

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



Fiscal Note On: **HB 356** HLS 17RS 403  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> April 10, 2017 11:23 AM	<b>Author:</b> IVEY
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Individual Income Tax: Federal Income Tax Deduction/Rates	

TAX/CORP INCOME OR SEE FISC NOTE See Note Page 1 of 1  
 (Constitutional Amendment) Provides for a flat rate for individual and business income taxes and eliminates the income tax deduction for federal income taxes paid for purposes of calculating corporate and individual income tax liability  
Present constitution allows graduated taxes on net income, prohibits the individual income tax rates and brackets in statute from exceeding those on January 1, 2003, and requires that federal income taxes paid shall be allowed as a deductible item in computing state income taxes for both individuals and corporations.

Proposed constitutional amendment removes the allowance for graduated rates, the rate and bracket prohibition, and the requirement for a deduction of federal income taxes paid for individual and corporate income tax computation. In addition, requires individual and corporate tax to be levied at flat rates as established in law.  
 Applicable for all tax periods beginning on and after January 1, 2018.

To be submitted to the electors at the statewide election to be held on October 14, 2017.

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</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><u>\$0</u></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>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</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><u>\$0</u></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**

There is no anticipated direct material effect on governmental revenues as a result of this measure. If adopted by the electorate, the bill removes the rate and bracket prohibition and the requirement of a deduction for federal income taxes paid for individual and corporate income tax. It requires a flat rate tax for individual and corporate taxation, but requires that rate to be established in statute. It does not itself change the rates and brackets from those currently provided in statute nor prohibit a federal tax deduction, also provided for in current statute. Should the current rate and bracket structures be changed and/or the federal tax deduction be removed from statute, the fiscal impact would be attributed to those measures, along with any other provisions such measures may contain.

For information purposes, a micro-simulation model of the individual income tax processing 2015 tax return data indicates that elimination of the deduction for individual income tax (with no other tax changes) would increase annual aggregate state individual income tax liabilities by some \$796 million. A flat rate of tax may or may not be established with the base broadening allowed by modification of the federal income tax deduction.

Based on tax year simulations of corporate tax filers provided by the Dept. of Revenue, if the statutory federal taxes paid deduction were eliminated for corporate income tax (with no other tax changes), approximately \$160 million of additional annual corporate tax liability would occur. A flat rate of tax may or may not be established with the base broadening allowed by modification of the federal income tax deduction.

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

House  
 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}

**John D. Carpenter**  
**Legislative Fiscal Officer**