

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 586** HLS 13RS 625
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 13, 2013 3:55 PM	Author: TALBOT
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Reduce Personal Income Tax Rates	

TAX/INCOME TAX OR -\$347,000,000 GF RV See Note Page 1 of 1
 Changes the rates and brackets of the state tax levied on the net income of individuals to a flat tax

Current law levies tax on taxable income at rates of 2% (on first \$12,500 for single filers and \$25,000 for joint filers), 4% (on the next \$37,500 single and \$75,000 joint), and 6% (above \$50,000 single and \$100,000 joint).

Proposed law provides for a single tax rate of 1.9% on all taxable income over \$12,500, for all filing status'.

Effective January 1, 2014 for all taxable years beginning on and after January 1, 2014.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	(\$347,000,000)	(\$1,958,000,000)	(\$1,677,000,000)	(\$1,746,000,000)	(\$1,817,000,000)	(\$7,545,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	(\$347,000,000)	(\$1,958,000,000)	(\$1,677,000,000)	(\$1,746,000,000)	(\$1,817,000,000)	(\$7,545,000,000)

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs involved in modifying its systems dealing with the individual income tax. Taxpayer education and compliance support expenses may also be incurred. These costs should be minor and one-time in nature.

REVENUE EXPLANATION

To estimate the impact of this tax rate reduction, a number of factors have to be incorporated. The first step is to calculate the change in aggregate tax liabilities of tax filers (resident and nonresident) utilizing a personal income tax micro-simulation model processing actual tax year 2011 state tax return data.

The rate reduction in the bill reduces aggregate 2011 tax liabilities by \$1.373 billion. This liability change must be projected forward from the 2011 tax year of the simulation to the tax year when it will occur (2014), and through the fiscal note horizon. Based on a long-run (1998 - 2011) compound annual average growth rate of 4.1% for total federal adjusted gross income (all filers are affected by this bill), reduced tax liabilities are estimated at \$1.548 billion in tax year 2014, \$1.611 billion in 2015, \$1.677 billion in 2016, \$1.746 billion in 2017, and \$1.817 billion in 2018.

Due to the withholdings process, a portion of the first tax year's revenue reduction occurs in the last half of the fiscal year (see FY14 in table above). Based on collections data, key assumptions underlying the annual revenue loss estimates are (a) 80% of revenue is collected via withholdings (10% spring payments, 10% declarations and fiduciary), (b) 52% of gross withholdings are received in the second half of a fiscal year (32% declarations, and all spring payments) and, (c) a 3-month delay occurs for withholding changes to materially occur in the first year. This last assumption results in a catch-up effect in the following year as overpayments are refunded. Since this is a one-time rate reduction, this shift forward of a partial revenue loss and the subsequent catch-up of the overpayments is assumed to occur only in the first two years of the tax rate drop. These assumptions are applied to the projection of tax year liability loss to generate the estimated annual revenue reductions depicted in the table above.

A small amount of reduction will also occur to dedication to the Sports Facility Assistance Fund (about \$1.7 million or 57% of its \$3m per year total) as tax rates drop.

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

John D. Carpenter
Legislative Fiscal Officer