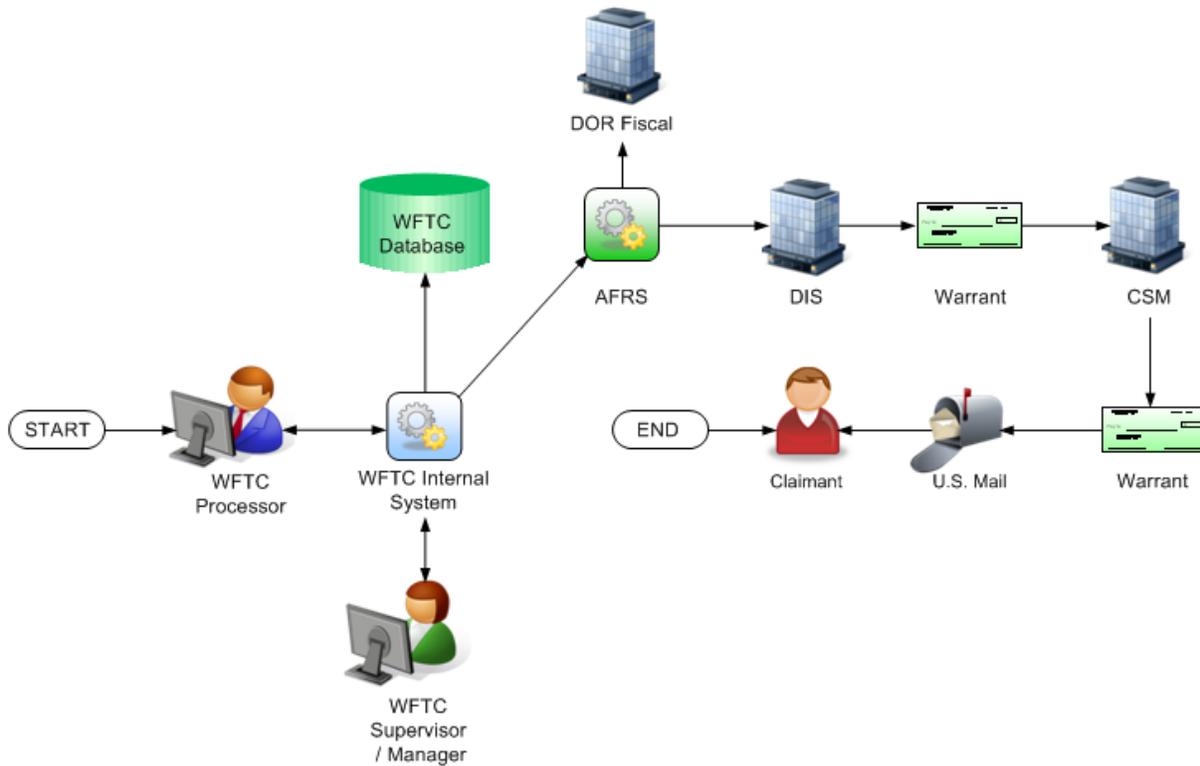

Last Updated: 10/26/10

Apply With a Paper Application

Payment via Warrant for Online Filers – Communication Flow

Payment via Warrant for Applications Filing by Paper – Communication Flow

Key Assumptions

In the development and requirements planning for the WFTE program several key assumptions had to be made. Below is a list of these assumptions:

- There would be no expectation to provide a joint filing option with the federal income tax return in the short term. This feature could not be implemented without approval from the IRS, who was unable to commit to a timeframe for allowing the Department to participate in joint filing.
- The Department would have adequate time to contract out to a third party vendor the critical I.S. development work needed for implementation.
- That the IRS requirements surrounding the use and access to their EITC data would not change from what they were in 2010.
- The Department would be able to locate and prepare a facility to house staff for administering the WFTE.
- The Department would receive from the Legislature the necessary appropriation to cover the cost to complete the development and implementation of the WFTE program.

Concerns with Current Law

During the initial implementation process the Department identified language in the current law (RCW 82.08.0206) that offers administrative challenges.

Issue -
One challenge is with the word "granted." Current law states:

> *The taxpayer's EITC must be granted by the IRS.*

The timeframe to receive *verified* federal EITC data from the IRS is 18 months. This timeframe creates process complications because the credit is supposed to be given the following year. If it takes 18 months to receive verified data that the EITC has been granted, the payment of the exemption would be almost two years after the granting of the EITC.

Recommendation -
The Department recommends the legislature clarify that the Department will use data provided by the applicant to process the exemption and then later verify the granted EITC amount once data is received from the IRS.
- If amounts were overpaid or paid in error, the Department would either reduce the taxpayer's exemption in the following year by the overpaid amount or seek repayment.

Issue –
The law does not prevent a deceased person from qualifying for the exemption. If a person passes away during the tax year and qualifies for and is granted the EITC, then their estate or heirs would be able to file for the WFTE.

Recommendation –
The Department recommends the legislature clarify whether the Department should process applications for deceased individuals.

Implementation Requirements for the WFTE
While the initial work completed on the WFTE has been retained, it would need to be thoroughly reviewed as technology has changed since work stopped in 2010. Also, there is a significant amount of work in other areas that would still be required before applications could be accepted and refunds provided. If the WFTE were to be reauthorized by the legislature, the following estimated expenditures would be necessary to complete the implementation.

Estimated Revenue Impact if Authorized
This assumes an 18 month implementation time (July 2013 – January 2015) with the Department taking applications for calendar year 2014 WFTE beginning January 1, 2015. Estimates assume the WFTE would be calculated at 10 percent of the federal EITC or $50, whichever is greater.

	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**
	Participation 90%	Participation 93%	Participation 95%	Participation 95%
Number of Applicants	405,810	423,865	437,646	442,348
Amount	$ 95,953,086	$ 103,650,994	$ 110,292,635	$ 114,610,458

Estimated Expenditures Needed to Implement
The following table shows the FTE staff and expenditures needed to implement the WFTE.

	Fiscal Year 2014	Fiscal Year 2015	2013-2015 Total	2015-17 Biennium	2017-19 Biennium
	5.8	31.3	18.6	35	37.6
Fund					
GF-State 001	$1,521,300	$4,437,200	$5,958,500	$7,687,200	$7,086,900
Total	**$1,521,300**	**$4,437,200**	**$5,958,500**	**$7,687,200**	**$7,086,900**

First Year Costs
The Department will incur costs of $1,521,300 in Fiscal Year 2014. These costs include:

Labor Costs - Time and effort equates to 5.8 FTEs. These costs are incurred for:
- Organizing a group to receive and process claims for remittance.
- Programming to set up, test and verify the computer systems to create internal systems to process remittance applications for payment, including an internet based application process, processing queues, tracking, imaging, and electronic funds transfers.

Object Costs - $908,000. These costs are to:
- Acquire Contract Programmers
- Quality Assurance
- SQL License
- Servers

Second Year Costs
The Department will incur costs of $4,437,200 in Fiscal Year 2015. These costs include:

Labor Costs - Time and effort equates to 31.3 FTEs. These costs are incurred for:
- Continuing programming to create the systems required to accept and process applications.
- Creating printed materials, web information, and media advertising.
- Designing and developing forms and other materials to enable the processing of exemption claims.
- Answering telephone questions concerning the exemption credit.
- Processing internet and mail applications including verification of application claims and issuing warrants.
- Adopting one new administrative rule.

Object Costs - $2,028,500. These costs are to:
- Build out additional facility space including meeting rooms and other employee space.
- Acquire a keycard system.
- Acquire a document scanner, copier rental, servers and server software.
- Make telephone system improvements including telecom room equipment and cabling.
- Acquire additional 1-800 and T1 telephone lines.
- Acquire translation services for brochures and forms.

- Print and mail notices to practitioners.
- Print and mail notices to those who would qualify for the Working Families' Tax Exemption based on the best information available.
- Print and mail application forms for those not applying electronically.
- Print and mail warrants.
- Acquire on-line skip-tracing services.

Third Year Costs:
The Department will incur costs of $4,316,500 in Fiscal Year 2016. These costs include:

Labor Costs - Time and effort equates to 34.5 FTEs. These costs are incurred for:
- Answering telephone questions concerning the exemption credit.
- Support and maintenance of computer systems for both programming and hardware systems needs.
- Processing of internet and mail applications.
- Updating printed materials, web information, and media advertising.

Object Costs - $1,039,500. These costs are to:
- Print and mail notices to practitioners
- Print and mail notices to those who would qualify for the Working Families' Tax Exemption based on the best information available.
- Print and mail application forms for those not applying electronically.
- Print and mail warrants.

Ongoing Costs:
Ongoing costs equal $3,370,700 for Fiscal Year 2017 and $7,086,900 for the 2017-2019 Biennium. These costs are for activities similar to those described for the third year costs. Additionally, beginning in Fiscal Year 2018, the Initial Call Center will begin compliance and collection of incorrect exemption claims. Time and effort equates to 35.5 FTEs for Fiscal Year 2017, 36.9 FTEs for Fiscal Year 2018 and 38.3 FTEs for Fiscal Year 2019.

Closing
The Department is prepared to move forward if the legislature chooses to reauthorize and fund the program at a future date.

Working Family
Tax Credit Application

1) Addressee
   Mailing Address 1
   Mailing Address 2
   City, State, Zip

Enter your Social Security Number

☐☐☐ - ☐☐ - ☐☐☐☐

Has Your Address Changed? If yes, write changes below.

Address *(Street, City, State, Zip)*: _____

2) ☐ Check this box if no qualifying children.

Use your 20xx Federal Income Tax Return, Schedule Earned Income Credit (EIC) to provide the following for up to three qualifying children:

Child's First & Last Name	Child's Last 4 of SSN	Child's Year of Birth
_____	☐☐☐☐	☐☐☐☐
_____	☐☐☐☐	☐☐☐☐
_____	☐☐☐☐	☐☐☐☐

Enter the amount of your EIC $ ☐☐,☐☐

3) Filing Status

Check your filing status:
☐ Married filing jointly   ☐ Married filing separately   ☐ Head of household
☐ Single   ☐ Qualifying widow(er) with dependent child
If you filed jointly, enter spouse's full name and Social Security Number.

Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

SSN ☐☐☐ - ☐☐ - ☐☐☐☐

4) Filing for a Deceased Person

☐ Check this box if you are filing for a deceased person. If checked, complete section 6 on the back of this form.

5) *I was a Washington State resident during 20xx for at least 180 days and paid sales tax during that time. I affirm I have filed my 20xx Federal Income Tax Return and the information on this application is the same as what I submitted to the Internal Revenue Service. I understand the Department will verify this information with the Internal Revenue Service.*

Signature _____ Date _____

Phone Number ☐☐☐ ☐☐☐ - ☐☐☐☐

For tax assistance or to request this document in an alternate format, visit http://dor.wa.gov or call 1-800-647-7706. Teletype (TTY) users may call (360) 705-6718.

8600710818100810

(9-30-10)

6) <u>Filing for a Deceased Person</u>

Deceased person's full name: _____

Deceased person's SSN: ☐☐☐ - ☐☐ - ☐☐☐☐

What is your relationship to deceased? _____

Working Family Tax Credit Application

①——②——③——✓

Apply:

Enter your name and Social Security Number

First [   ]   Middle [ ]   Last [   ]

SSN [   ]

Retype SSN [   ]

....

Mailing address
(Fill in your information even if you are applying for a deceased person's credit)

Street [   ]

City [   ]   State/Province [WA ▼]

Country [United States ▼]   Postal code [   ] – [   ]

Daytime phone ([   ]) [   ] – [   ]

....

◉ I am applying for myself

○ I am applying for a deceased person's credit

Reset   Next ⊙

Working Family Tax Credit Application

① ─ ② ─ ③ ─ ✓

Assistance: Email ✉ | 1 800.647.7706 | FAQs

Children:

☐ Check this box if no qualifying children

Use your 20XX Federal Income Tax Return, Schedule Earned Income Credit (EIC) to provide the following for up to three qualifying children:

Child's first name	Last name	Last four of child's SSN	Child's year of birth

Enter the amount of your EIC $ [   ]

· ·

Filing status

How did you file your 20XX Federal Income Tax return forms?

☐ Married jointly   ☐ Single

☐ Married seperately   ☐ Qualifying widow(er) with dependent child

☐ Head of Household

If married filing jointly is checked, enter spouse's name and Social Security Number.

First name	Last name	SSN

By clicking "Next," I affirm the 2011 Federal Income Tax Returns are filed for either myself or the person listed as the deceased. Either I or the deceased was a Washington State resident during 2011 for at least 180 days and paid sales tax during that time. The information on this application is the same as what was submitted to the Internal Revenue Service (IRS). I understand the Department will verify this information with the IRS.

◀ Back   Reset   Next ▶

Working Family Tax Credit Application

① — ② — ③ — ✓

Assistance: Email ✉ | 1 800.647.7706 | FAQs

What is your relationship to the deceased?

Spouse ▼

Deceased's name and SSN

First [   ]   Middle [ ]   Last [   ]

SSN [   ]

Retype SSN [   ]

. . . .

Filing status

What was the filing status on the deceased's 20XX Federal Income Tax Return Forms?

☐ Married jointly   ☐ Single

☐ Married seperately   ☐ Qualifying widow(er) with dependent child

☐ Head of Household

If married filing jointly is checked, enter spouse's name and Social Security Number.

First name   Last name   SSN

[   ]   [   ]   [   ]

By clicking "Next," I affirm the 2011 Federal Income Tax Returns are filed for either myself or the person listed as the deceased. Either I or the deceased was a Washington State resident during 2011 for at least 180 days and paid sales tax during that time. The information on this application is the same as what was submitted to the Internal Revenue Service (IRS). I understand the Department will verify this information with the IRS.

⟨ Back   Reset   Next ⟩

Working Family Tax Credit Application

Assistance: Email ✉ | 1.800.647.7706 | FAQs

Children:

☐ Check this box if no qualifying children

Use the deceased's 20XX Federal Income Tax Return, Schedule Earned Income Credit (EIC) to provide the following for up to three qualifying children:

Child's first name	Last name	Last four of child's SSN	Child's year of birth

Enter the amount of deceased's EIC $ _____

By clicking "Next," I affirm the 2011 Federal Income Tax Returns are filed for either myself or the person listed as the deceased. Either I or the deceased was a Washington State resident during 2011 for at least 180 days and paid sales tax during that time. The information on this application is the same as what was submitted to the Internal Revenue Service (IRS). I understand the Department will verify this information with the IRS.

‹ Back   Reset   Next ›

Working Family Tax Credit Application

Deceased Document Upload:

In order to continue the application process, you must provide the following documentation:

Copy of *Deceased's Death Certificate*
Copy of Deceased's Will

Click the *"Attach documents now"* button to upload the required documents. Or select *"Mail or upload documents later"* if you do not have electronic copies of the required documents.

📄 **Attach documents now**

Acceptable file types: .jpg, .xls, .doc., pdf., .tif, .txt, .png, .gif

☐ Mail or upload documents later

‹ Back

Next ›

Working Family Tax Credit Application

Deceased Document Upload:

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Click the *"Attach documents now"* button to upload the required documents. Or select *"Mail or upload documents later"* if you do not have electronic copies of the required documents.

📄 **Attach documents now**

Acceptable file types: .jpg, .xls, .doc., pdf., .tif, .txt, .png, .gif

death_certificate.jpg   Remove

joesmith_will.doc   Remove

☐ Mail or upload documents later

‹ Back   Next ›

Working Family Tax Credit Application

① —— ② —— ③ —— ✓

Assistance: Email ✉ | 1.800.647.7706 | FAQs

Select your payment method

○ **Direct deposit** ⌄⌄

○ **Check by mail** (A check will be sent to the mailing address you entered.)

‹ **Back**

Submit ›

Working Family Tax Credit Application

①——②——**③**——✓

Assistance: Email ✉ | 1.800.647.7706 | FAQs

Select your payment method

◉ **Direct deposit**   ≫

Routing/Transit # [_____]

This number must begin with 0, 1, 2, or 3 and be nine
digits long or your direct deposit will not go through

SAMPLE

Routing Number   Account Number   Check Number

Bank Account # [_____]

○ Checking   ○ Savings

By selecting the direct deposit option, I authorize the Washington State Department of Revenue to
make a one-time deposit to the account listed above.

I also authorize the Department to debit this account for the amount of any credit made in error.
This authorization is to remain effective until the Department has received written notification
and had reasonable time to act on it.

○ **Check by mail** (A check will be sent to the mailing address you entered.)

‹ Back   **Submit ›**

Working Family Tax Credit Application

①—②—③—✓

Assistance: Email ✉ | 1.800.647.7706 | FAQs

Thank you. We received the application and it is being processed.

You can print this page for your records.

Check the status of the application, submit questions or get other information by logging back in at any time. Allow XX business days for the application to be reviewed.

Reference Number: A1234A123A123

Back to SecureAccess Washington main

Return to the Working Family Tax Credit main page

Working Family Tax Credit Application

1 — 2 — 3 — ✓

Assistance: Email ✉ | 1.800.647.7706 | FAQs

To continue the application process, you must provide the following documentation:

Copy of Deceased's Death Certificate
Copy of Deceased's Will

The application will remain incomplete until you mail or upload these documents. You have 60 days to submit the documents or your application will be denied and you need to reapply.

The documents may be mailed to our office at the address below, or uploaded from the Working Family Tax Credit home page.

Please mail the documentation to:

6500 Linderson Way SW, Suite ?
Tumwater, WA 98501

You can print this page for your records. Check the status of the application, submit questions or get other information by logging back in at any time.

Reference Number: A1234A123A123

Back to SecureAccess Washington main

Return to the Working Family Tax Credit main page

Working Family Tax Credit

2011 Application Status:

Application submitted by **Eric Jones**

Date received: 03/10/2012

Estimated Processing Time: XX business days

Status: Claim approved. Estimated time to payment: XX days.

SecureAccess Washington main

Working Family Tax Credit main
(WA State Dept. of Revenue)

Upload Document

Messages

	From	Subject	Received
Inbox	**WA State Dept. of Revenue**	**Re:** Tax credit	9/28/2012
Sent			

Type your message

Can you tell me how much the rebate will be? Thanks |

Send ❯