

**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**



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

<b>Date:</b> April 30, 2008	1:42 PM	<b>Author:</b> SHAW
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Phase Out The Personal Income Tax		

TAX/INCOME/PERSONAL RE -\$278,000,000 GF RV See Note Page 1 of 1  
 Phases out the tax on incomes of individuals, estates, and trusts over a 10-year period at 10% per year beginning in 2008, and provides that certain refundable credits are still refundable even if there is little or no individual income tax. (gov siq)

Phases out the tax levied on the net income of resident and nonresident individuals, estates, and trusts. For tax years beginning during 2008 the share of tax due is 90%; for 2009 it is 80%; for 2010 70%; for 2011 60%; for 2012 50%; for 2013 40%; for 2014 30%; for 2015 20%; for 2016 10%; and, for tax years beginning on and after January 1, 2017 there shall be no tax on income. Refund components of a low-income child credit, credits for local property taxes paid on inventory and certain vessels, sound recording investor credit, Citizens Insurance assessment credit, and an employment credit are authorized to be made from the current collections of other taxes collected by the Department of Revenue.

Effective upon governor's signature.

<b>EXPENDITURES</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$55,000	\$0	\$0	\$0	\$0	<b>\$55,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$55,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$55,000</b>

  

<b>REVENUES</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	(\$278,000,000)	(\$570,000,000)	(\$890,000,000)	(\$1,237,000,000)	(\$1,610,000,000)	<b>(\$4,585,000,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>(\$278,000,000)</b>	<b>(\$570,000,000)</b>	<b>(\$890,000,000)</b>	<b>(\$1,237,000,000)</b>	<b>(\$1,610,000,000)</b>	<b>(\$4,585,000,000)</b>

**EXPENDITURE EXPLANATION**

The Department of Revenue (LDR) indicates it will require some additional funds in FY09 to modify its systems and forms to accommodate the changes scheduled by this bill. While at some point after FY17 current administrative resources would be available for other functions within the LDR or could be eliminated. However, the bill appears to intend to retain refundable tax credits that would still need to be processed as credit claims rather than as tax returns, even after the tax is entirely eliminated. In addition, at some point in the phase-out corporate tax receipts may be inadequate for all credit claims.

**REVENUE EXPLANATION**

The revenue losses in the table above are the phase-out shares provided by this bill multiplied by the current official forecast (2/10/2008) for the individual income tax. Annual revenue losses would increase for another five years beyond the fiscal note horizon until the tax were completely eliminated in 2017. Annual Revenue losses in those years are estimated at \$2.0 billion in FY14, \$2.4 billion in FY15, \$2.9 billion in FY16, \$3.4 billion in FY17, and \$3.9 billion in FY18, at which point the tax is entirely eliminated. Actual revenue losses in any particular year will likely differ from this simple projection as withholding patterns adjust to the phase-out schedule and actual gross tax liabilities are calculated for each year. In addition, a change in the state's tax system of this magnitude may have unanticipated effects, and consequently has an atypical level of uncertainty associated with it.

A change in tax collections of this magnitude and of this type (personal income tax) warrants some discussion of the potential economic (and subsequent fiscal) effects that might be associated with such a change. Taken in isolation, income tax reductions increase disposable income, some portion of which will be spent on goods & services supplied by in-state producers. In addition, lower tax burdens relative to areas outside the state will tend to attract in-migration and its associated spending. To the extent this occurs, employment and earnings in the state will be greater than would otherwise occur, and historically, roughly 8.5% of total state labor & proprietor income becomes state tax receipts. These effects, however, are small relative to the direct revenue losses attributable to the bill. Dynamic analysis indicates that these effects result in no more than 5% - 10% of the static revenue loss being recovered in any one year. Actual recovery would likely be less than this range for two reasons. First, about one-third of the tax receipts collected from additional earnings in the economy are the result of the income tax. This bill is entirely eliminating that tax. Second, state government must balance its budget each year. Revenue reductions of the magnitude resulting from this bill would require government expenditure reductions or other tax increases that would have their own negative effects on overall spending in the economy, offsetting the stimulative effect and attraction effect provided by the bill's income tax reduction. Ultimately, state revenue losses are reasonably approximated by the static revenue losses 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

*H. Gordon Monk*

**H. Gordon Monk**  
**Legislative Fiscal Officer**