



**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**

Fiscal Note On: **HB 424** HLS 23RS 110  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> April 13, 2023 2:24 PM	<b>Author:</b> NELSON
<b>Dept./Agy.:</b> REVENUE	<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> Individual Income Tax	

TAX/INCOME TAX OR DECREASE GF RV See Note Page 1 of 1  
 Phases-out the taxes levied on the income of individuals and estates and trusts and reduces the amount of exemptions, deductions, and credits that may be claimed to reduce income tax liability  
Proposed law phases out the tax on individual income (IIT) over four years. Beginning in Tax Year 2024, proposed law reduces each rate within each bracket by approximately one-fourth each year, until all rates are reduced to zero in Tax Year 2027.  
 Additionally, proposed law reduces the value of exemptions, deductions, and credits that may be applied against IIT by approximately one-fourth beginning in Tax Year 2024, until the value of all are reduced to zero in Tax Year 2027.  
 Additionally, proposed law repeals trigger provisions in present law that provide for automatic IIT rate cuts under certain conditions.  
Proposed law specifies that contingent upon the adoption and effectiveness of an unspecified constitutional amendment, provisions of the bill are applicable to taxable years beginning on or after January 1, 2024.

EXPENDITURES	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$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>	<b>\$0</b>

REVENUES	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$250,000,000)	(\$1,620,000,000)	(\$2,760,000,000)	(\$3,930,000,000)	(\$4,860,000,000)	<b>(\$13,420,000,000)</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>(\$250,000,000)</b>	<b>(\$1,620,000,000)</b>	<b>(\$2,760,000,000)</b>	<b>(\$3,930,000,000)</b>	<b>(\$4,860,000,000)</b>	<b>?</b>

**EXPENDITURE EXPLANATION**  
 There is no anticipated direct material effect on governmental expenditures as a result of this measure.

**REVENUE EXPLANATION**  
 Proposed law generally eliminates IIT along with exemptions, credits, and deductions against it, over four years.

An approximation of the revenue that would be foregone upon full phase-in is reflected in the 12/15/22 Revenue Estimating Conference (REC) forecasts of approximately \$4.5 to \$4.8 billion per fiscal year of individual income tax collections (\$4.59 billion for FY25, \$4.69 billion for FY26, and \$4.79 billion for FY27).

Fiscal year forecasts reflect multiple tax years of returns in each fiscal year, although the bill begins the tax phase down with the single tax year of 2024.

Specific estimates of the annual revenue losses as the tax is phased out are complicated by the realization of income tax year changes typically occurring over a three fiscal year period of transition. The first phase of the bill is a 25% rate and credit/exemption reduction. That first phase results in tax year revenue losses beginning in FY24 at \$250 million from the drop in withholdings collections during the first half of 2024 (the second half of FY24). Subsequent phases of rate reduction accumulate the revenue losses from each tax year's phase-down across three subsequent fiscal years, until the entire tax is phased out by January 2027 (FY27).

These estimates assume that the phase-down of exemption, deductions, and credits that limit the individual income tax liability of taxpayers does not apply to the calculation of tax table income tax liability, discussed above, but only to the various credits that are applicable to specific taxpayer situations after tax liability is calculated, and reflected in the REC forecasts above. Once the tax is eliminated, and possibly before, any outstanding IIT credits, rebates, etc., may be charged against other revenue streams (also may require additional legislation), which would make the general fund reduction greater than shown in the table.

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