LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 48** HLS 161ES 128
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: February 17, 2016 6:38 PM
Author: ABRAMSON
Dept./Agy.: Revenue
Subject: Individual Income Tax Rates and Bracket Changes
Analyst: Greg Albrecht

TAX/INCOME TAX OR INCREASE GF RV See Note

Reduces the rates and adjusts the brackets for purposes of calculating individual income tax and provides relative to certain tax credits and deductions (Items #3, 18, and 26)

Current law establishes income tax rates and brackets of taxable income of individual tax filers as follows: 2% on the first $12,500, 4% on the next $37,500 (bracket up to $50,000), and 6% on net income above $50,000. Bracket ranges are doubled for joint filers. Federal itemized deductions in excess of the federal standard deduction are deductible on state income tax returns. A refundable earned income tax credit is available at 3.5% of the federal credit for eligible filers.
Proposed law:For tax years 2017, 2018, 2019 rates and brackets are: 2% on the first $12,500, 3% up to $25,000, 5% up to $250,000, and 5.5% over $250,000. Brackets are doubled for joint filers. Excess federal itemized deductions are not allowed, and the earned income tax credit is increased to 7% of the federal credit.
For tax years 2020 and beyond rates and brackets are returned to current law, as is the deduction for excess federal itemized deductions and the earned income tax credit.
Effective July 1, 2016.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
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	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	$0	$0	**$0**
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**

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions. Immediate costs will involve adjusting withholding tables and distributing those new tables to tax remitters as well as handle tax remitter inquiries and education. These costs are typically estimated as several thousands or even tens of thousands of dollars of staff time.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, the rate and bracket changes proposed by the bill in conjunction with the change to excess federal itemized deductions would increase aggregate income tax liabilities by some $87.6 million for tax years 2017, 2018, and 2019 (the sum of $134.6 million liability increase from the rate/bracket and excess itemized changes and a $47 million greater earned income tax credit). This estimate is based on all resident filers. Non-resident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Non-residents tend to make up 5% - 6% of total tax-year liabilities.

Since changes to tax brackets affect all tax filers, the Department of Revenue would likely adjust withholding tables to implement the bill, starting with January 2017, and withholdings effects would be realized during the second half of FY17. It is not clear though if these withholding changes would attempt to incorporate the changes to excess federal itemized deductions, affecting only about 25% of filers. However, without the base expansion associated with the elimination of the excess itemized deduction, aggregate liabilities are actually reduced by $136.7 million. Pending decisions regarding withholdings policy, the effects of the bill by fiscal year are highly uncertain and are not estimated.

Finally, it seems unlikely that the earned income tax credit change would be included in withholding changes since it is a refundable tax credit benefit unrelated to tax table liability.

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) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer