LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 17** HLS 162ES 58
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 9, 2016 1:59 PM **Author:** STOKES
Dept./Agy.: Revenue
Subject: Individual Income Tax Restructuring **Analyst:** Greg Albrecht

TAX/INCOME TAX EG +$25,000,000 GF RV See Note

Changes the rates and brackets for purposes of calculating individual income tax liability and eliminates certain deductions (Items #40 and 43)

Proposed law establishes individual income tax rates and brackets as follows: 0% on the first $12,500 of net income, 3.80% income in excess of $12,500. The brackets for joint filers are doubled. The $4,500 single and $9,000 joint personal/standard deduction is eliminated, as is the excess federal itemized deduction.

Contingent upon adoption of the constitutional amendment contained in HB 7 of this session, which prohibits a federal income tax deduction for individual income taxation as well as establishes a 4.75% maximum individual income tax rate, and upon enactment of HB 33 of this session which repeals the statutory provisions of a federal income tax paid deduction for both individual and corporate income tax purposes.
Effective for tax periods beginning on or after January 1, 2017.

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	$0	$0	$0	$0	$0	**$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.	$25,000,000	$60,000,000	$60,000,000	$60,000,000	$60,000,000	**$265,000,000**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$25,000,000**	**$60,000,000**	**$60,000,000**	**$60,000,000**	**$60,000,000**	**$265,000,000**

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

The bill appears to anticipate elimination of the deduction for federal taxes paid, and HB 7 of this session does provide for this. The bill also eliminates the $4,500/$9,000 personal deduction, and the deduction for excess federal itemized deductions, but appears to retain the $1,000 deductions per dependent, over 65 years old, and the blind. All of those conditions are assumed, along with the rate and bracket structure of the bill.

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, the changes proposed in this bill result in some $56 million of increased aggregate income tax liabilities. This estimate is based on all resident filers plus 5% additional for nonresident filers. This liability estimate is re-based to the 2016 tax year by the average growth of gross income tax collections over FY14 and FY15 (2.55% per year compounded growth or a 1.052 factor), resulting in an estimate of tax year 2016 liability increase of $60 million. Current employment conditions in the state support further no further growth assumption other than the re-basing to the 2016 tax year.

Since the changes made by this bill affect all tax filers, the Department of Revenue would likely adjust withholding tables to implement the bill at the outset of 2017. Based on the total liability increase estimate above and withholding compliance/enforcement ramp-up assumptions of 25% in Jan. 17, 75% in Feb. 17, and 100% by Mar. 17 applied to an average month of liability increase, $25 million is estimated to be received in FY17. Once past the FY17 transition period, the withholding assumption means that the liability increase of the bill will largely be realized through withholdings, even though some returns will be filed under extension each year. In FY18 collections normalize to four quarters of withholdings (2017q3 - 2018q2 inclusive of the July accrual period) or $60 million.

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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