



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 21 HLS 162ES 37
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 7, 2016 9:10 AM Author: REYNOLDS
Dept./Agy.: Revenue Analyst: Greg Albrecht
Subject: Reduce Personal Income Tax Rates

TAX/INCOME TAX OR -\$148,500,000 GF RV See Note Page 1 of 1
Reduces the rates for purposes of calculating the tax on the taxable income of individuals (Item #43)

Present law, for purposes of individual income taxation, imposes tax on personal taxable income as follows: 2% on the first \$12,500, 4% between \$12,500 and \$50,000, and 6% above \$50,000. Taxable income brackets are doubled for joint filers.

Proposed law, for purposes of individual income taxation, reduces tax rates to 1.5% on the first \$12,500, 3.5% between \$12,500 and \$50,000, and 5.5% above \$50,000. Taxable income brackets are doubled for joint filers. Applicable to tax years beginning on and after January 1, 2018, and only if the constitutional amendment proposed in HB 31 of 2016 ES1 is adopted at a statewide election. HB 31 removes the constitutional requirement for the deduction of federal income taxes paid from the corporate income tax.

Table with 7 columns: EXPENDITURES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

The Department of Revenue will incur some costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions. These costs might be several thousand dollars of staff time for modifications and testing.

REVENUE EXPLANATION

Although the bill is contingent upon adoption of a proposed constitutional amendment, the bill contemplates a reduction of personal income tax rates. That contemplation is estimated here and displayed in the table above. Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, reductions of the income tax rates as proposed by this bill would decrease aggregate income tax liabilities by some \$339 million.

The full effect of the liability change is reflected in the FY19 estimate, although some returns will be filed under extension in the fall of 2019; after FY19 (in FY20). This works to overstate the FY19 estimate somewhat. However, no growth is assumed from the 2014 tax year to the 2018 tax year first affected by the bill, providing some offset to that overstatement.

Since changes to tax rates will affect all tax filers, it assumed that the Department of Revenue would adjust withholding tables to implement the bill from the beginning of tax year 2018, and decreased withholdings would be realized early in 2018, affecting FY18 revenue.

Based on the total liability decrease estimate above and withholding compliance/enforcement ramp-up assumptions of 25% in Jan. 18, 75% in Feb. 18, and 100% by Mar.18 applied to an average month of liability decrease, \$148.5 million is estimated to be foregone in FY18. Once past the FY18 transition period, the withholding assumption means that the liability decrease of the bill will largely be foregone through withholdings, even though some returns will be filed under extension each year.

Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}
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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