



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 278** HLS 21RS 794
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 15, 2021 10:43 AM	Author: BISHOP, S.
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Individual Income Tax	

TAX/INCOME TAX EN -\$600,000 GF RV See Note Page 1 of 2
 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%). 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 procedure that reduces the rates by the percent that income tax collections exceed those of FY19 that have been adjusted annually by the expenditure limit growth rate. Rate reductions occur if (a) both individual income tax and total REC-based tax receipts exceed their respective FY19 growth-adjusted receipts and, (b) the Budget Stabilization Fund balance is at least 2.5% of total state revenue receipts. Withholding tables are to be adjusted appropriately. This process begins April 2024, potentially first affecting FY25 collections, and repeats annually through 2034.

The bill is effective for tax periods beginning on and after January 1, 2022. Contingent upon adoption of constitutional amendments contained in HB274 or SB159, as well as enactment of statutory companions HB292 and SB161 of this session.

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

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$1,500,000	\$1,000,000	(\$600,000)	(\$600,000)	(\$600,000)	\$700,000
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	\$1,500,000	\$1,000,000	(\$600,000)	(\$600,000)	(\$600,000)	\$700,000

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. 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 procedure (starting in February 2024 and repeated each year through 2034) that reduces the rates by the percent that actual income tax receipts in the prior completed fiscal year have exceeded FY19 growth-adjusted receipts. Rate reductions occur if (a) both individual income tax receipts and total REC-based tax receipts in the prior completed fiscal year exceed FY19 growth-adjusted revenues and, (b) the Budget Stabilization Fund balance is at least 2.5% of total state revenue receipts of the prior fiscal year. Growth adjustment is based on the expenditure limit growth factor, and assures that estimated revenue base growth accrues to the state fisc, while revenue growth in excess of that is channeled into income tax reductions. 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 February calculations.

The individual income tax base-broadening and rate-reduction in this bill are contingent upon constitutional amendments (HB 274 or SB 159) and statutory companions that also broaden the corporate income tax base, and reduce the corporate income tax (HB 292) and franchise tax rates (SB 161). The individual income tax provisions of this bill are essentially revenue neutral from an aggregate state fiscal perspective. The combined corporate tax impact of (HB 292, corporate income tax) and (SB 161, franchise tax) is also closely revenue neutral in FY22 -\$2.2M and FY23 +\$1.1M, and then becomes a net revenue decrease in each subsequent year; FY24 -\$21.1M, FY25 -\$26.7M, FY26 and beyond -\$26.7M. Over the five-year fiscal note horizon, the two bills result in a \$75.6M revenue decrease. (see the fiscal notes on those bills & page 2).

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| <p><u>Senate</u></p> <p><input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}</p> <p><input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}</p> | <p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}</p> <p><input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p> |
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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 FY22 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, FY23, will step down 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 and, inclusive of the first annual effect of the medical excess itemized deduction being realized. The bill's tax year changes fully transition to fiscal year realizations by the third fiscal year, FY24, with tax year liability changes (and medical excess itemized deduction effects) 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 currently scheduled to expire at the end of 2025.

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}

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