

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 488** HLS 21RS 730

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 26, 2021	3:01 PM	Author: PRESSLY
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Income Tax		

TAX/INCOME TAX OR SEE FISC NOTE GF RV See Note Page 1 of 1
(Constitutional Amendment) Establishes the maximum rate for purposes of calculating individual income taxes and repeals the mandatory deduction for federal income taxes paid

Present constitution allows income taxes to be graduated according to the level of income, requires a deduction of federal income taxes paid when computing state income taxes, and prohibits the rates and brackets from exceeding those in effect on January 1, 2003.

Proposed amendment requires that the maximum state individual income tax rate on individuals shall be 4%, for tax years beginning on or after January 1, 2023, and eliminates the requirement for a federal income taxes paid deduction for income tax (applicable to both individual and corporate income tax).

To be submitted to the electors at the statewide election to be held on November 8, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	\$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

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$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

EXPENDITURE EXPLANATION

The bill contemplates modifications to the individual income tax for tax year 2023. While not effective until and if adopted at a statewide election in November 2022, the Department of Revenue may have to incur costs or system modification and testing prior to that date in order to be prepared in case this constitutional amendment is adopted. These costs are typically several thousands of dollars of staff time, but can be more material if numerous changes to the tax are enacted.

REVENUE EXPLANATION

The deduction for federal taxes paid and the rate and bracket structure of the income tax are currently provided in statute, consistent with current constitutional provisions. This constitutional amendment does not change those statutory provisions, and does not prohibit a federal tax deduction for income tax. This amendment does mandate a maximum 4% rate for individual income tax effective for tax years beginning on or after January 1, 2023 (the 2023 tax year). This is two percentage points lower than the current law top marginal tax rate of 6% for individual income tax. Specific statutory changes would be required to modify the federal taxes paid deduction.

Taken in isolation, the bill constitutionally reduces the top marginal tax rate for individual income tax from 6% to 4%, effective for tax year 2023. By itself, that reduces total tax liabilities by over \$445 million. However, the bill does appear to contemplate other statutory changes, such as modification of the existing graduated rate and bracket structure and the deduction for federal taxes paid.

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}

Christopher A. Keaton
Legislative Fiscal Officer