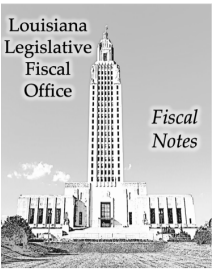


**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 917** HLS 22RS 1900  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.: **REVISED**

<b>Date:</b> April 14, 2022 2:35 PM	<b>Author:</b> BEAULLIEU
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Deborah Vivien
<b>Subject:</b> Reduces highest individual income tax rate to 3.99%	

TAX/INCOME TAX OR -\$90,000,000 GF RV See Note Page 1 of 1  
 Reduces certain rates for purposes of calculating individual income tax liability and the tax liability for estates and trusts

Current law imposes individual income tax on three brackets: 1.85% on the first \$12,500 of taxable income, 3.5% on the next \$37,500 and 4.25% on taxable income over \$50,000 (for fiduciary income, the rates are 1.85% on the first \$10,000, 3.5% on the next \$40,000 and 4.25% on taxable income over \$50,000).

Proposed law reduces the upper bracket rate for all individual income tax from 4.25% to 3.99% beginning with tax year 2023.

Effective with tax year 2023.

EXPENDITURES	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	SEE BELOW	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

REVENUES	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$19,600,000)	(\$111,300,000)	(\$90,000,000)	(\$90,000,000)	(\$90,000,000)	<b>(\$400,900,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>(\$19,600,000)</b>	<b>(\$111,300,000)</b>	<b>(\$90,000,000)</b>	<b>(\$90,000,000)</b>	<b>(\$90,000,000)</b>	<b>(\$400,900,000)</b>

**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 at the Department of Revenue. The cumulative effect of all new legislation determined at the end of session may require additional resources for the department.


**REVENUE EXPLANATION**  
 The bracket structure of the individual income taxes are currently provided in statute. This bill reduces the individual income tax rate for the top bracket (taxable income greater than \$50,000) from 4.25% to 3.99%, which will ultimately lower tax liabilities by an estimated \$90M annually. The variations in impacts in the early years are addressed below.

For individual income tax, the new tax regime put into effect with tax year 2021 reduces the rates and eliminates the federal income tax deduction as well as the non-medical excess itemized deduction. The reform also includes an annual test that triggers lower rates, though this analysis assumes the rates are fixed throughout the fiscal note horizon. This estimate is based on individual income tax data that pre-dates the tax reform efforts because that actual data is not yet available. Instead, this estimate imposes the new rates and deductions onto tax year 2019 data. Because the base data does not include the actual impacts of 2021 tax reform, and this bill is again changing the rates, the estimate could contain compounded error.

The estimate is generated by a 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 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 FY23 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. Receipts for the second fiscal year, FY24, will step down 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, FY25, with tax year liability changes equal to fiscal year collections changes. No growth path has been assumed for purposes of the fiscal note.

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| <p><u>Senate</u></p> <p><input type="checkbox"/> 13.5.1 &gt;= \$100,000 Annual Fiscal Cost {S &amp; H}</p> <p><input checked="" type="checkbox"/> 13.5.2 &gt;= \$500,000 Annual Tax or Fee Change {S &amp; H}</p> | <p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) &gt;= \$100,000 SGF Fiscal Cost {H &amp; S}</p> <p><input type="checkbox"/> 6.8(G) &gt;= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p> |
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**Alan M. Boxberger**  
 Interim Legislative Fiscal Officer