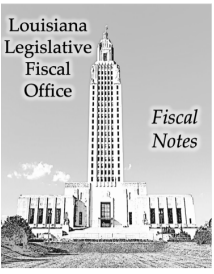


**LEGISLATIVE FISCAL OFFICE
Fiscal Note**



Fiscal Note On: **HB 667** HLS 25RS 1126
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 5, 2025 10:50 PM **Author:** EMERSON
Dept./Agy.: Department of Revenue **Analyst:** Noah O'Dell
Subject: Individual Income Tax: Decrease Rate & Deduction for 65+

TAX/INCOME TAX EG -\$377,900,000 GF RV See Note Page 1 of 1
 Reduces the rate of the individual income tax and authorizes an income tax deduction for taxpayers sixty-five years of age and older
Current law authorizes a 3% income tax rate on an individual's taxable income. Current law authorizes a standard deduction for resident taxpayers when filing individual income tax returns equal to \$12,500 for single filers. Beginning January 1, 2026, the amount of the standard deduction shall be adjusted according to the Consumer Price Index US city average for all urban consumers (CPI-U) as reported by the US Dept. of Labor, Bureau of Labor Statistics, for the previous calendar year.

Proposed law decreases the income tax rate to 2.75% of an individual's taxable income. Proposed law provides for an additional standard deduction for each resident 65 years of age and older in the amount equal to the standard deduction applicable for single filers. Taxpayers claiming the deduction are required to maintain all records necessary to verify eligibility and, if requested, provide the records to the Department of Revenue (LDR). The income tax rate change to 2.75% is contingent upon voter approval of the Const. Amendment proposed in HB 678 of the 2025 RS. Effective Jan. 1, 2027

EXPENDITURES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$52,270	\$0	\$0	\$0	\$52,270
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$52,270	\$0	\$0	\$0	\$52,270

REVENUES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$54,500,000)	(\$377,900,000)	(\$319,400,000)	(\$320,500,000)	(\$1,072,300,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	(\$54,500,000)	(\$377,900,000)	(\$319,400,000)	(\$320,500,000)	(\$1,072,300,000)

EXPENDITURE EXPLANATION
 The bill is anticipated to increase \$52,270 SGR within the Department of Revenue in FY27 related to computer system development, modification, and testing. The department reports the ability to absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.

REVENUE EXPLANATION
 The revenue table above shows the sum of two effects playing out throughout the fiscal horizon: the lower individual income tax rate and the additional deduction for taxpayers 65+.

1) **RATE CHANGE:** The bill lowers the individual income tax rate to 2.75% beginning in tax year 2027. This is anticipated to **decrease SGF revenue by an estimated \$54.5M in FY27, \$310.3M in FY28, and \$250.8M in each subsequent fiscal year** as taxpayers will be taxed 2.75% of taxable income. This estimate is generated by a micro-simulation model processing the 2023 filing data with parameters set equal to the new taxing regime. The tax year liability change estimate is translated to fiscal year receipt estimates. The first fiscal year of effect will be FY27 with tax receipts affected through withholdings changes assuming a one-quarter lag for discernible impact. Receipts for the second fiscal year, FY28, will decrease due to four quarters of withholdings, plus the catch-up of the first tax year's first quarter liability change when returns are filed, plus the amount of liability change typically realized on returns rather than through withholdings. The bill's tax year changes fully transition to fiscal year realizations by the third fiscal year, FY29, with tax table liability changes equal to fiscal year collections changes. No growth path for income has been assumed for purposes of this estimate.

2) **65+ DEDUCTION:** Assuming that the 65+ filers have income to take advantage of the deduction in the bill, the 65+ income tax deduction growing by inflation is **estimated to lower SGF revenue by \$67.6M in FY28, \$68.6M in FY29 and \$69.7M in FY30**. The bill allows taxpayers aged 65+ to take a deduction in tax year 2027 equal to that of the standard deduction of a single filer (currently \$12,500 + annual inflation) in addition to the standard deduction and a retirement exemption of \$12,000. The revenue loss associated with this deduction is assumed to take place when tax returns are filed and the deduction is claimed by taxpayers.

Note: This reduction will also reduce 1% of income tax collections retained and normally reverted by LDR as SGF; if not reverted, it would become an SGR reduction.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist