



LEGISLATIVE FISCAL OFFICE

Fiscal Note

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

Date: June 13, 2008 9:01 AM **Author:** SHAW
Dept./Agy.: Revenue **Analyst:** Greg Albrecht
Subject: Individual Income Tax - Bracket Changes

TAX/TAXATION EN -\$359,000,000 GF RV See Note Page 1 of 1

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. The Department of Revenue is to amend withholding tables after July 1, 2009.

Effective for tax periods beginning on and after January 1, 2009.

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.	\$0	(\$359,000,000)	(\$251,000,000)	(\$262,000,000)	(\$273,000,000)	(\$1,145,000,000)
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	\$0	(\$359,000,000)	(\$251,000,000)	(\$262,000,000)	(\$273,000,000)	(\$1,145,000,000)

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 \$194 million under the 100% excess federal itemized deductions in effect for tax year 2009 (the first tax year of effect of this bill). This liability change has to be projected forward five years to reflect the estimated value in the 2009 tax year (reported on tax returns filed in the spring of FY10) 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 2009 \$237 million.

In addition, the Department of Revenue is directed to adjust withholding tables and formulas to reflect the liability reductions associated with the bracket changes, effective July 1, 2009. Except for individuals that make the effort to establish their own withholding amounts and the timing of those withholdings, promulgation of new withholdings tables and formulas on this date insures that no material loss of revenue occurs in FY09. Regardless of the response time of withholding remitters after that date, the reduction in tax year 2009 liabilities will be realized largely during FY10; through withholdings reductions after July 2009 and through lower tax payments or greater refunds when 2009 tax returns are filed in the spring of 2010. FY10 collections will also be reduced for a portion of 2010 liability reductions that are realized through lower withholdings in the first and second calendar quarters of 2010 (the third and fourth quarters of FY10). This is effectively six quarters of revenue loss realized in FY10, and results in approximately \$124 million more revenue lost in FY10 than if withholdings were not changed. However, this withholding transition effect will last only for the first year (FY10). From FY11 and on through subsequent fiscal years, 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).

Senate

Dual Referral Rules

House

13.5.1 >= \$500,000 Annual Fiscal Cost

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

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

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

H. Gordon Monk
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Legislative Fiscal Officer