



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 28, 2024

TO: The Honorable June Robinson, Chair, Senate Ways & Means Committee
The Honorable Lynda Wilson, Ranking Member, Senate Ways & Means Committee
The Honorable April Berg, Chair, House Finance Committee
The Honorable Ed Orcutt, Ranking Member, House Finance Committee

FROM: Drew Shirk, Director **DIS**
Washington State Department of Revenue

SUBJECT: Report to the Legislature on the implementation of the Working Families Tax Credit Program

The Department of Revenue (Department) is submitting this report to the legislature as required by RCW 82.08.02061. The statute requires the Department to identify administrative and resource issues that require legislative action.

This report provides high-level program results from the first year of implementation (calendar year 2023) and identifies areas where legislative action would further enhance the program.

If you have any questions about this report, please contact Steve Ewing, Legislative & External Affairs Liaison, SteveE2@dor.wa.gov, or (360) 534 -1545.

cc: Sarah Bannister, Secretary, Washington State Senate
Bernard Dean, Chief Clerk, Washington State House of Representatives
Members, Senate Ways & Means Committee
Members, House Finance Committee
David Schumacher, Director, Office of Financial Management
Pat Sullivan, Executive Director, Legislative Affairs, Office of the Governor
Roselyn Marcus, Assistant Director, Office of Financial Management
Rachel Knutson, Budget Assistant, Office of Financial Management

Working Families Tax Credit Implementation Assessment Report to the Legislature



Introduction

[Revised Code of Washington \(RCW\) 82.08.02061](#) requires the Department of Revenue (department) to submit a report assessing the implementation of the Working Families Tax Credit (WFTC), including the identification of administrative and resource issues that require legislative action. This report fulfills that obligation.

Program Overview

In 2021, the Legislature passed and the Governor signed Engrossed Substitute House Bill 1297 (Chapter 195, Laws of 2021). The legislation made several significant changes to the existing Working Families Tax Exemption under [RCW 82.08.0206](#), including expanding eligibility and funding the program and payments. On February 1, 2023, the department launched the WFTC program.

The WFTC program is a refund of retail sales and use tax paid with eligibility tied to the federal Earned Income Tax Credit (EITC). Individuals who qualify for the EITC and have lived in Washington for 183 or more days during the calendar year also qualify for the WFTC. Additionally, the WFTC program expands eligibility beyond the EITC to include individuals who would have otherwise qualified for the EITC but for filing their federal income tax return with an Individual Taxpayer Identification Number (ITIN) instead of a Social Security Number (SSN).

The Legislature's stated public policy objectives for this program are to:

- Stimulate local economic activity.
- Advance racial equality.
- Promote economic stability and well-being for lower-income working people.

More information about the program can be found at workingfamiliescredit.wa.gov.

Program Results for the First Year (2022 Tax Year)

Program Launched within Tight Time Constraints

ESHB 1297 was signed into law by the Governor on May 4, 2021. From that time until the program started receiving applications on February 1, 2023, significant efforts were made to implement and administer the program. This required dedicating department staff not typically assigned to this work to get the program up and running in a short timeframe. Some of the work included:

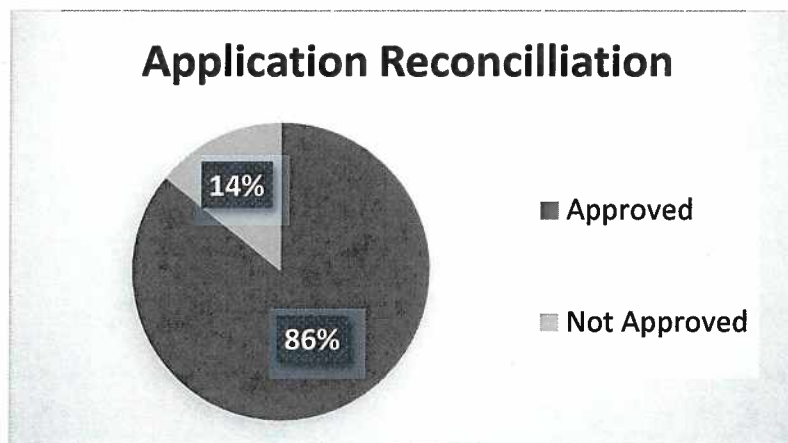
- Creating an application,

- Establishing a technical solution for processing applications,
- Hiring and training staff,
- Implementing a modernized e-file (MeF) program,
- Organizing data sharing agreements with state and federal agencies,
- Initiating marketing efforts and outreach, and
- Establishing a new website.

Participation Rates and Number of Refunds

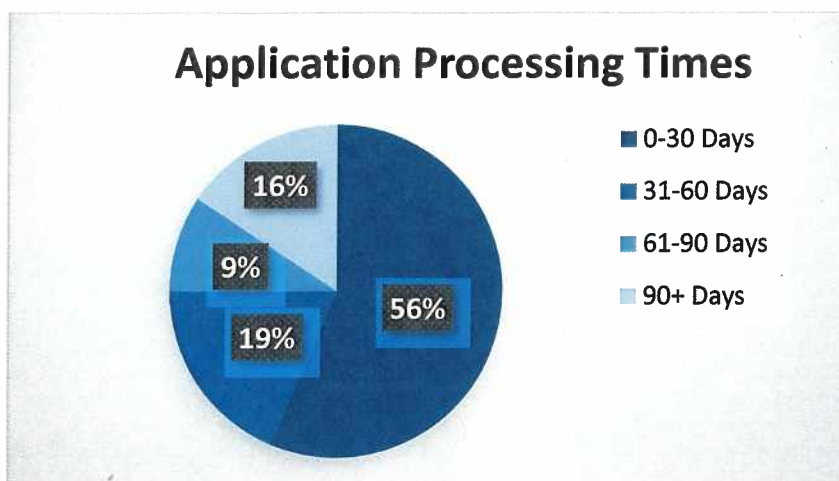
Programs of this nature typically struggle with participation rates in the beginning, as the program is unknown, application processes can be cumbersome, and trust by the community it intends to serve has yet to be established. For calendar year 2023 (tax year 2022), the department estimated that approximately 360,000 would qualify for WFTC. As of December 31, 2023, the department issued 163,648 refunds, or 45% of the estimated eligible population. This represents \$116,776,567 in refunds.

As of December 31, 2023, 86% of applications had been approved. Those not approved were denied because the applicant(s) was ineligible or the application was a duplicate of one already received.



Application Processing Timeframes

Timely processing of applications is a priority for the program. More than half of the applications received in 2023 were processed within 30 days. Processing time is measured from when an application is received by the department to when the application is either approved or denied. Only 16% took more than 90 days to complete. Results as of December 31, 2023, are as follows:



Call Center Results

The department established a dedicated WFTC call center to answer questions related to eligibility, help with the application process, provide refund status updates, and assist with other miscellaneous questions.

Calls Answered	36,685
Average Handle Time	8 min 20 sec
Average Hold Time	4 min

Supporting individuals in multiple languages was a priority. During 2023, the call center team had certified bilingual staff and access to a third-party vendor for additional interpretation services. About 25% of callers requested support in their preferred language.

Calls Requesting Spanish	8,359
Calls Requesting Other Languages	130

Modernized e-File Program Implementation

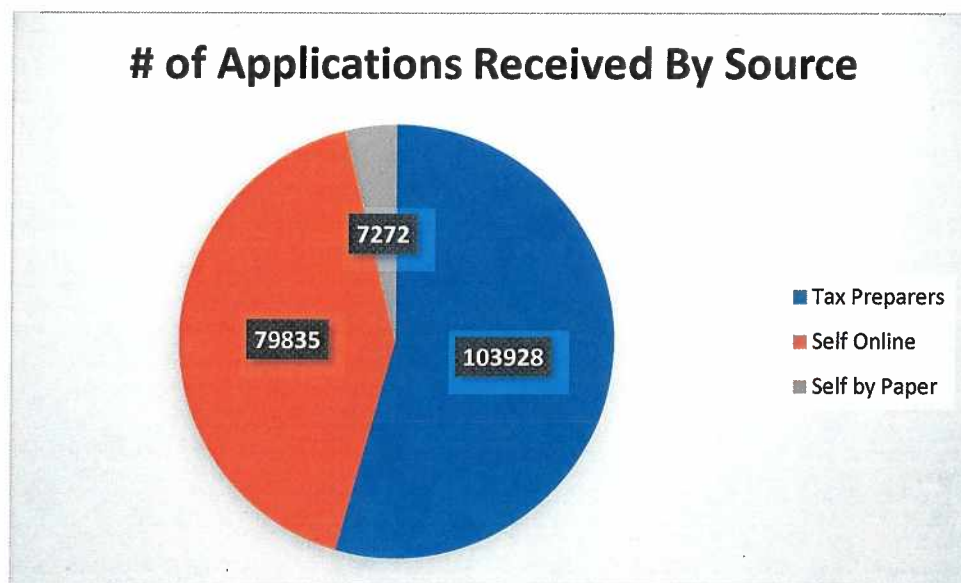
The department primarily accepts tax returns through an online platform. In limited circumstances, we also accept paper tax returns. The WFTC application is available online and in paper form. To date, the online application is available in English and Spanish and the paper application is available in English and 11 other languages.

To best reach the community, the department also established an application process through the IRS Modernized e-File Program (MeF). MeF provides electronic filing and payment options for filers of individual tax returns (among other types of returns). Under this program, the IRS facilitates the simultaneous filing of the individual's state and IRS tax returns.

The MeF program allows the department to reach many individuals who use tax software vendors to file their IRS tax return and claim the EITC. A total of 12 MeF vendors were onboarded for the 2022 tax year.

Vendor	Online Software (DIY)	Tax Professional Software
HR Block		X
Drake Software		X
ezTaxReturn	X	
File Your Taxes	X	X
Intuit		X
Jackson Hewitt		X
Online Taxes	X	X
TaxAct	X	X
TaxHawk	X	X
TaxSlayer	X	X
Thomson Reuters		X
1040.com	X	

MeF filings represented over half of the applications received.



Fraud Mitigation Results

Programs of this nature are prone to fraud. The department developed and implemented strategies to help prevent fraud. These strategies were effective in preventing and mitigating fraud. Approximately 1.6% of the applications submitted were identified as fraudulent and immediately denied before they hit the processing queues. An additional 4.5% were identified as possibly fraudulent, and ultimately denied based on the information available.

Resource Issues

The department appreciates the Legislature's continued support to make this program efficient and effective.

Increasing Participation

As noted above, programs of this nature typically struggle with participation rates in the beginning, as the program is unknown, application processes can be cumbersome, and trust by the community it intends to serve has yet to be established. Even the federal EITC program, available for nearly 50 years, struggles with participation. The IRS estimates that only have 70.6% of those in Washington eligible for that program participated in 2020.

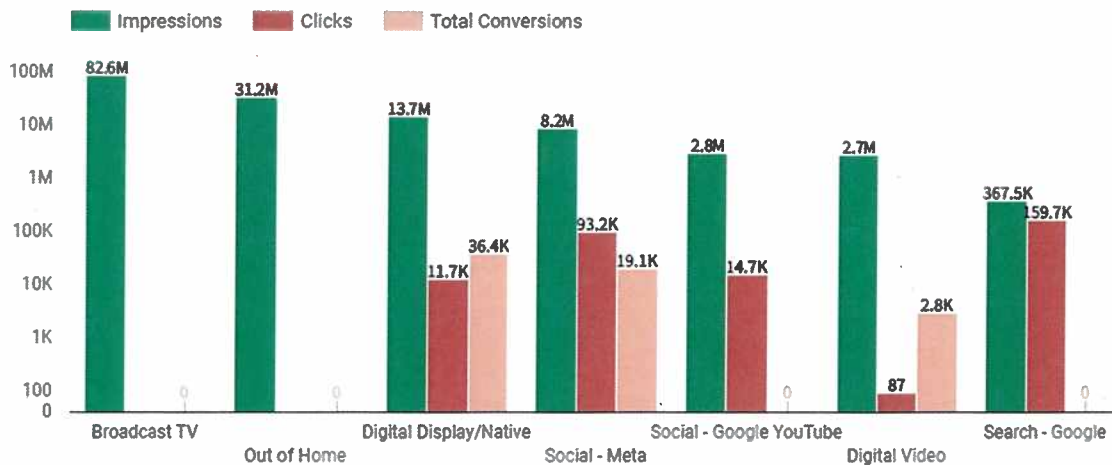
In the first year of the WFTC program, the department achieved the goal of reaching at least 40% of the eligible population, with over 163,000 refunds issued. We attribute this success to the wide array of tactics used to reach eligible individuals.

With that said, there are challenges to estimating the eligible population. The department primarily uses IRS data to estimate the eligible population, which can fluctuate significantly from year to year. Initially, the department estimated up to 400,000 were eligible for tax year 2022. However, based on more current IRS data, the estimated number of eligible applicants for tax year 2022 has been reduced to approximately 360,000.

A significant contributing factor to the successful participation rate were the partnerships with tax preparation companies as part of the MeF program. Of the applications received for the 2022 tax year, 54% came through MeF vendors. This proved valuable because the tax preparers and tax preparation software providers were able to inform federal tax filers about the WFTC program and submit WFTC applications on their behalf with the information they were already collecting for federal tax preparation purposes.

The department was also able to reach a large audience through a media campaign. Below is a chart of the total impressions, clicks, and conversions we were able to achieve through the media campaign:

WFTC Campaign Results | Media KPIs | To-Date By Media Channel



Traditional media (Broadcast TV and Out of Home) will only show impressions.

While broadcast TV and out of home advertisements were able to reach 113 million people, we are not able to measure how these methods affected the number of people applying for the credit. However, digital display, social media advertising with Meta, and digital video methods could track how those translated into actual applications. These media types accounted for about 58,000 applications. The digital display advertising resulted in the most conversions and used the sophisticated targeting capabilities of digital and social media advertising to get clickable messages directly in front of users where they are online.

Since the WFTC is a new program, continued outreach and promotion are critical to increasing participation. The program has a dedicated outreach team comprised of seven outreach specialists who work in different locations around the state. They are bilingual and bicultural and represent the communities they serve. Outreach specialists attend community events to spread the word about WFTC and conduct application drives to assist individuals in applying for the credit. In 2023, the team conducted more than 1,400 events, including community events, media interviews, presentations, and application drives.

The program also received funds to provide grants to community organizations for assistance in reaching eligible individuals across the state. In 2023, grant funds were awarded to 37 community organizations that collectively hosted over 600 events and directly assisted nearly 4,000 applicants. In particular, the community organizations were instrumental in helping to reach applicants that applied using an ITIN. Of the 191,000 applications received in 2023, about 9%, or just over 17,000, were from applicants who applied using an ITIN. This group of applicants can be very challenging to reach, and the success we had reaching these applicants in the first year was possible because of the efforts of the grantees and outreach team.

All of these methods were critical in achieving the participation rate goals for 2023. The program's goal for 2024 is to increase application rates to at least 50% of the eligible population. This will require additional funds for media campaigns, grantee partnerships, and outreach efforts..

In addition to the marketing funds used to raise awareness broadly, the department is using strategies to identify and directly contact individuals likely eligible for the credit but who have not applied. The department partnered with the Department of Social and Health Services (DSHS) to send approximately 150,000 postcards and 240,000 emails to individuals receiving benefits through DSHS who may also be eligible for the WFTC. The Department of Commerce also included information regarding the WFTC in their annual communication strategy tasked with raising awareness of the federal EITC.

The department would like to continue and expand these direct communication strategies, including integrating datasets from other state agencies, using federal tax information (FTI), and is considering the use of datasets purchased from private businesses. Work to integrate these datasets has begun, including acquiring information from the Employment Security Department. Acquiring this information from other state agencies is usually straightforward, requiring only an interagency agreement. However, information from programs administered by DSHS whose eligible population significantly overlaps the WFTC's is more difficult to acquire due to federal restrictions on sharing this data. Federal law changes that would allow WFTC to use this data for outreach purposes would significantly reduce the barrier to educating eligible applicants.

The department is also exploring opportunities to expand the use of FTI to increase participation and verify eligibility. FTI is confidential and using it requires significant safeguards. Additional resources are needed to allow the department to establish robust technical solutions necessary to use this data appropriately and in compliance with IRS rules.

Marketing strategies could also benefit from using datasets procured from private businesses that acquire and analyze datasets, such as credit bureaus. This would help with targeted communication.

Validating Eligibility

One of the greatest difficulties with pioneering an individual tax credit in a state without an income tax is finding ways to validate the eligibility of applicants while minimizing the burden on individuals applying for the credit. Currently, applicants are required to complete the WFTC application and provide a complete copy of their federal income tax return for the tax year for which they are applying. The information for many questions on the application are available on their federal income tax return, including:

- Applicant name
- Applicant SSN or ITIN
- Mailing address
- Filing status
- Whether the applicant claimed the EITC
- Line 1z income
- Line 11 adjusted gross income
- Other special income situations
- Information about qualifying children

The department is in the process of procuring intelligent character recognition (ICR) technology that can read, recognize, and pull data fields from the federal income tax return. The ICR technology will streamline the application process, ease the application burden, and significantly decrease application errors. Additionally, it will allow the department to validate up front whether the applicant has provided their federal tax return. When an applicant fails to provide their federal income tax return, or only

provides a portion of it, it creates a significant delay in the application review and refund process. The department has funding for fiscal year 2024 to procure the software and hardware that could get us closer to instant validation and form recognition, but this project will require additional funding to fully streamline the application process for our customers.

There are also difficulties verifying whether children claimed on an application meet the requirements of a qualifying child under the statute. Children must be either the child or sibling of the applicant, must reside with them for at least half the year, and must meet certain age requirements. The department generally relies on the information provided for the qualifying children that an applicant claims on the IRS Schedule EIC for the EITC. However, the IRS cites “claiming a child who is not a qualifying child for the EITC” as the most common EITC error. Unfortunately, this is currently our best source of information for verifying qualified children. The department would better be able to ensure that children were properly claimed for the WFTC if we had access to systems that DSHS uses.

The Automated Client Eligibility System (ACES) is used by the Community Service Division within DSHS to maintain information on applicants that receive public benefits such as the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF). As part of the eligibility determinations for these programs, individuals must provide proof of who resides in their household. This information is current since the recipients receive these benefits monthly. WFTC has nearly 100% overlap in our customer base with those receiving TANF benefits through DSHS and an estimated 60% overlap in our customer base from those receiving SNAP benefit through DSHS. The recipients of these benefits have already reported who is residing in their household. It would be a benefit to both the department and our applicants if we were able to verify who a child was living with through an independent check against the ACES system.

Another DSHS system that could aid us is the Support Enforcement Management System (SEMS) used by Child Support Enforcement. This system has information about who the child’s parents are and who the child lives with. This information could assist in verifying, that children claimed, meet eligibility requirements.

As noted, federal restrictions currently prevent the department from accessing DSHS systems and data. Efforts we can take to implement a categorical eligibility approach through which agencies with similar programs can freely exchange data will result in more efficient administration of and increased participation in the WFTC program.

Gaining access to other agencies’ data gives the department the ability to verify eligibility of applicants, provide a better customer experience, and allows us to provide a tailored outreach approach to ensure every eligible person has the opportunity to apply for the credit.

One of the challenges that this program faces is verifying the information the customer provides on the application. Accessing certain data points from other state agencies (e.g., DSHS, ESD, DOH) gives us the ability to process applications more quickly and with more accurate information. If the correct documents are not included upon application, it can significantly delay the individual’s refund or result in an overpayment.

Integrating Federal Tax Information and System Limitations

The department uses a software system that is shared across nearly all of the programs it administers. One of the challenges of using a shared tax system within the department is utilizing the federal tax information (FTI) the WFTC program receives to its full potential. FTI is not required to effectively administer the other programs and ensuring that the system meets all the IRS requirements to safeguard FTI is burdensome. There are many benefits to having a standalone, independent system for the WFTC program that would allow us to fully integrate FTI.

First, specialists processing applications would be able to view FTI data to ensure the correct tax documents are attached to the application. This would save time in processing applications, resulting in fewer potential errors and overpayments, and creating a better experience for our customers.

Secondly, if the challenges with accessing DSHS data are addressed, a standalone system could give the department better access to and utilization of DSHS data. This would allow us to access financial information for customers who receive Electronic Benefit Transfer (EBT)/SNAP. Access to this data would also allow the department to verify the information on the application regarding qualifying children. This would lessen the burden on the customer to provide additional documentation to claim qualifying children.

Another goal of the WFTC program is to streamline the application process for those who are not filing through MeF. The current capacity of the existing system is limited, making it difficult to add enhancements to our online application process. Included in these challenges is the ability to expand correspondence into additional languages other than Spanish. Our efforts to expand our communication to include Spanish has pushed our existing shared system to its limits. The team responsible for managing our agency system has warned us that we are in danger of “breaking” the system if we continue to try to push its limits to accommodate more languages.

Multilanguage Efforts

The WFTC program strives to provide the best possible service to all applicants. One of the most basic ways to do this is to ensure that the department can communicate with our applicants in their preferred language. Initiating broad multilingual efforts that did not exist before the WFTC program has been a very resource-intensive and expensive challenge. The department would like to be able to offer our full website and our complete electronic application in numerous languages. Currently, the full website and full electronic application are only available in English and Spanish, and certain pages of the website are available in 11 other languages. For the WFTC program, the only application method that supports languages other than English and Spanish is the paper application.

The department needs a quick and effective method for translating documents upon request. This would likely involve a centralized system and dedicated FTEs to manage the requests, similar to the process that DSHS currently uses to facilitate translations. We would also require FTEs to build, test, and maintain such a system.

Enhancing Collection Efforts

Currently, the WFTC statute only allows penalties and interest to be assessed on overpayments after six months from the date when the overpayment was billed to the customer. This includes instances when the department determines by clear, cogent, and convincing evidence that fraud has occurred and applies a 50% penalty. For example, in a situation where identify theft has occurred, the department would assess a 50% penalty on the individual that stole the identity and falsified an application. In cases of fraudulent action taken by an individual to receive a refund or a greater refund than they were eligible

for, immediate advanced collection action is necessary. To ensure appropriate and timely action is taken in these situations, the department recommends amending the statute to allow penalties and interest to be assessed immediately when the department determines that fraud occurred.

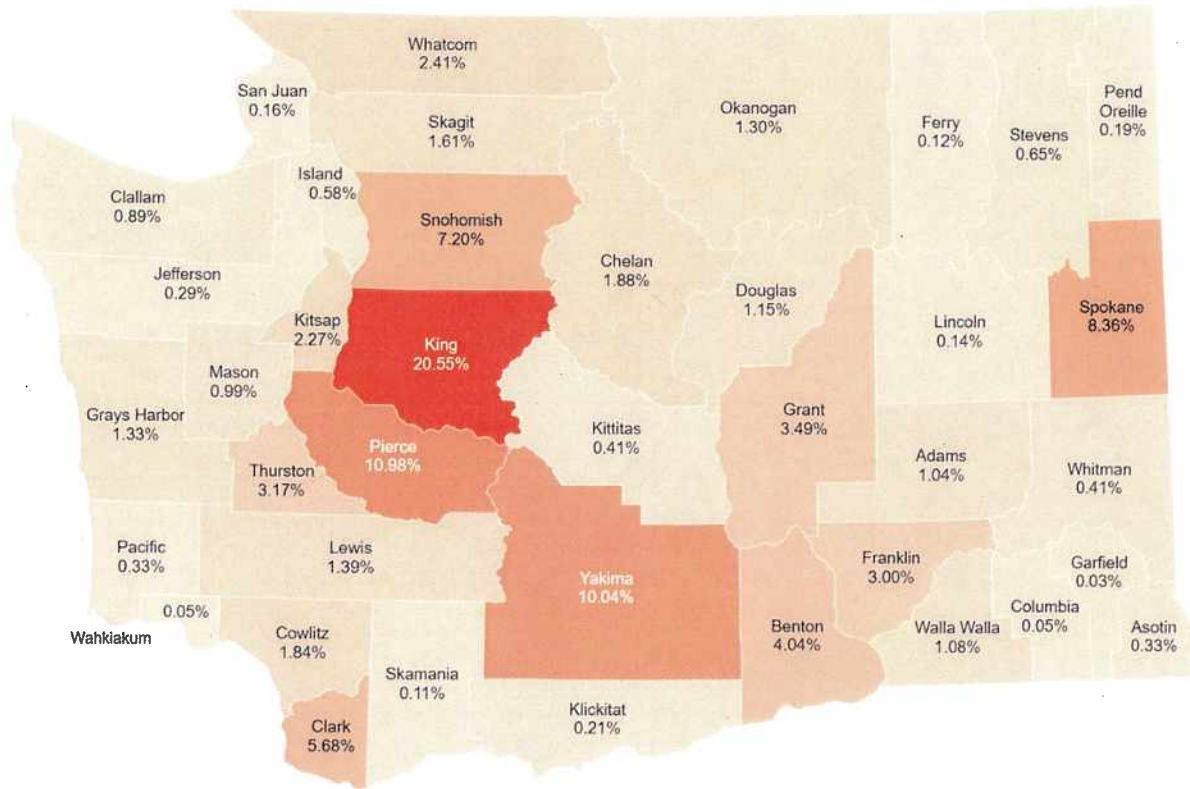
Summary of Recommendations

In conclusion, to enhance and continue to effectively administer the WFTC program, the department has several recommendations.

- The department recommends additional funding for the following:
 - Media campaigns and grantee partnerships to increase awareness of and participation in the program.
 - Integration of additional data sets both from other state agencies and those purchased from private businesses to continue the expansion of direct communication strategies.
 - Technical solutions that would ease the application process and validate eligibility through intelligent character recognition software.
 - System enhancements to incorporate federal tax information.
 - Additional FTEs to aid in continuing to build and maintain a robust multi-language program to better serve Washingtonians from varying backgrounds.
- While it may require effort at the federal level, we recommend investigating allowing WFTC access to DSHS information as there is significant overlap in the customers that both agencies serve.
- Finally, the department is recommending a minor legislative change to allow penalties and interest to be assessed immediately when the department determines that fraud occurred.

Appendix

Applications Received by Washington State County TY 2022



Refunds by Washington State County TY 2022

County	Applications Refunded*	Dollars Refunded*	Avg. Dollars Refunded	Est. Eligible Participants**	Est. Dollars Available**
Adams	1,591	\$ 1,273,475	\$ 800	1,714	\$ 1,233,028
Asotin	534	\$ 381,142	\$ 714	1,402	\$ 859,740
Benton	6,597	\$ 4,957,877	\$ 752	11,813	\$ 7,618,700
Chelan	3,040	\$ 2,210,255	\$ 727	5,580	\$ 3,505,565
Clallam	1,494	\$ 1,022,238	\$ 684	4,125	\$ 2,427,127
Clark	9,232	\$ 6,502,753	\$ 704	23,958	\$ 14,457,587
Columbia	91	\$ 59,301	\$ 652	207	\$ 121,635
Cowlitz	3,044	\$ 2,185,103	\$ 718	7,001	\$ 4,339,834
Douglas	1,789	\$ 1,327,598	\$ 742	3,101	\$ 2,000,160
Ferry	205	\$ 152,324	\$ 743	464	\$ 282,343

Franklin	4,825	\$ 3,761,528	\$ 780	7,379	\$ 5,154,082
Garfield	43	\$ 31,882	\$ 741	116	\$ 76,228
Grant	5,438	\$ 4,147,587	\$ 763	8,172	\$ 5,404,487
Grays Harbor	2,201	\$ 1,572,062	\$ 714	4,873	\$ 2,976,601
Island	950	\$ 649,384	\$ 684	3,626	\$ 2,166,217
Jefferson	485	\$ 277,247	\$ 572	1,536	\$ 789,452
King	33,279	\$ 22,892,887	\$ 688	79,770	\$ 44,692,973
Kitsap	3,720	\$ 2,508,920	\$ 674	10,964	\$ 6,286,129
Kittitas	680	\$ 459,341	\$ 676	1,782	\$ 989,715
Klickitat	348	\$ 245,212	\$ 705	1,280	\$ 758,904
Lewis	2,305	\$ 1,656,853	\$ 719	5,009	\$ 3,138,722
Lincoln	236	\$ 174,341	\$ 739	517	\$ 322,236
Mason	1,650	\$ 1,167,155	\$ 707	3,513	\$ 2,135,664
Okanogan	2,074	\$ 1,574,734	\$ 759	3,569	\$ 2,274,486
Pacific	542	\$ 367,671	\$ 678	1,367	\$ 792,838
Pend Oreille	322	\$ 234,926	\$ 730	779	\$ 485,839
Pierce	17,674	\$ 12,641,593	\$ 715	46,672	\$ 28,583,459
San Juan	277	\$ 158,195	\$ 571	782	\$ 390,711
Skagit	2,587	\$ 1,860,526	\$ 719	6,729	\$ 4,105,587
Skamania	170	\$ 116,422	\$ 685	598	\$ 354,031
Snohomish	11,669	\$ 8,044,795	\$ 689	31,272	\$ 18,057,416
Spokane	13,852	\$ 9,923,725	\$ 716	31,505	\$ 19,001,991
Stevens	1,083	\$ 804,479	\$ 743	2,701	\$ 1,674,168
Thurston	5,211	\$ 3,506,691	\$ 673	14,617	\$ 8,508,468
Wahkiakum	88	\$ 53,829	\$ 612	240	\$ 127,056
Walla Walla	1,747	\$ 1,268,172	\$ 726	3,418	\$ 2,119,331
Whatcom	3,994	\$ 2,645,080	\$ 662	10,192	\$ 5,682,447
Whitman	681	\$ 446,934	\$ 656	1,607	\$ 879,259

Yakima	16,370	\$ 12,535,879	\$ 766	23,865	\$ 16,125,940
	162,118	\$ 115,800,116	\$ 714	367,815	\$ 220,900,154