LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 262** HLS 19RS 690
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 26, 2019 3:58 PM
Author: STOKES
Dept./Agy.: Revenue
Subject: Individual Income Tax
Analyst: Greg Albrecht

TAX/INCOME TAX OR DECREASE GF RV See Note

Changes the rates and brackets for purposes of calculating individual income tax liability and eliminates or modifies certain deductions, exemptions, and credits

Proposed law modifies the individual income tax to provide a 3.95% flat tax rate on net income (from the 2%, 4%, 6% current rates), to eliminate the deduction for federal income taxes paid, to eliminate the standard deduction / personal exemption, and to limit the excess federal itemized deduction to charitable contributions plus mortgage interest in excess of the federal standard deduction, and excluding state income tax refunds from the deduction.

Effective for tax periods beginning on and after January 1, 2020.

Contingent upon adoption of a constitutional amendment contained in House Bill ____ of this session.

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 -YEAR TOTAL**
State Gen. Fd.	$87,000	$0	$0	$0	$0	**$87,000**
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	**$87,000**	**$0**	**$0**	**$0**	**$0**	**$87,000**

REVENUES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	DECREASE	DECREASE	DECREASE	DECREASE	**$0**
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**					**$0**

EXPENDITURE EXPLANATION

Implementation of this proposal will result in approximately $51,000 of programming, testing and system development costs related to the revision of the affected tax returns. The cost also includes estimated expenses of $36,000 from LDR's Revenue Processing Center (RPC) to update equipment and software to process the revised return in FY 2019-2020. LDR will also be required to promulgate new rules to issue revised withholding tables and tax tables as required by R.S. 47:295.

REVENUE EXPLANATION

The bill is estimated to result in an aggregate annual liability reduction that ranges from $17 million to $132 million, depending on the extent to which excess federal itemized deductions are limited. This estimate is generated by a micro-simulation model processing 2017 resident individual income tax data. The model incorporates the significant federal income tax changes effective for the 2018 tax year. The Dept. of Rev indicates that return filing patterns for the individual income tax result in approximately 90% of returns received in a fiscal year's filing season are from the immediately preceding tax year, with the remaining 10% following in the next fiscal year's filing season.

Due to the lack of data associated with the federal tax law changes and the limitations of the simulation model itself, the estimate does not specifically account for the limitations of excess federal itemized deductions provided in the bill. If those limitations were not included in the bill, the aggregate liability reduction is $132 million. If excess federal itemized deductions were completely eliminated by the bill, the aggregate liability reduction is $17 million. Federal tax law changes nearly doubled the federal standard deduction, likely eliminating half or more of the excess allowed on state returns. This bill limits the calculation of excess itemized deductions to only charitable contributions and mortgage interest. These combined federal and proposed state changes are likely to effectively leave only a small amount of the state deduction intact, resulting in an aggregate liability change closer to the $17 million reduction than to the $132 million reduction.

However, nonresident returns as well as estates/trusts returns are not modeled (which should increase the liability loss somewhat). Also, there has been no accounting for changes in withholding requirements, which are likely to be made given the broad applicability of these changes across taxpayers. Withholding changes would likely have a material effect on the actual fiscal year receipts associated with the tax year liability changes. Consequently, especially with regard to the effects of the federal tax law changes and the effects of withholding changes, any specific estimated effects of the bill by fiscal year can not be considered reliable.

Senate Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer