

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 75** HLS 161ES 6
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 24, 2016 10:10 AM	Author: STOKES
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Individual Income Tax Restructuring	

TAX/INCOME TAX EG SEE FISC NOTE GF RV See Note Page 1 of 1
 Changes the rates and brackets for purposes of calculating individual income tax liability and eliminates certain deductions (Item #3)

Proposed law establishes individual income tax rates and brackets as follows: 0% on the first \$12,500 of net income, 4.25% income in excess of \$12,500. The brackets for joint filers are doubled. The \$4,500 single and \$9,000 joint personal/standard deduction is eliminated, as is the excess federal itemized deduction.

Effective for tax periods beginning on or after January 1, 2017.

Contingent upon adoption of a constitutional amendment not yet specified in the text of this bill.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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.	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
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

The bill appears to anticipate elimination of the deduction for federal taxes paid, as well as eliminates the \$4,500/\$9,000 personal deduction (but appears to retain the \$1,000 deductions per dependent, over 65 years old, and the blind). Those conditions are assumed, along with the rate and bracket structure of the bill.

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, the changes proposed in this bill result in some \$14.4 million of increased aggregate income tax liabilities. This is essentially a revenue neutral result in the aggregate for this type of analysis. 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 rates affect all tax filers the Department of Revenue would likely adjust withholding tables to implement the bill at the outset of 2017. This will affect revenue in the second half of FY17, but an estimate of that effect is not prepared without further consultation with the Department of Revenue. By FY18 and beyond much of any transition to this new tax structure would be completing, but appears to be largely revenue neutral in the aggregate.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal 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}

John D. Carpenter
Legislative Fiscal Officer