LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 259** SLS 11RS 641

Bill Text Version: **RE-REENGROSSED**

Opp. Chamb. Action: **w/ HSE COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date:	June 14, 2011 12:20 PM	**Author:**	MARIONNEAUX
Dept./Agy.:	Revenue		
Subject:	Phase Out Personal Income Tax	**Analyst:**	Greg Albrecht

TAX/TAXATION RR1 +$120,000,000 GF RV See Note

Creates a state commission (SCORE) to submit a written plan by January 6, 2012, to reduce and eliminate state income taxes, recommend budget reduction actions, and reduce or eliminate tax benefits; provides that if a concurrent resolution

Phases out the individual income tax, evenly over a ten year period, beginning with tax year 2014. No income tax will be levied for any tax year commencing on or after January 1, 2023.

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 income tax phase-out is not contingent upon these actions being taken.

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. The income tax phase-out is not contingent upon adoption of this plan.

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	$0	($120,000,000)	($463,000,000)	($832,000,000)	**($1,415,000,000)**
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**	**$0**	**($120,000,000)**	**($463,000,000)**	**($832,000,000)**	**($1,415,000,000)**

EXPENDITURE EXPLANATION

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), and adoption of a plan recommended by the study commission created by the bill. However, the implementation of the income tax phase-out is not contingent upon either of these components of the bill.

REVENUE EXPLANATION

The bill provides a phase out of the personal income tax starting with the 2014 tax year. The phase out progresses evenly over a ten year period, with rates declining from their current levels by 10% for tax year 2014, 20% for 2015, 30% for 2016, 40% for 2017, 50% for 2018, 60% for 2019, 70% for 2020, 80% for 2021, 90% for 2022, and 100% for 2023 and beyond. Results for the fiscal note horizon are depicted in the table above.

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 two 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: $120 million in FY14, $463 million in FY15, $832 million in FY16, $1.249 billion in FY17, $1.710 billion in FY18, $2.219 billion in FY19, $2.780 billion in FY20, $3.397 billion in FY21, $4.074 billion in FY22, $4.817 billion in FY23, and $5.428 billion in FY24. At that point all personal income tax collections for current liabilities will cease.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S} 6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 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 a major revenue source, 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 particular taxes (including the personal income tax) and pays the benefits to particular recipients from aggregate current collections. If this tax is eliminated it is not clear if these programs cease to exist or are curtailed, 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 this tax 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 income tax. 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 elimination is completed, resource reallocations within the Department would seem appropriate from the personal income tax to the other taxes collected by the Department. Annual costs may range from $50,000 to $100,000.

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}

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