Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 1** HLS 243ES 13
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: November 20, 2024 8:34 AM
Author: EMERSON
Dept./Agy.: Revenue
Subject: Flat IIT Rate, Exemption, Deduction, & Trigger Changes
Analyst: Benjamin Vincent

TAX/INCOME TAX RE1 DECREASE GF RV See Note

Provides for a flat rate for purposes of calculating income tax for individuals, estates, and trusts, increases the standard deduction, and modifies or repeals certain income tax deductions and credits (Item #5 and 6)

Proposed law specifies a flat tax rate of 3% on all income that is subject to Individual Income Tax (IIT), and repeals certain personal exemptions and net capital gains deductions.
The bill additionally increases the $4,500 standard deductions to $12,500 and the $9,000 standard deductions to $25,000, and further adjusts both by CPI-U inflation in all subsequent years. Proposed law doubles the exemption on pension and annuity income for filers aged 65+ from $6,000 to $12,000, and further adjusts by CPI-U inflation in all subsequent years.
The bill also authorizes full expensing ("Bonus Depreciation") for certain capital investment, based on the date that the capital is placed into service, and sunsets the allowance of claiming certain credits against IIT.
Proposed law repeals the existing IIT rate reduction triggers. Applicable to taxable years beginning on or after January 1, 2025.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$550,000**	$0	$0	$0	$0	**$550,000**
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	**$550,000**	**$0**	**$0**	**$0**	**$0**	**$550,000**

REVENUES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	**($331,000,000)**	**($1,138,000,000)**	**($1,325,000,000)**	**($1,352,000,000)**	**($1,370,000,000)**	**($5,516,000,000)**
Agy. Self-Gen.	**($3,000,000)**	**($12,000,000)**	**($13,000,000)**	**($14,000,000)**	**($14,000,000)**	**($56,000,000)**
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	**($334,000,000)**	**($1,150,000,000)**	**($1,338,000,000)**	**($1,366,000,000)**	**($1,384,000,000)**	**($5,572,000,000)**

EXPENDITURE EXPLANATION

LDR reports anticipated one-time expenditures for minor system design and specification updates, testing, and system development in support of tax return modifications and processing system modification. Anticipated costs total approximately $550,000. Any expenditure increases would be financed via SGR out of current collections, ultimately reducing SGF revenue mechanically. LFO assumes that these expenditures would impact FY 25.

REVENUE EXPLANATION

Overall fiscal impact of proposed law is estimated by the impact of overall change in liabilities implied by the rate, deduction, and exemption changes, modified by net collections increases due to credit repeals. LFO estimates a total FY 25 revenue impact of -$334 million, FY 26 impact of -$1.15 billion, FY 27 impact of -$1.34 billion, and FY 28 impact of -$1.37 billion. Proposed law reduces certain collections that LDR is currently permitted to retain 1% of as SGR, reflected in the table above as reduced Self-generated revenues.

Effects on FY 25 are due to the effective date of the bill and primarily will be driven by changes to IIT withholdings occurring on January 1, 2025. Withholdings typically comprise approximately 70% of overall collections, implying a reduction in cash collections over the latter half of FY 25 of approximately $334 million.

Discussion of Specific Provisions

Flat 3% Rate, Increased Standard Deductions & Retirement Exemption, Repealed Personal Exemptions:

Overall IIT liability changes due to the rate reductions, standard deduction and 65+ income exemption increases, and repeal of certain exemptions are modeled using partially-aggregated 2022 tax return data. LFO estimates of the likely impact of these features of the proposed bill are a nearly full year effect in FY 26 of $1.15 billion, and a full-year effect of approximately $1.34 billion in FY 27.

Annual CPI-U adjustment for exemptions and standard deductions:

This feature of the proposal will reduce overall IIT revenue further in every subsequent year, relative to the rate and deduction changes estimated in the previous section. In a scenario where CPI-U inflation were 3% in all years in the fiscal note horizon, this component would reduce collections by approximately an additional $26 million in FY 27, $52 million in FY 28, and so on.

New Bonus Depreciation:

LFO has no reliable basis for an estimate of the impact magnitude for this proposed exemption. For the purpose of this analysis, LFO assumes that this feature of the proposal will approximately offset the repealed deductions in the following section. **(continued on Page 2)**

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 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}

Alan M. Boxberger

Alan M. Boxberger
Legislative Fiscal Officer

CONTINUED EXPLANATION from page one:

Net Capital Gains Deduction & I.R.C. Section 280C Repeal:

These deductions have typically amounted to between $40-$85 million and $1-$20 million, respectively, in recent years. For the purpose of this analysis, LFO assumes that this feature of the proposal will approximately offset the repealed deductions in the previous section.

Sunset or Reduction of Allowable Tax Credit Program Participation:

Proposed law disallows participation (or reduces allowable participation via program caps) in several tax credit programs applicable toward IIT after June 30, 2025. LFO estimates that typical IIT-eligible credits that would be effectively disallowed would amount to approximately $39 million, thus this provision would increase net IIT collection by a like amount, following a significant typical lag between program participation and claiming of credits. Due to this lag, full impact of this provision is not anticipated to occur within the fiscal note horizon, limiting the impact of this provision to an estimated +$8 million in FY 27, +$16 million in FY 28, and +$24 million in FY 29. This is reflected as a partial offset to overall revenue reductions in the SGF line of the table above.

Repeal of Trigger Provisions:

Proposed law repeals automatic IIT rate reduction triggers in current law.