

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 34** HLS 161ES 158
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 17, 2016 6:27 PM	Author: LEGER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Individual Income Tax Bracket Compression	

TAX/INCOME TAX OR +\$324,000,000 GF RV See Note Page 1 of 1
 Changes the middle and upper income tax brackets for purposes of calculating the individual income tax (Item #3)

Current law establishes income tax rates and brackets of taxable income of individual tax filers as follows: 2% on the first \$12,500, 4% on the next \$37,500 (bracket up to \$50,000), and 6% on net income above \$50,000. Bracket ranges are doubled for joint filers.

Proposed law reduces the bracket ranges to the following: 2% on the first \$12,500, 4% on the next \$17,500 (bracket up to \$30,000), and 6% on net income above \$30,000. Bracket ranges are doubled for joint filers.

Effective for all tax years beginning on and after January 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$324,000,000	\$259,000,000	\$259,000,000	\$259,000,000	\$259,000,000	\$1,360,000,000
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	\$324,000,000	\$259,000,000	\$259,000,000	\$259,000,000	\$259,000,000	\$1,360,000,000

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions. Immediate costs will involve adjusting withholding tables and distributing those new tables to tax remitters as well as handle tax remitter inquiries and education. These costs are typically estimated as several thousands or even tens of thousands of dollars of staff time.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, the bracket compression proposed by the bill would increase aggregate income tax liabilities by some \$259 million.

This estimate is based on all resident filers. Non-resident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Non-residents tend to make up 5% - 6% of total tax-year liabilities.

Since changes to tax brackets affect all tax filers and the bill is applicable to tax years beginning January 1, 2016, it assumed that the Department of Revenue would adjust withholding tables to implement the bill as soon as possible after enactment, possibly as early as April 1, and increased withholdings would begin being realized by May 2016, affecting FY16 revenue. This withholding assumption complicates the fiscal year estimates of receipts.

Based on the total liability increase estimate above and compliance/enforcement ramp-up assumptions of 25% in May, 75% in June, and 100% by July applied to an average month of liability increase, \$44.2 million is estimated to be collected in FY16. Collections in FY17 will be composed of four quarters of withholdings (2016q3 - 2017q2 inclusive of the July accrual period) plus payments with returns in the spring 2017 filing season for the first quarter of 2016 tax liability increase that was not collected via withholdings. Thus, FY17 collects essentially five quarters of revenue or \$324 million. By FY18, collections should normalize to reflect only four quarters of collections or \$259 million.

Once past the FY16/FY17 transition period, the withholding assumption means that the liability increase of the bill will largely be collected through withholdings, even though some returns will be filed under extension each year. In addition, the uncertainty associated with significant tax changes involving filing timing and compliance ramp-up, in conjunction with a slowing economy argues for holding the estimates constant over the fiscal note horizon even though the official revenue forecast currently contains roughly 3% annual growth in personal income tax collections over the next few years.

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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)(1) >= \$100,000 SGF Fiscal Cost {H & 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