



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: HB 278 HLS 21RS 794

Bill Text Version: REENGROSSED

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 24, 2021 8:48 AM

Author: BISHOP, S.

Dept./Agy.: Revenue

Analyst: Greg Albrecht

Subject: Individual Income Tax

TAX/INCOME TAX

RE -\$600,000 GF RV See Note

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Reduces the tax rates for purpose of calculating individual income tax liability and eliminates and modifies certain income tax deductions

Proposed law modifies the individual income tax to reduce the existing rates to 1.85%, 3.50%, and 4.25% (from the current rates of 2%, 4%, and 6%). The existing brackets are retained. The bill also eliminates the deduction for federal income taxes paid, and limits the deduction for excess federal itemized deductions to only the amount attributable to medical expenses.

Proposed law provides further tax rate reductions through a triggering calculation that reduces the rates by the percent that the income tax growth rate exceeds the expenditure limit growth rate. Rate reductions occur if (a) the total tax receipt growth rate exceeds the expenditure limit growth rate and, (b) the Budget Stabilization Fund balance is at least 2.5% of total state revenue receipts in the prior fiscal year. Withholding tables are to be adjusted appropriately. This process begins November 2024, first affecting FY25 collections if the required conditions are met.

Effective for tax periods beginning on and after January 1, 2023.

Contingent upon adoption of a constitutional amendment contained in House Bill 274 of this session.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$87,000	\$0	\$0	\$0	\$0	\$87,000
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	\$87,000	\$0	\$0	\$0	\$0	\$87,000

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$1,500,000	\$1,000,000	(\$600,000)	(\$600,000)	\$1,300,000
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	\$0	\$1,500,000	\$1,000,000	(\$600,000)	(\$600,000)	\$1,300,000

EXPENDITURE EXPLANATION

Implementation of this proposal will result in approximately \$51,000 of programming, testing and system development costs related to the revision of the affected tax administration system. Additional estimated expenses of \$36,000 are associated with LDR's Revenue Processing Center (RPC) updating equipment and software to process the revised return in FY 2022-2023. LDR will also promulgate new rules to issue revised withholding tables and tax tables as required by R.S. 47:295. Additional costs will be incurred in later years if further tax rate reductions are triggered.

REVENUE EXPLANATION

The bill is estimated to result in an aggregate annual tax table liability increase of \$6.9 million. In general, filers that itemize on their federal returns will face a tax increase, while filers who do not itemize will face a tax decrease. This estimate is generated by a micro-simulation model processing 2019 resident and nonresident individual income tax data, with fiduciary receipts added as their share of FY20 total individual income tax receipts (0.498%). The return data reflect the significant federal income tax changes that first affected state taxes for tax year 2018. The medical expense excess itemized deduction effect is estimated from 2018 IRS data for Louisiana resident federal filings, resulting in \$7.5 million of state tax losses from the case of no excess itemized deductions allowed, and exogenously added to the aggregate liability change discussed above, to result in the fiscal year effects displayed in the table above. The tax year liability change estimate is translated to fiscal year receipt estimates in the revenue table above, inclusive of the medical expense excess itemized deduction. That translation process is discussed on page 2.

The bill also provides further tax rate reductions through a triggering calculation (performed in November of each year) that reduces the rates by the percent that the income tax growth rate over the two prior complete fiscal years exceeds the expenditure limit growth rate for the fiscal year within which the trigger calculation is being made. Rate reductions occur if (a) the total tax receipt growth rate over the two prior complete fiscal years exceeds the expenditure limit growth rate for the fiscal year within which the trigger calculation is being made and, (b) the Budget Stabilization Fund balance is at least 2.5% of total state revenue receipts in the prior fiscal year. If rate reductions are triggered, withholding tables will be adjusted appropriately for the ensuing tax year which begins January 1 of each year after the November calculations are made and the required conditions are met.

It should be noted that any rate reductions that are triggered will reduce revenue collections through withholdings and declarations in the second half of the fiscal year for which a budget will have already been adopted, and governmental operations will have been functioning under. In addition, the trigger mechanism has no limitation, seemingly contemplating eventual elimination of the income tax, although meeting the growth requirements may become problematic as the tax rates step down. Finally, if the expenditure limit growth factor is reduced (Acts 366 & 271 of 2020 - rejected by the electorate in Nov. 2020, and HBs 273 & 276 of 2021), it will be easier for tax growth to exceed the growth of the limit and trigger further tax rate reductions.

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



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CONTINUED EXPLANATION from page one:

Continued Revenue Explanation From Page 1

The tax year liability change estimate is translated to fiscal year receipt estimates in the revenue table above, inclusive of the medical expense excess itemized deduction in consultation with the Dept. of Revenue regarding the share of liability change typically collected through withholdings (79%), declarations (8%), and return filings (13%). The first fiscal year of effect will be FY23 with tax receipts affected through withholdings changes; with this estimate assuming a one-quarter lag for discernible impact. No lag is assumed for declarations since they are first due in April of the year. Receipts for the second fiscal year, FY24, will step up due to four quarters of withholdings and declarations, plus the catch-up of the first tax year's first quarter liability change when returns are filed, plus the amount of liability change typically realized on returns rather than through withholdings or declarations. The bill's tax year changes fully transition to fiscal year realizations by the third fiscal year, FY25, with tax year liability changes equal to fiscal year collections changes.

No growth path has been assumed for purposes of the fiscal note. The state personal income tax has experienced significant shocks in recent periods as a result of federal tax law changes, as well as the coronavirus pandemic event. Additional shocks are likely, associated with the federal pandemic support actions. In addition, federal tax law changes which began affecting state tax receipts in 2018, are scheduled to expire at the end of 2025.

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