



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 376** HLS 21RS 138
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.: **REVISED**

Date: April 13, 2021	4:51 PM	Author: IVEY
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Individual Income Tax		

TAX/INCOME TAX OR -\$213,600,000 GF RV See Note Page 1 of 1
 Provides for a flat tax rate for purposes of calculating income tax for individuals, estates, and trusts and modifies income tax credits and deductions

Proposed law modifies the individual income tax to impose a single rate of 4% (from the current rates of 2%, 4%, and 6%). The existing income brackets are replaced with higher standard deductions of \$12,500 single and \$25,000 joint, before the new single rate is applied. The bill eliminates the deduction for federal income taxes paid (for both individuals and corporations), and modifies the calculation of the deduction for excess federal itemized deductions to exclude Louisiana income taxes paid in the itemized deduction portion of the calculation, as well as to calculate the excess against the greater of the federal standard deductions or the state standard deductions provided by the bill. The bill also provides a new adjustment to income by excluding Louisiana state income tax refunds from federal adjusted gross income. Effective for tax periods beginning on and after January 1, 2022. Contingent upon adoption of a constitutional amendment contained in House Bill ___ of this session.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	(\$50,000,000)	(\$294,600,000)	(\$213,600,000)	(\$213,600,000)	(\$213,600,000)	(\$985,400,000)
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	(\$50,000,000)	(\$294,600,000)	(\$213,600,000)	(\$213,600,000)	(\$213,600,000)	(\$985,400,000)

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 administration system. Additional estimated expenses of \$36,000 are associated with LDR's Revenue Processing Center (RPC) updating equipment and software to process the revised returns in FY 2022 -2023. LDR will also 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 individual income taxpayer liability decrease of \$303.6 million. This estimate is generated by the Legislative Fiscal Office micro-simulation model processing 2019 resident and nonresident individual income tax data, with fiduciary receipts added as their share of FY20 total individual income tax receipts (0.498%). The return data reflect the significant federal income tax changes that first affected state taxes in tax year 2018. The exclusion of state income tax refunds from federal adjusted gross income, and the amount of state refunds excluded from the excess itemized deduction calculation are incorporated from 2018 IRS data for Louisiana resident federal filings. Excess itemized deductions are calculated against the state standard deductions provided by the bill, which are greater than the 2019 federal standard deductions. Nonresident calculations do not incorporate the Louisiana tax refund adjustment to income (base contraction) or exclusion from the excess itemized deduction calculation (base expansion). The aggregate net effect of these omissions is uncertain, but they have opposing effects on the state tax base.

The tax year liability change estimate is translated to fiscal year receipt estimates in the revenue table above in consultation with the Dept. of Revenue regarding the share of liability change typically collected through withholdings (79%), declarations (8%), and return filings (13%). The first fiscal year of effect will be FY22 (-\$66M) with tax receipts affected through withholdings changes; with this estimate assuming a one-quarter lag for discernible impact. No lag is assumed for declarations since they are first due in April of the year. The effect for the second fiscal year, FY23 (-\$375.6M), will step up due to four quarters of withholdings and declarations, 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 or declarations. The bill's tax year changes fully transition to fiscal year realizations by the third fiscal year, FY24 (-\$303.6M).

The bill also eliminates the deduction for federal income taxes paid on corporate returns. Based on a recalculation of 2018 tax year returns, the Dept of Revenue estimates that this provision will increase corporate tax liabilities by some \$90 million. Based on filing patterns for that tax year, the tax year liability increase would transition into fiscal year receipts as \$16M (18%) in FY22, \$81M (90%) in FY23, and \$90M (100%) in FY24 and each fiscal year beyond. These amounts are added to the individual income tax fiscal year amounts in the table above.

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| <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} |


Christopher A. Keaton
 Legislative Fiscal Officer