



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 198** HLS 25RS 74
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.: **REVISED**

Date: May 6, 2025	7:35 PM	Author: KNOX
Dept./Agy.: Dept. of Revenue		
Subject: Income Tax Deduction: Tip Income		Analyst: Noah O'Dell

TAX/INCOME-INDIV/EXEMPT OR DECREASE GF RV See Note Page 1 of 1
Authorizes an income tax deduction for tip income earned by taxpayers at or below certain income levels

Proposed law authorizes an individual income tax deduction for a certain percentage of tip income, depending on the taxpayers adjusted gross income (AGI) and filing status, received during a taxable year beginning in tax year 2026. Tip income is defined as the sum of social security tips and allocated tips reported on the taxpayer’s IRS form W-2, in addition to the amount of cash and charge tips received less the amount of cash and charge tips reported to all employers on the taxpayer’s IRS Form 4137. The deduction shall be eliminated if the Internal Revenue Code eliminates tip income from inclusion in the calculation of federal AGI.

Effective January 1, 2026 and applicable to tax years beginning on or after January 1, 2026.

EXPENDITURES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$146,067	\$96,116	\$99,000	\$101,970	\$443,153
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	\$146,067	\$96,116	\$99,000	\$101,970	\$443,153

REVENUES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	\$0	DECREASE	DECREASE	DECREASE	DECREASE	\$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

EXPENDITURE EXPLANATION
The bill is anticipated to increase \$146,067 SGR and one (1) T.O. in the Department of Revenue (LDR) in FY27. One time costs of \$52,750 are expected in FY27 related to computer system development, modification, and testing. LDR reports one Revenue Tax Specialist 1 with salary and related benefits of \$93,317 will be necessary beginning in FY27 to review and process returns claiming the proposed deduction. The department reports the ability to absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.

REVENUE EXPLANATION
The bill is estimated to decrease SGF revenue* each fiscal year beginning in FY27 when 2026 tax returns are filed. Taxpayers may claim a deduction for a certain percentage of tip income, depending on the taxpayers adjusted gross income (AGI) and filing status, reported on their IRS W-2 and on IRS form 4137. Calculating the exact revenue loss associated with the bill is complicated by a lack of recent data or any state level data on tip income received by taxpayers.

LFO estimates the bill may work to decrease SGF revenue by an amount in the range of \$6.2M to \$15.1M each fiscal year, based on data reported in “Taxation of Tip Income” by the Congressional Research Service (CRS) and data from Louisiana resident returns filed for tax year 2022. The CRS report indicates in 2018 approximately 3.89% of federal returns included tips. The average tip income reported per return was \$6,333 and the median was \$2,600. According to the Bureau of Labor Statistics, the average hourly earnings of all employees in the Accommodation and Food Services industry has increased by 44.2% from 2018 to 2025. Applying this increase in wages, the average and median reported tip income increase to \$9,132 and \$3,749 respectively. According to data from the LDR, approximately 1.44M returns fall within the AGI thresholds specified in the bill, but applying 3.89% implies about 56,016 are effected. This may be used to calculate a potential range for the SGF revenue loss each year. The mean (\$9,132) tip income may be applied against the effected returns in each bracket stated in the bill to obtain a high end estimate of \$15.1M in revenue loss. The median (\$3,749) tip income may be applied against the effected returns in each bracket state in the bill to obtain a low end estimate of \$6.2M in revenue loss.

It is worth noting these estimates heavily rely upon the self-reported tips provided on the federal tax returns in 2018, which may or may not accurately represent actual tip income today in Louisiana, assumes no growth path for wages in future years, and, perhaps most importantly, no change in tipping income in occupations. LFO can envision a scenario in which certain occupations may react to the deduction since workers may prefer receiving their pay in the form of tax-advantaged tips rather than taxable wages or salaries, which may result in additional tax revenue loss. LFO notes that the federal tip data per return was not designated by filing status, but data provided from LDR counts effected returns by filing status and the respective deduction percentage of each bracket was applied to the count of potential effected taxpayers.

* The SGF impact may originate as the LDR retention of 1% of income tax collections initially classified as SGR but ultimately reverted to the SGF for use in the budget. Should LDR reversions cease, this could become an SGR impact.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>	
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	<div>Deborah Vivien Chief Economist</div>