LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 416** HLS 19RS 756
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 30, 2019 4:33 PM
Author: IVEY
Dept./Agy.: Revenue
Subject: Individual Income Tax
Analyst: Greg Albrecht

TAX/INCOME TAX EG +$38,000,000 GF RV See Note

Provides for a flat tax rate for purposes of calculating individual income tax and modifies other income tax credits and deductions

Proposed law modifies the individual income tax to provide a 4.15% flat tax rate on net income (from the 2%, 4%, 6% current rates), to eliminate the deduction for federal income taxes paid for both individuals and corporations, to raise the standard deduction / personal exemption to $12,500 / $25,000 (from the $4,500 / $9,000 current levels), and to limit the excess federal itemized deduction to amounts over $12,500 / $25,000 depending on filing status, and excluding state income taxes paid 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 441 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	($15,000,000)	$33,000,000	$38,000,000	$38,000,000	**$94,000,000**
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**	**($15,000,000)**	**$33,000,000**	**$38,000,000**	**$38,000,000**	**$94,000,000**

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 combined individual and corporate income tax results are a revenue loss of $15 million in FY21, then a revenue gain of $33 million in FY22 as corporate tax gains overtake individual tax losses, and a $38 million gain in FY23 and each following year.

The individual income tax portion of the bill is estimated to result in an aggregate annual liability reduction of $71 million. 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. Thus, the FY21 liability effect is estimated as a $64 million loss, with the full $71 million liability loss occurring in FY22 and each year thereafter.

A rough estimate of the effect of eliminating the federal tax deduction for corporate returns is based on the last complete fiscal year of returns; $121 million of foregone state tax revenue. The Dept. of Revenue utilizes a 10% reduction for the federal tax law changes ($109 million), and then filing pattern factors are applied; 45% of returns received in a fiscal year's filing season are from the immediately preceding tax year, 50% following in the next fiscal year's filing season, with the remaining 5% following in the next fiscal year's filing season. This results in an FY21 revenue gain of $49 million, a FY22 gain of $104 million, and the full gain of $109 million in FY23 and beyond.

Due largely to the lack of data associated with the federal tax law changes, the estimate does not account for the exclusion of state income taxes paid from excess federal itemized deductions (which should dampen the liability loss somewhat). However, nonresident returns as well as estates/trusts returns are not modeled (which should enhance 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 on corporations and the effects of withholding changes, the specific estimated effects of the bill by fiscal year can not be considered reliable.

Senate	Dual Referral Rules	House
☐	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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