

Fiscal Estimate Narratives

DOR 2/6/2024

LRB Number	23-5631/1	Introduction Number	SB-0977	Estimate Type	Original
Description expansion of the second individual income tax bracket					

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, there are four individual income tax rates and brackets. The brackets are indexed for inflation. In 2024, the tax rates and brackets under current law for single individuals, certain fiduciaries, and heads of households is as follows:

1. For taxable income not exceeding \$14,320, 3.50 percent.
2. For taxable income exceeding \$14,320, but not \$28,640, 4.40 percent.
3. For taxable income exceeding \$28,640, but not \$315,310, 5.30 percent.
4. For taxable income exceeding \$315,310, 7.65 percent.

The tax rates in each bracket for married persons filing jointly and married persons filing separately are the same, but the dollar amounts are approximately one third higher for joint filers and one third lower for separate filers.

This bill extends the second income tax bracket and narrows the third income tax bracket by replacing the \$28,640 boundary value with \$112,500. It also replaces the comparable boundary values for married persons filing jointly and married persons filing separately. For single individuals, this effectively reduces the tax rate applied to taxable income in the range of \$28,640 to \$112,500 from 5.30 percent to 4.40 percent.

Effective July 1, 2024, the bill also requires the department of revenue to update the individual income tax withholding tables to reflect the tax rates, brackets, and sliding scale standard deduction that are in effect for taxable year 2024.

Based on a simulation using 2019 income tax data, adjusted to reflect 2024 income levels and law, the bracket adjustment will reduce revenue by approximately \$795 million in fiscal year 2025 and \$774 million annually thereafter. The withholding table adjustment will reduce revenue by approximately \$466 million in fiscal year 2025.

According to Department of Administration net tax reduction calculations related to the American Rescue Plan Act (ARPA), the remaining margin for tax reductions before triggering potential SLFRF recoupment at \$97.0 million for fiscal year 2024 and \$326.6 million for fiscal year 2025. This bill exceeds these margins.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
II. Annualized Costs:		Annualized Fiscal Impact on funds from:
		Increased Costs Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By	Authorized Signature	Date
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