



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 75 HLS 161ES 6
Bill Text Version: REENGROSSED
Opp. Chamb. Action: w/ SEN COMM AMD
Proposed Amd.:
Sub. Bill For.:

Date: March 9, 2016 9:16 AM Author: STOKES
Dept./Agy.: Revenue Analyst: Greg Albrecht
Subject: Individual Income Tax Restructuring

TAX/INCOME TAX RE1 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, 3.8% 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 the constitutional amendment contained in HB 76 of this session, which allows for the elimination of the federal income tax deduction as well as establishes a 4.75% maximum individual income tax rate. Amends HB 29 of this session, already enrolled, to make HB 29 contingent upon the adoption of HB 76 of this session, as well. HB 29 provides for a flat tax rate corporate income tax.

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

The bill appears to anticipate elimination of the deduction for federal taxes paid, and HB 80 at the same stage in this session does provide for this. The bill also 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), and the deduction for excess federal itemized deductions. All of 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 \$53 million of increased aggregate income tax liabilities. This estimate is based on all resident filers. Nonresident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Nonresidents tend to make up 5% - 6% of total tax-year liabilities.

Since changes to tax rates and brackets affect all tax filers the Department of Revenue would likely adjust withholding tables to implement the bill at the outset of 2017. This would 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.

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