LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 259** SLS 11RS 641
Bill Text Version: **RE-REENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: June 11, 2011 10:20 AM
Author: MARIONNEAUX
Dept./Agy.: Revenue
Subject: Phase Out Personal and Corporate Income Tax
Analyst: Greg Albrecht

TAX/TAXATION RR -$133,000,000 GF RV See Note
Phases out the state personal and corporate state income taxes. (8/15/11)

Phases out the individual and corporate income tax, evenly over a ten year period, beginning with tax year 2013. No income tax will be levied for any tax year commencing on or after January 1, 2022.

Requires the governor to begin taking administrative actions and rule promulgations necessary to reduce the state budget, and to propose specific legislation to do so where necessary. A report of such actions is to be provided at the time the Executive Budget is submitted. The governor is also directed to implement a variety of budget reduction actions, enumerated in the bill.

The bill also establishes a commission charged with developing a plan phase out the state income tax while maintaining a balanced budget and providing necessary services to the citizens. A plan is to be submitted by January 6, 2012. A concurrent resolution containing the plan is to be considered during the 2012 session.

EXPENDITURES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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**	**$0**	**$0**	**$0**	**$0**

REVENUES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	$0	($133,000,000)	($488,000,000)	($884,000,000)	($1,303,000,000)	**($2,808,000,000)**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($133,000,000)**	**($488,000,000)**	**($884,000,000)**	**($1,303,000,000)**	**($2,808,000,000)**

EXPENDITURE EXPLANATION

Section 1 of the bill contemplates the income tax revenue loss being offset by mandated state budget reductions, based on a list of actions (some of which may actually require additional expenditures). However, these provisions are not effective until a study commission established in Section 2 of the bill submits a plan that is adopted by the legislature during the 2012 session. That plan can include both budget reductions and the elimination of tax exemptions.

REVENUE EXPLANATION

The bill provides a phase out of both the personal and corporate income tax starting with the 2013 tax year. The phase out progresses evenly over a ten year period, with rates declining from their current levels by 10% for tax year 2013, 20% for 2014, 30% for 2015, 40% for 2016, 50% for 2017, 60% for 2017, 70% for 2019, 80% for 2020, 90% for 2021, and 100% for 2022 and beyond. Combined results for the fiscal note horizon are depicted in the table above.

Personal Income Tax: The estimated annual revenue reductions assume the current official forecasts of personal income tax grow at an annual average rate of 5.62% over the ten year phase out period. Since the phase out does not start for essentially one and one-half tax years from now and progresses evenly each year, it is assumed that the Department of Revenue will have time to schedule annual adjustments to the withholding tables. The effect of this would be to shift a portion of each tax year's revenue reduction forward into the first six months of the tax year (the last half of the prior fiscal year). Additional assumptions underlying the annual revenue reduction losses are (a) 75% of revenue is collected via withholdings (this share has risen significantly in recent periods), and (b) 50% of withholdings are received in each half of a fiscal year (a stable experience of collections). These assumptions along with the rate reduction percentages are applied to the baseline projection of income tax collections over the phase out period of the bill to generate estimated annual revenue reductions as follows: $113 million in FY13, $440 million in FY14, $800 billion in FY15, $1.182 billion in FY16, $1.619 billion in FY17, $2.101 billion in FY18, $2.632 billion in FY19, $3.216 billion in FY20, $3.857 billion in FY21, $4.561 billion in FY22, and $5.139 billion in FY23. At that point all personal income tax collections for current liabilities will cease.

Corporate Income Tax: The estimated annual revenue reductions assume the current official forecasts of corporate income tax grow at an annual average rate of 10% over the ten year phase out period. While corporate income tax collections are received, in part, through quarterly declaration payments, the overall tax exhibits very large degrees of variability throughout the year and from year to year. The estimated revenue reductions are a simple application of the phase out percentages to each fiscal year's projected baseline collections. This results in estimated annual revenue reductions as follows: $20 million in FY13, $48 million in FY14, $85 million in FY15, $121 million in FY16, $167 million in FY17, $220 million in FY18, $282 million in FY19, $355 million in FY20, $440 million in FY21, $538 million in FY22, and $592 million in FY23. At that point all corporate income tax collections for current liabilities will cease.

For FY17 $1.785 billion, FY18 $2.321b, FY19 $2.914b, FY20 $3.571b, FY21 $4.297b, FY22 $5.099b, and FY23 $5.731b.

Senate — Dual Referral Rules — House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

The bill is phasing out two revenue sources, against which a large number of benefit programs are charged. For nonrefundable tax credits, the elimination of these taxes entirely is significantly more beneficial to taxpayers than the credits themselves, although there may still be an issue of how to resolve the benefit of unused credit amounts that would be carried forward from prior years. The more significant issue along these lines probably has to do with refundable and transferable credits, and direct cash payment (rebate) programs. In these cases 100% of the benefit is available to taxpayer/participants regardless of tax liability, and in the case of direct cash payment programs without connection to the tax filing of the recipient at all. The Revenue Department charges these benefit disbursements against the particular taxes and pays the benefits to particular recipients from aggregate current collections of these taxes. If these taxes are eliminated it is not clear if these programs cease to exist as well. If these benefit programs are to continue even after the tax they are charged against is eliminated, then total costs to the state from eliminating these taxes will be effectively greater. The state would lose the net revenue expected from the tax after all benefit disbursements are charged, and the state would still have the costs of the programs to cover with other revenue collections or appropriations.

The Department of Revenue would incur annual costs involved in modifying its systems dealing with individual and corporate income tax, and sales tax and other taxes. Withholding tables and tax forms would have to be modified annually and made available to taxpayers. Taxpayer education and compliance support expenses would also be incurred. As the tax shifting is being implemented resource reallocations within the Department would seem appropriate from income tax to the sales tax and other taxes collected by the Department. Annual costs may range from $50,000 to $100,000.

Senate — Dual Referral Rules — House

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