



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 51 HLS 161ES 171
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 17, 2016 7:16 PM
Dept./Agy.: Revenue
Subject: Individual Income Tax Rates and Brackets
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TAX/INCOME TAX OR SEE FISC NOTE GF RV Page 1 of 1
Reduces the rates and adjusts the brackets for purposes of calculating individual income tax and provides relative to certain deductions (Items #3 and 19)

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. Excess federal itemized deductions are also allowed as a deduction in computing taxable income.

Proposed law changes the tax rates and brackets to 1% on the first \$12,500, 3% on the next \$12,500 (bracket up to \$25,000), and 5% on net income above \$25,000. Bracket ranges are doubled for joint filers. In addition the deduction of excess federal itemized deductions is repealed.

Effective for all tax years beginning on and after January 1, 2017.

Table with 7 columns: EXPENDITURES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

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 tax rate, bracket, and deduction changes proposed by the bill would decrease aggregate income tax liabilities by some \$15.4 million. This estimate is based on all resident filers. Non-resident filers would also be affected, and their omission from the model could work to under or over state the estimate somewhat. Non-residents tend to make up 5% - 6% of total tax-year liabilities. This result is very close to aggregate revenue neutrality for this type of analysis. For example, the same scenario processing 2013 data results in a \$1.2 million aggregate liability increase.

Since changes to tax brackets affect all tax filers the Department of Revenue is likely to adjust withholding tables to implement the bill, but the approximate aggregate neutrality of the bill makes it speculative as to the dollar effects to be expected in any particular fiscal year.

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}

Signature of John D. Carpenter
John D. Carpenter
Legislative Fiscal Officer