# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **HB 173** HLS 23RS 586
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

**Date:** May 7, 2023 5:07 PM
**Author:** DEVILLIER
**Dept./Agy.:** REVENUE
**Subject:** Individual Income Tax: Full Phase-out
**Analyst:** Benjamin Vincent

TAX/INCOME TAX OR DECREASE GF RV See Note 
Phases-out the taxes levied on the income of individuals and estates and trusts over five years

Proposed law phases out the tax on individual income over five years, with reduced rates applying to each tax bracket beginning in Tax Year 2024. Starting in Tax Year 2024, proposed law reduces each rate within each bracket each year by amounts that vary by bracket, until all rates are reduced to zero in Tax Year 2028.

Additionally, proposed law repeals trigger provisions in present law that provide for automatic individual income tax rate cuts under certain conditions.

Effective January 1, 2024.

| **EXPENDITURES** | **2023-24** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $0 | $0 | $0 | $0 | $0 | **$0** |
| Agy. Self-Gen. | $0 | INCREASE | INCREASE | INCREASE | INCREASE | **$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** |

| **REVENUES** | **2023-24** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | ($195,000,000) | ($1,380,000,000) | ($2,700,000,000) | ($3,740,000,000) | ($4,580,000,000) | **($12,595,000,000)** |
| Agy. Self-Gen. | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Ded./Other | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Federal Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| Local Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | | | | | | |

**EXPENDITURE EXPLANATION**

LDR anticipates that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. The change is estimated at $77,000 of staff time.

**REVENUE EXPLANATION**

Proposed law generally eliminates IIT over five years. As the treatment of various deductions, credits, exemptions, and exclusions are unaddressed, taxpayer behavior and actual revenue impacts due to proposed law are highly uncertain.

An approximation of the revenue that would potentially be foregone upon full phase-in may be reflected in a combination of the 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), and the projected credits that will be claimed against IIT that are refundable and may be claimed against other taxes. The impact on a full year is estimated using the current FY25 projection of $4.6 billion for the purposes of this analysis.

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. Estimates of the annual revenue losses as the tax is phased out are further 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 20% rate reduction. That first phase results in tax year revenue losses beginning in FY24 at $195 million, primarily 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 2028 (FY28), as reflected in the table above.

Based on Tax Exemption Budget estimates for FY24, LFO estimates that approximately $270 million of credits per fiscal year that are typically claimed against IIT liabilities may remain liabilities of the state general fund despite proposed law, as they may be applied to other tax types after the elimination of IIT liabilities. Any such impacts would be in addition to the effects reflected in the table above, as the table above merely reflects tax table liability impacts.

LDR reports that certain dedicated funds and self-generated revenues would be reduced by the elimination of IIT, including fees from overpayments and certain credit transfers, the Sports Facility Assistance Fund (IIT paid by nonresident professional athletes), and the LA Entertainment Development Fund Account (Motion Picture Credit transfer fees).

| 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} |

Deborah Vivien
**Deborah Vivien**
**Chief Economist**