

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



Fiscal Note On: **HB 274** HLS 21RS 793

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action: **w/ SEN COMM AMD**

Proposed Amd.:

Sub. Bill For.:

<b>Date:</b> June 2, 2021	5:04 PM	<b>Author:</b> BISHOP, S.
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Income Tax		

TAX/INCOME TAX RE1 SEE FISC NOTE GF RV See Note Page 1 of 1  
(Constitutional Amendment) Provides for the rates and brackets for purposes of calculating income taxes and limits the mandatory deduction for federal income taxes paid to corporate income taxes

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 for both individual and corporate 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 4.75%, for tax years beginning after December 31, 2021, and makes permissive a deduction for federal income taxes paid, as provided by law.

To be submitted to the electors at the statewide election to be held on October 9, 2021. Applicable to tax years beginning on or after January 1, 2022.

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	SEE BELOW	\$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>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 -YEAR TOTAL</b>
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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**

The bill contemplates modifications to the individual income tax for tax year 2022, and possibly the corporate income tax, as well. While not effective until and if adopted at a statewide election in October 2021, the Department of Revenue may have to incur costs or system modification and testing in an expedited fashion this summer and fall (the first half of FY22) in order to be prepared in case this constitutional amendment is adopted (along with any other associated statutory changes). These costs are typically several thousands of dollars of staff time, but can be more material if numerous changes to multiple taxes are enacted.

The enrolled general appropriations bill for FY22 provides \$2 million of funding for a statewide election.

**REVENUE EXPLANATION**

The deduction for federal taxes paid and the rate and bracket structure of the individual and corporate income taxes 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 4.75% rate for individual income tax effective for tax years beginning after December 31, 2021 (the 2022 tax year). This is one and a quarter 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 reduces total tax liabilities by over \$278 million.

However, the bill has other statutory changes contingent upon its adoption. These other bills (HB 278, HB 292, SB 161), affecting both individual and corporate income tax, and the corporate franchise tax, modify the existing graduated rate and bracket structures and deductions for federal taxes paid and excess itemized deductions. The specific estimated fiscal effects of those bills are discussed in the fiscal notes associated with each bill. The individual income tax provisions are essentially revenue neutral from an aggregate state fiscal perspective. The combined corporate tax provisions result in relatively small net revenue increases in FY22 and FY23, then relatively small net decreases in FY24 and beyond (see the discussion on those notes).

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**