

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 87** SLS 08RS 464
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 2, 2008	2:46 PM	Author: SHAW
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Individual Income Tax - Bracket Changes		

TAX/TAXATION EG -\$302,000,000 GF RV See Note Page 1 of 2

Reduces individual income tax rates and brackets, and restores the full deduction for excess federal itemized personal deductions, to the same amounts as provided for prior to the enactment of the Stelly Plan (Act 51 of 2002) except for the Current law, for single filers, levies a 2% tax on the first \$12,500 of taxable income, a 4% tax on the next \$12,500, and a 6% tax on income in excess of \$25,000. These income thresholds are doubled for joint filers. These provisions were made effective with the 2003 tax year.

Proposed law, for single filers, retains the 2% tax on the first \$12,500 of taxable income, but applies the 4% tax to the next \$37,500, and the 6% tax to income in excess of \$50,000. These proposed income thresholds are doubled for joint filers.

Effective for tax periods beginning after December 31, 2007.

EXPENDITURES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	\$55,000	\$0	\$0	\$0	\$0	\$55,000
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$55,000	\$0	\$0	\$0	\$0	\$55,000

REVENUES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	(\$302,000,000)	(\$297,000,000)	(\$251,000,000)	(\$262,000,000)	(\$273,000,000)	(\$1,385,000,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	(\$302,000,000)	(\$297,000,000)	(\$251,000,000)	(\$262,000,000)	(\$273,000,000)	(\$1,385,000,000)

EXPENDITURE EXPLANATION

Costs above reflect an estimate of the one-time costs of processing system and tax form changes along with development and promulgation of new withholding and final tax tables.

REVENUE EXPLANATION

The estimated revenue losses above are based on a micro-simulation model of Louisiana personal income tax filers, processing data for the 2004 tax year (the latest complete detailed data available). That model estimates tax liability changes under the tax parameters proposed by this bill compared to current law. The liability reduction for that year is \$205 million under the 65% excess federal itemized deductions in effect for tax year 2008 (the first tax year of effect of this bill), and the model's 2004 liability reduction under the 100% excess federal itemized deductions in effect for tax year 2009 and beyond is \$194 million (less taxable income will be available against which lower effective tax rates will be applied by the bracket broadening of this bill). These liability changes have to be projected forward four and five years to reflect their estimated values in the 2008 and 2009 tax years (affecting FY09 and FY10 revenue collections) and then projected another three years through the fiscal note horizon.

Since the bracket changes affect virtually all tax filers and income, the tax dollar effect of those changes is projected on the basis of the growth of Louisiana labor & proprietor income (the primary income determinant of personal income tax collections in the Legislative Fiscal Office's forecasts). As provided by Moodys Economy.com macro-economic data service, a compound growth rate of 17.2% is applied from 2004 to 2008 and an average of 4.1% per year from 2008 to 2012. In 2008 \$240 million and in 2009 \$237 million.

In addition, the Department of Revenue is likely to adjust withholding tables and formulas to reflect the liability reductions associated with the bracket changes, since those changes will affect a large bulk of the tax filers. Withholding changes are assumed to be implemented beginning January 1, 2009, but a one-quarter lag in average tax remittance response is also assumed. This results in \$62 million more revenue lost in both FY09 and FY10 (SEE PAGE TWO). Fiscal year revenue reductions, including these withholding transition costs, are depicted in the table above.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

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

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CONTINUED EXPLANATION from page one:

The withholding assumption results in a fiscal note estimate of revenue loss that is \$62 million greater in both FY09 and FY10 than would occur without that assumption. In the second quarter of tax year 2009 withholdings are assumed to be reduced consistent with the new tables/formulas associated with the bracket changes of this bill. This will be a revenue loss to FY09, in addition to the revenue loss associated with all of the liability reduction of tax year 2008. During the first quarter of tax year 2009 taxpayers are overwithholding until they adjust to the new tables/formulas (that is the one-quarter lag in remittance response assumption). Taxpayers will recoup that overwithholding when they file their tax year 2009 returns in the spring of 2010, resulting in \$62 million more revenue loss in FY10 in addition to the revenue loss from lower withholdings during quarters 2009Q3 - 2010Q2. Once the two-year transition of FY09 and FY10 is complete, annual fiscal year revenue losses will stabilize and reflect withholding reductions over the four quarters of a year spanning the third through second quarters of two different calendar years (tax years).

Aside from the effect of the withholding transition discussed above, these estimates may be larger than expected for two other reasons: (1) the proposed law retains the current bottom bracket that was expanded in 2003 and which actually reduced taxation of a portion of income for most filers (worth over \$60 million in the FY09 estimate above) and, (2) the 2008 effective tax year for the changes proposed by this bill is six years after these provisions were last contained in the state's tax law (tax year 2002), with economic and revenue growth occurring over this period (growth from the 2004 total liability change of this bill to the 2008 total liability change is \$35 million). Finally, these estimates are actually a little smaller than similar proposals evaluated in the 2007 regular session (even though the same growth parameters are used) because the current law baseline now includes the phase in of excess federal itemized deductions. The effect of that is to reduce the amount of taxable income that is subject to the reduction in effective tax rates brought about by the bracket broadening of this bill.

Senate

Dual Referral Rules

House

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