LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 844** HLS 24RS 2054
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 12, 2024 4:11 PM
Author: RISER
Dept./Agy.: Revenue (LDR)
Subject: Individual Income Tax: Repeal for Individuals
Analyst: Benjamin Vincent

TAX/INCOME TAX
Repeals the individual income tax

OR DECREASE GF RV See Note

Proposed law entirely repeals the income tax on individuals (IIT), effective for tax years beginning January 1, 2026, and repeals income tax rate triggers in current law. Income tax on corporations, estates, trusts, and pass-through entities is retained, and the treatment of existing deductions, credits, exemptions, and exclusions are unaddressed by the bill.

Effective January 1, 2026.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
Agy. Self-Gen.	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
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						

REVENUES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	**($1,000,000,000)**	**($5,700,000,000)**	**($4,700,000,000)**	**($4,800,000,000)**	**($16,200,000,000)**
Agy. Self-Gen.	$0	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**$0**
Ded./Other	$0	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION

LDR anticipates up-front costs exceeding $100,000 involved in modifying systems that interact with individual income tax, and for taxpayer education and compliance. Upon full implementation of the proposed repeal, reallocations within the department would likely occur that shift resources towards remaining taxes.
Additionally, **reduced revenues due to the bill will lower the debt limit by an estimated $342M, which may constrain capital outlay and other debt funding via the state debt maximum of 6% of taxes, licenses and fees.**

REVENUE EXPLANATION

Proposed law eliminates IIT immediately as of taxable year 2026. The precise timing of likely revenue impacts is subject to significant uncertainty, however LFO estimates the timing of these impacts based on historical taxpayer filing activity and withholdings. LFO assumes that LDR stops requiring withholding of taxes beginning with wages earned during January 2026.

An approximation of the revenue that would be foregone upon repeal is reflected in the 12/14/2023 Revenue Estimating Conference (REC) forecast of approximately $4.7 billion (the average of projected FY25 and FY26 IIT collections), and the projected credits against IIT that can be refunded or claimed against other taxes. For the purpose of this analysis, the estimated impact on a full year is estimated at $4.7 billion. This full-year value is first reflected in the table above as the FY28 impact of proposed law. Impacts in subsequent years would grow in accordance with IIT collections that would have been observed under a current-law baseline (current REC projects IIT to grow at approximately $40-60M per FY; future REC revisions may alter this figure).

Fiscal year forecasts reflect multiple tax years of returns in each fiscal year, resulting in a revenue impact that applies unevenly over the first three fiscal years. Approximately one quarter of tax withholdings and one quarter of declarations payments are anticipated to impact FY26, resulting in a reduction of $1.0B due to proposed law. Withholdings and declarations payments are anticipated to effectively catch up from FY26 during tax filing for FY27, resulting in a second-year revenue reduction of $5.2B. **As timing effects generally settle out by the third year, a revenue loss of $4.7 billion is anticipated in FY28, growing to approximately $4.8 billion in FY29**.

The table above reflects changes in tax table liability only. Existing IIT credits that are refundable or can be applied toward other taxes would cause revenue loss in addition to the figures in the table. FY24 Tax Exemption Budget estimates imply a potential **additional loss of approximately $270 million annually** due to such credits.

LDR reports that certain dedicated funds and SGR would be reduced by IIT repeal, including overpayments fees 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

- [x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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