

GREEN SHEET REDIGEST

HB 278

2021 Regular Session

Bishop

TAX/INCOME TAX: Reduces the tax rates for purposes of calculating individual income tax liability and calculating the tax liability of estates and trusts and eliminates and modifies certain income tax deductions.

DIGEST

Present law provides for a tax to be assessed, levied, collected, and paid upon the taxable income of an individual at the following rates:

- (1) 2% on the first \$12,500 of net income.
- (2) 4% on the next \$37,500 of net income.
- (3) 6% on net income in excess of \$50,000.

Proposed law reduces individual income tax rates as follows:

- (1) From 2% to 1.85% on the first \$12,500 of net income.
- (2) From 4% to 3.5% on the next \$37,500 of net income.
- (3) From 6% to 4.25% on net income in excess of \$50,000.

Proposed law requires the reduction in each individual income tax rate beginning February 1, 2024, and each February first through 2034, if the prior fiscal year's actual individual income tax collections as reported in the state's accounting system exceed the actual individual income tax collections for the fiscal year ending June 30, 2019, adjusted annually by the growth factor provided for in the present constitution.

Proposed law requires the amount of the reduction to be calculated by multiplying each rate by the difference between one and the percentage change in individual income tax collections in excess of the individual income tax collections for the 2018-2019 Fiscal Year adjusted annually by the growth factor as provided for in the present constitution. Further prohibits this reduction unless both of the following conditions are met:

- (1) The prior fiscal year's total general revenues exceeds the total general revenues for the 2018-2019 Fiscal Year, adjusted annually by the growth factor provided for in the present constitution.
- (2) The Budget Stabilization Fund balance is at least 2.5% of the total state revenue receipts from the prior fiscal year as reported by the treasurer to the Revenue Estimating Conference.

Proposed law requires the secretary of the Dept. of Revenue to publish the reduced rates and to consider the rate reduction when publishing the tax tables and withholding tables authorized by present law.

Proposed law requires the actual individual income tax collections and total general revenues used in the calculations required in proposed law to be certified by the Office of Statewide Reporting and Accounting Policy.

Proposed law defines "growth factor provided for in Article VII, Section 10(C) of the Constitution" as the positive growth factor that is the most recent average annual percentage rate of change of personal income for Louisiana as defined and reported by the U.S. Dept. of Commerce for the three calendar years prior to the fiscal year for which the limit is calculated.

Proposed law defines "total general revenues" as primary government general revenues from the statement of activities reported in the Comprehensive Annual Financial Report, excluding component units, additions to permanent endowments, and transfers.

Present law authorizes a deduction from individual income taxes for excess federal itemized personal deductions. The term "excess federal itemized personal deductions" is defined to mean the amount by which the federal itemized personal deductions exceed the amount of the federal standard deduction designated for the filing status used for the taxable period on the individual income tax return.

Proposed law changes present law to limit the expenses eligible to be claimed on a state return to expenses for medical care used by the taxpayer in the calculation of federal taxable income that exceed the amount of the federal standard deduction.

Proposed law defines the term "expenses for medical care" to have the meaning ascribed to it in federal law.

Present constitution and present law authorize a mandatory state deduction for federal income taxes paid for purposes of computing income taxes for the same period.

Proposed law repeals the present law provisions that authorize a state deduction for federal income taxes paid for purposes of calculating income taxes.

Present law requires the secretary to establish tax tables that calculate the tax owed by taxpayers based upon where their taxable income falls within a range that does not exceed \$250. Further requires the secretary to provide in the tax tables the combined personal exemption, standard deduction, and other exemption deductions in present law which are deducted from the 2% bracket. If the combined exemptions and deductions exceed the 2% bracket, the excess is deducted from the 4% bracket, and then the 6% bracket.

Proposed law changes present law by authorizing the combined personal exemption, standard deduction, and other exemption deductions to be deducted from the lowest income tax bracket. If the combined exemptions and deductions exceed the lowest bracket, the excess is deducted from the next lowest bracket.

Present law provides for a tax to be assessed, levied, collected, and paid on the La. taxable income of an estate or trust at the following rates:

- (1) 2% on the first \$10,000 of La. taxable income.
- (2) 4% on the next \$40,000 of La. taxable income.
- (3) 6% on La. taxable income in excess of \$50,000.

Proposed law changes income tax rates on estates and trusts as follows:

- (1) From 2% on the first \$10,000 of La. taxable income to 1.85% on the first \$10,000 of La. taxable income.
- (2) From 4% on the next \$40,000 of La. taxable income to 3.5% on the next \$40,000 of La. taxable income.
- (3) From 6% on La. taxable income in excess of \$50,000 to 4.25% on La. taxable income in excess of \$50,000.

Present law provides for the computation of La. taxable income for a resident estate or trust, including provisions for the federal income tax deduction, limitations of deductions for net income, provisions for the federal deduction for alternative minimum tax, and the authority of the secretary of the Dept. of Revenue to consider reductions to the federal income tax deduction and the determination of the deductible portion of an alternative minimum tax.

Proposed law retains present law except as it applies to the deductibility of federal income taxes. Provides that no federal income tax deduction is allowed on net income upon which no La. income tax was incurred or upon which no income tax will be paid.

Applicable for taxable periods beginning on or after Jan. 1, 2022.

Effective Jan. 1, 2022, if the proposed amendment of Article VII of the Constitution of La. contained in the Act which originated as House Bill No. 275 of this 2021 R.S. of the Legislature or the Act which originated as Senate Bill No. 159 of this 2021 R.S. of the Legislature is adopted at a statewide election and becomes effective and if both of the Acts that originated as House Bill No. 292 and Senate Bill No. 161 of this 2021 R.S. of the Legislature are enacted and become law.

(Amends R.S. 47:32(A), 241, 293(3) and (10), 295(B), 296.1(B)(3)(c) and (d), 300.1, 300.6(A), and 300.7(A); adds R.S. 47:32.1; repeals R.S. 47:293(4) and (9)(a)(ii) and 298)

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Specify the House Bill No. of the proposed constitutional amendment to which the effectiveness of proposed law is tied.

The House Floor Amendments to the engrossed bill:

1. Change the rate of the middle bracket for purposes of calculating individual income taxes from 3.51% to 3.5% on the next \$37,500 of net income.
2. Reduce the rate of the tax assessed, levied, collected, and paid on the La. taxable income of an estate or trust to be consistent with the rates in proposed law for individual income tax.
3. Eliminate the deduction for federal income taxes paid when computing income taxes for estates and trusts.
4. Add provisions authorizing a reduction in the individual income tax rates beginning Nov. 1, 2024, based on actual individual income tax collections. Further requires the actual income tax collections and actual tax, license, and fee collections to be certified by the Office of Statewide Reporting and Accounting Policy. Provides conditions that must be met for the reduction to be made.

Summary of Amendments Adopted by Senate

Committee Amendments Proposed by Senate Committee on Revenue and Fiscal Affairs to the reengrossed bill

1. Changes the effective date of the individual income tax rate reduction from November 1, 2024 and each November first thereafter to February 1, 2024 and each February first through 2034.
2. Provides for the reduction of each individual income tax rate if the prior fiscal year's actual individual income tax collections as reported in the state's accounting system exceed the actual individual income tax collections for the fiscal year ending June 30, 2019.
3. Adds conditions for the reduction in each individual income tax rate.
4. Adds provision for calculating the amount of the reduction.

5. Defines the terms "growth factor provided for in Article VII, Section 10(C) of the Constitution" and "total general revenues".
6. Provides that proposed law is applicable for taxable periods beginning on or after Jan. 1, 2022.
7. Specifies the House Bill and Senate Bill Nos. to which the effectiveness of proposed law is tied.
8. Makes technical changes.