

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 159** SLS 21RS 391

Bill Text Version: **ENGROSSED**

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

Proposed Amd.:

Sub. Bill For.:

Date: June 9, 2021	4:34 PM	Author: ALLAIN
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Income Tax		

TAX/TAXATION

EGC SEE FISC NOTE GF RV See Note

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Constitutional amendment to reduce the maximum rate of individual income tax and to provide for a federal income tax deduction as provided by law. (2/3 - CA13s1(A))

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 conference committee amendment (#2947) requires that the maximum state individual income tax rate on individuals shall be 4.75%, for tax years beginning after December 21, 2021, 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 October 9, 2021.

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

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

House

13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Christopher A. Keaton
Legislative Fiscal Officer