LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 9** HLS 181ES 56
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 19, 2018 2:34 PM
Author: LEGER
Dept./Agy.: Revenue
Subject: Individual Income Tax: Brackets and Excess Itemized Deducs
Analyst: Greg Albrecht

TAX/INCOME TAX OR +$543,000,000 GF RV See Note

Changes the middle and upper income tax brackets for purposes of calculating the individual income tax (Item #3)

Present 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 allowed at 100% of the excess.

Proposed law reduces the bracket ranges to the following: 2% on the first $12,500, 4% on the next $12,500 (bracket up to $25,000), and 6% on net income above $25,000. Bracket ranges are doubled for joint filers. Excess federal itemized deductions are allowed at 50% of the excess.

Effective for all tax years beginning on and after January 1, 2018.
Effective upon governor's signature.

EXPENDITURES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**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	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	$543,000,000	$483,000,000	$483,000,000	$483,000,000	$483,000,000	**$2,475,000,000**
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	**$543,000,000**	**$483,000,000**	**$483,000,000**	**$483,000,000**	**$483,000,000**	**$2,475,000,000**

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. 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 2016 tax year return data, the bracket compression and excess federal itemized deduction change proposed by the bill would increase aggregate income tax liabilities of resident tax filers by some $483 million. This estimate is based on a present law baseline that contemplates recent federal tax law changes that are effective for the 2018 tax year. That law reduces federal tax liabilities and consequently the state deduction for federal taxes paid. In addition, it nearly doubles the standard deduction, significantly reducing the total amount of excess itemized deduction that this bill would then limit to 50%.

The Department of Revenue has already adjusted withholdings in response to the increased state tax liabilities that will result from the recently enacted federal law changes. While these adjustments are not relevant to this bill's effects, this bill would affect all state tax filers and the Department has indicated that it would make additional adjustments to withholdings in response to this bill's state law changes. Withholding changes complicate the estimates of specific fiscal years' receipts.

This fiscal note assumes there is some ramp-up lag-time before material withholding receipts, attributable to this bill, are evident in overall personal income tax collections. This would put material withholding effects near the end of FY18 and its accrual period, and one quarter of withholding receipts in FY18 are estimated for this note. In addition, 50% of the annual liability increase is assumed to be collected via withholdings, making FY18 receipts an estimated $60 million. Collections in FY19 will be composed of four quarters of withholdings (2018q3 - 2019q2, $242 million) plus payments with returns in the spring 2019 filing season for the entire liability increase not already paid through withholdings (the 2018q1 ramp-up lag and the 50% of total annual liability not collected via withholdings, $301 million). Thus, FY19 collects an estimated $543 million of revenue. By FY20, collections should normalize to reflect only the annual liability increase of $483 million collected via four quarters of withholdings ($242 million) plus reconciliation payments with returns in the spring months ($243 million).

There is considerable uncertainty associated with estimates of significant tax changes involving filing timing and extensions, withholdings assumptions, and interaction with recently enacted federal law changes that affect state tax liability calculations. Specific dollar estimates for specific fiscal years should be viewed with caution.

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}
[x] 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}

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