LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 633** HLS 26RS 1015

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action: **W/ SEN FLOOR AMD**

Proposed Amd.:

Sub. Bill For.:

Date: May 8, 2026 9:25 AM

Author: BACALA

Dept./Agy.: Department of Revenue

Subject: Estimate Tax Timelines, Penalty Calculations, and Exceptions

Analyst: Noah O'Dell

TAX RETURN REF DECREASE GF RV See Note

Modifies statutory timelines, penalty calculations, and exceptions for penalties for the payment of certain estimated taxes

Current law applies a 12% annual penalty on underpaid estimated individual and corporate income taxes and establishes certain filing and adjustment deadlines on the 15th day of the fourth month following the close of the taxable year. Current law provides for an annualized income calculation as one method for avoiding underpayment penalties for both individual and corporate filers. Current law provides for an individual underpayment penalty exception for payments totaling at least 90% of the current year tax. For corporate taxpayers, current law provides an underpayment penalty exception for payments totaling at least 80% of the current year tax.

Proposed law retains the 12% annual penalty but extends certain filing and adjustment deadlines to the 15th day of the 5th month following the close of the taxable year. Proposed law repeals the annualized income calculation as a basis for avoiding underpayment penalties for both individual and corporate filers, but preserves the corporate underpayment penalty exception for payments totaling at least 80% of the current year tax. Proposed law reduces the individual underpayment penalty exception for payments from 90% of the current year tax to 70% of the current year tax. Effective upon signature of the governor and applicable beginning tax year 2026.

EXPENDITURES	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$77,450**	$0	$0	$0	$0	**$77,450**
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	**$77,450**	**$0**	**$0**	**$0**	**$0**	**$77,450**

REVENUES	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**5 -YEAR TOTAL**
State Gen. Fd.	**DECREASE**	**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						

EXPENDITURE EXPLANATION

Proposed law is anticipated to increase $77,450 SGR expenditures within the Department of Revenue (LDR) in FY 27 associated with one-time costs related to computer system development, modification, and testing. LDR must modify its system to adjust filing deadlines and penalty/interest calculations. LDR is anticipated to be able to absorb this amount within its current budget but may require additional resources depending on the aggregate impact of legislation enacted this session.

REVENUE EXPLANATION

Proposed law is anticipated to have three distinct revenue impacts on SGF and/or SGR:

Estimated Payment Timing Shift (Individual Income Tax)

Reducing the individual underpayment penalty safe harbor from 90% to 70% beginning in tax year 2026 is anticipated to reduce required estimated payments for certain taxpayers and accordingly SGF revenue in FY 27. This change is expected to shift a portion of individual income tax receipts from FY 27 into FY 28, when final tax liabilities for tax year 2027 are settled. The magnitude of this timing shift is indeterminable but is expected to be material (likely in the millions of dollars) based on the volume of estimated payments but dependent on taxpayer behavior. Individual taxpayer circumstances will determine the number of individuals who utilize this safe harbor provision at the new lower threshold. This change is primarily a cash-flow timing shift and is not expected to result in a material permanent change in tax liabilities over a full two-year cycle, assuming timely payment and taxpayer compliance. However, this change may potentially reduce SGF interest earnings by a minimal amount, should estimated payment reductions result in lower average daily cash balances.

Penalty Revenue Reduction (Individual Income Tax)

Reducing the individual safe harbor threshold from 90% to 70% is anticipated to reduce SGF and SGR revenue associated with penalties of taxpayers with estimated payments between these thresholds. Underestimated payment penalties collected by LDR for individual income taxpayers totaled $15.5 M in FY 25, $15.1 M in FY 24, and $12.9 M in FY 23. These penalties are assessed on individual taxpayers at an annual rate of 12%. A portion of these collections is likely attributable to taxpayers with estimated payments between 70% and 90% of liability; however, LDR is unable to isolate penalty data on this cohort of taxpayers. To the extent fewer taxpayers are penalized, SGR collected by LDR will decrease accordingly. LDR reverts excess SGR to the SGF under its current budgetary mechanism.

Extended Penalty Accrual Period (All Taxpayers)

In isolation, extending the accrual period for underestimated penalties from April 15 to May 15 is anticipated to increase underpayment penalty collections beginning in FY 27. LDR reports $4.9 M in underestimated tax penalties on individual filers were collected between 4/15/2025 and 6/30/2025. Of those collections, $4 M were from 2024 tax year filers. If current payment patterns persist in future years, this information indicates that a substantial share of individual taxpayers who underestimate taxes may be affected by the additional month of penalty accrual and that a meaningful portion of underestimated penalties are from earlier tax years. No such information is readily available for corporate penalties because LDR indicates it has not historically assessed underestimated payment penalties or excessive adjustment penalties on corporate filers. The department intends to begin doing so starting January 1, 2026, following the repeal of the franchise tax.

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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}

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CONTINUED EXPLANATION from page one:

Revenue Explanation (continued)

The bill also removes the annualized income calculation as a basis for avoiding individual and corporate underpayment penalties. This is not anticipated to materially affect penalties assessed by the department, due to the flat individual and corporate income tax rates under current law.

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}
[x]	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}

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