# 2023-25 BIENNIAL BUDGET DECISION PACKAGE

**Agency:** Department of Revenue - 140

**DP code/title:** RE – WFTC Rebate Technical Correction

**Budget period:** 2023-25 Biennium

**Budget level:** PL

## Agency RecSum text:

A conflict exists between the Working Families Tax Credit legislation, that treats the payments as a reduction of State sales tax revenue, and the budget bill, which includes an appropriation requiring payments be treated as expenditures. The appropriation placed in the departments FY23 budget is carried forward into the 2023-25 biennial budget. The existing conflict between the budget bill which treats the payments as an expenditure and the legislation which by design, treats the payments as a reduction of revenue is problematic for the department. Therefore, the department is requesting that the appropriation authority provided in the 2023-25 biennium carryforward level of the budget be removed at policy level which will allow the department to issue the payments as a reduction of revenue as required by ESHB 1297.

## Fiscal detail

| Operating Expenditures | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|---|---|---|---|
| General Fund 001-1 | (232,000,000) | (232,000,000) | 0 | 0 |
| Total Expenditures | (232,000,000) | (232,000,000) | 0 | 0 |
| Biennial Totals | ($464,000,000) | | $0 | |
| **Object of Expenditure** | **FY 2024** | **FY 2025** | **FY 2026** | **FY 2027** |
| Obj. N | (232,000,000) | (232,000,000) | 0 | 0 |

## Package description

During the 2021 Session, the Legislature passed ESHB 1297 requiring the department to implement a new WFTC Program.

This new program requires the department to issue refunds to eligible individuals who paid Washington state and local sales and use taxes.

ESHB 1297 states that Chapter 82.32 RCW applies to the administration of the legislation, and further states "The legislature categorizes this tax preference as one intended to provide tax relief for certain individuals as indicated in RCW 82.32.808 (2) (e).

ESSB 5693, the current enacted operating budget, provides an appropriation to the department of $232 million in FY23 for the remittances under the Working Families Tax Exemption Program.

Since funds were appropriated in FY23, the payments will be treated as expenditures and not as a reduction of revenue.

The department is requesting the appropriation which was carried forward into the 2023-25 biennial budget be eliminated which will allow payments to be treated as a reduction of revenue. The following points support the need for the removal of the appropriation in the departments 2023-25 budget.

- By design, the WFTC program will issue payments to individuals once per year. The payments are anticipated to occur mainly in April and will hit the appropriation all at once, which makes it difficult to estimate if the appropriation amount will be sufficient to cover these payments.

- The timing of having enough data available does not line up well with the timing of sessions. By the time there is enough information available to inform the need for additional appropriation authority and to request a supplemental adjustment, session will have ended. This is especially true for the first fiscal year the program exists when there will not be previous year's information to go on. This will remain true if the parameters of the program do not remain static.

- The department's tax and licensing system (ATLAS) is not designed to account for expenditures and is not capable of generating the daily, monthly, or year-end accounting entries necessary to properly account for expenditures. While ATLAS will be used to receive the applications, and generate the payments, all activity after the payment is made, will be done manually in order to support the recording of the payments as expenditures. ATLAS will generate a report that will then be used to record the expenditures against the appropriation after the fact. There will also be a need to manually track overpayments by fiscal year, so repayments received are recovered as a decrease of expenditures or increase in revenue.

- OFM accounting, will also be making manual adjustments to take the expenditures the department manually records and reclassify them as a reduction of revenue for proper classification on the statewide financial statements. If the payments are treated as a reduction of sales tax revenue, the daily, monthly, and fiscal year end accounting entries for both OFM and the department will be handled in an automated fashion and done the same way as taxpayer refunds are currently accounted for.

- If payments are treated as expenditures, the Economic and Revenue Forecast Council (ERFC) will not have a role, and the forecasting of the amount of appropriation authority needed would be done by the department or could be moved to the Caseload Forecast Council through a legislative change. Either the department or the Caseload Forecast Council would have very limited information in which to be able to forecast payment amounts to be made for adjustments in the supplemental budget. If the payments are treated as a reduction of sales tax revenue, the department will provide data to the ERFC for incorporation into the forecast as is done currently with taxpayer refunds.

- If the payments are treated as expenditures, and if an applicant receives too much of a credit, a bill will be sent to them to recover the overpayment plus interest. Interest paid by the applicant will be revenue and the overpayment portion will be a recovery of expenditure, or revenue depending on when the overpayment was issued. In the event the applicant returns the overpayment and mistakenly returns too much then the excess amount returned will be a liability the state owes back to the applicant, and any excess interest associated with the return will be a reduction of revenue. This creates a very complicated set of accounting transactions that will all be recorded manually. If the payment is treated as a reduction of revenue, then any overpayment to a taxpayer would be handled as a receivable against the revenue.

## Assumptions and calculations

Treating WFTC refunds as a reduction of revenue will be significantly easier and use less staff time to administer than if appropriated. As a reduction of revenue, the department's tax and licensing system (ATLAS) would be able to generate accounting entries necessary to properly account for refunds and meet all accounting requirements. Also, there would be no need to manually track refunds or for OFM accounting to make manual adjustments to reclassify expenditures on statewide financial statements.

This request is for a technical correction to resolve the conflict between the WFTC legislation and the budget bill. The department chooses to follow the legislation instead of the budget bill.

## Workforce assumptions

The department's recommendation to treat payments as a reduction of revenue will not increase the need for additional staff. If payments are treated as an expenditure, the department will need to assess staffing requirements as the workload associated with treating the payments as expenditures is not sustainable for the department.

## Strategic and performance outcomes

### Strategic framework

This strategy supports the Governor's Results WA goal of "Effective, Efficient, and Accountable Government" by minimizing the administrative impact of administering WFTC. This technical correction clarifies legislative intent to treat WFTC refunds as a reduction of revenue.

### Performance outcomes

If WFTC refunds are treated as a reduction of revenue, administration of this program will be significantly less cumbersome, easier to track, and require less staff time.

## Other collateral connections

### Intergovernmental

N/A

### Stakeholder impacts

N/A

## Legal or administrative mandates

This is a technical correction to resolve the conflict that exists between the WFTC legislation and the budget bill regarding payments made to taxpayers. Specifically, the legislation treats the payments as a reduction of state sales tax revenue and the budget bill includes an appropriation which requires the payments to be treated as expenditures.

## Changes from current law

N/A

## State workforce impacts

N/A

## State facilities impacts

N/A

## Puget Sound recovery

N/A

## Other supporting materials

N/A

## Information technology (IT)

N/A