

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 76** HLS 161ES 168  
 Bill Text Version: **REENGROSSED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> March 8, 2016 9:15 AM	<b>Author:</b> STOKES
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Federal Income Tax Deduction and Rate/Bracket Limit	

TAX/INCOME TAX RE SEE FISC NOTE GF RV See Note Page 1 of 1  
 (Constitutional Amendment) Eliminates the income tax deduction for federal income taxes paid for purposes of computing individual and corporate income taxes and references to the maximum amount of individual income tax rates and brackets

Current law limits the rates and brackets of the individual income tax to never exceed those as of January 1, 2003, and requires a deduction for 100% of federal income taxes paid when computing state income taxes.

Proposed law removes the rate and bracket limitation as well as the requirement for the deduction of federal income taxes paid (for both individuals and corporations), and establishes a maximum tax rate of 4.75% for individual and joint income tax.

Effective for all tax years beginning on and after January 1, 2017.

To be submitted to the electors at the statewide election to be held on November 8, 2016.

<b>EXPENDITURES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>REVENUES</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

**REVENUE EXPLANATION**

The limitation on individual income tax rates and brackets has been generally interpreted to mean that the brackets can not be compressed beyond what was in place on January 1, 2003, and that the tax rates applied to those brackets can not be increased. That structure, for single filers is 2% of tax on net income up to \$12,500, 4% of tax on income in excess of that up to \$25,000, and 6% on income in excess of \$50,000. Joint filers face the same tax rates but with brackets doubled.

The bill removes the limitation on rates and brackets as of January 1, 2003. A graduated structure is still allowed, but the maximum tax rate is set at 4.75%. The bill also removes the constitutional requirement for the deduction of federal income taxes paid when computing state income tax, but does not appear to prohibit the deduction. The revised statutes provide for the deduction in R.S. 47:293(4) and 293(9)(a)(ii).

The statutory provisions concerning rates, brackets, and federal tax deductibility are not affected by this bill. Thus, the bill by itself does not change tax liabilities.

For information purposes, based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, elimination of the federal income tax deduction would increase aggregate income tax liabilities of individuals by some \$748 million. This estimate is based only on 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.

Based on fiscal year data from the Revenue Department 2015-16 Tax Exemption Budget, if the statutory deduction were also eliminated for corporate income tax filers, provided by R.S. 47:55, 47:241, and 47:287.85, approximately \$200 million of additional corporate tax liability would occur.

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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 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**