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## DIGEST

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HB 359 Reengrossed

2017 Regular Session

Ivey

**Abstract:** Changes the rates and brackets for purposes of calculating individual income tax liability from a graduated rate system to a single flat rate of 3.95%; changes the rates and brackets for purposes of calculating income tax liability for estates and trusts; modifies income tax credits and deductions.

Present law provides for a tax to be assessed, levied, collected, and paid upon the taxable income of an individual at the following rates:

- (1) 2% on the first \$12,500 of net income;
- (2) 4% on the next \$37,500 of net income;
- (3) 6% on net income in excess of \$50,000.

Proposed law reduces individual income tax rates as follows:

- (1) From 2% on the first \$12,500 of net income to 0% on the first \$12,500 of net income.
- (2) From 4% on the next \$37,500 of net income and 6% on net income in excess of \$50,000 to 3.95% on net income in excess of \$12,500.

Present law provides that in cases where taxpayers file a joint return of husband and wife, the combined tax shall be twice the combined tax of single filers.

Proposed law retains present law.

Present law provides that all personal exemptions and deductions for dependents allowed in determining federal income tax liability shall be allowed in determining La. tax liability. Further provides for a combined personal exemption of \$4,500 for single, individual filers, \$9,000 for married, joint filers, \$4,500 for married, separate filers, and \$9,000 for filers who are the head of household.

Proposed law repeals present law.

Present law authorizes a credit of \$400 for each dependent who meets certain criteria.

Proposed law repeals present law in favor of a \$1,000 deduction for each dependent as defined in present law.

Present law authorizes an additional deduction of \$1,000 for each allowable exemption in excess of those required to qualify for the exemption allowable under present law. (R.S. 47:294(A))

Present law requires the secretary to establish tax tables that calculate the tax owed by taxpayers based upon where their taxable income falls within a range that does not exceed \$250. Further requires the secretary to provide in the tax tables the combined personal exemption, standard deduction, and other exemption deductions in present law which is deducted from the 2% bracket. If the combined exemptions and deductions exceed the 2% bracket, the excess is deducted from the 4% bracket, and then the 6% bracket.

Proposed law deletes the provisions authorizing the combined personal exemption, standard deduction, and other exemption deductions to be deducted from the income tax brackets.

Present law authorizes a deduction from individual income taxes for excess federal itemized personal deductions. The term "excess federal itemized personal deductions" is defined to mean the amount by which the federal itemized personal deductions exceed the amount of federal standard deduction designated for the filing status used for the taxable period on the individual income tax return.

Proposed law changes present law by prohibiting this deduction on the first \$12,500 of excess federal itemized personal deductions for single filers and \$25,000 for taxpayers filing joint returns. Proposed law also excludes state income taxes paid by a taxpayer from inclusion as a federal itemized deduction for purposes of this state deduction.

Present law defines "tax table income" for resident individuals as the adjusted gross income plus interest on certain state or political subdivision obligations less items such as gratuitous grants, loans, or other disaster benefits included in federal adjusted gross income, federal income tax liability, amount deposited into medical or educational savings accounts, and excess personal exemptions and deductions.

Proposed law retains present law but adds to the list of income not included in "tax table income" state income tax refunds which are included in federal adjusted gross income.

Present constitution and present law authorize a state deduction for federal income taxes paid for purposes of computing income taxes for the same period.

Proposed law repeals the present law provisions that authorize a state deduction for federal income taxes paid for purposes of calculating individual income taxes and income taxes for estates and trusts.

Present law provides for the computation of La. taxable income for a resident estate or trust, including provisions for the federal income tax deduction, limitations of deductions for net income, provisions for the federal deduction for alternative minimum tax, and the authority of the secretary

of the Dept. of Revenue to consider reductions to the federal income tax deduction and the determination of the deductible portion of an alternative minimum tax.

Present law provides for a tax to be assessed, levied, collected, and paid on the La. taxable income of an estate or trust at the following rates:

- (1) 2% on the first \$10,000 of La. taxable income.
- (2) 4% on the next \$40,000 of La. taxable income.
- (3) 6% on La. taxable income in excess of \$50,000.

Proposed law changes income tax rates on estates and trusts as follows:

- (1) From 2% on the first \$10,000 of La. taxable income to 0% on the first \$12,500 of La. taxable income.
- (2) From 4% on the next \$40,000 of La. taxable income to 3.76% on La. taxable income in excess of \$12,500.

Applicable to all taxable periods beginning on and after Jan. 1, 2018.

Effective on Jan. 1, 2018, if and when the proposed amendment of Article VII of the Constitution of La. contained in the Act which originated as House Bill No. 353 of this 2017 R.S. of the Legislature is adopted at a statewide election and becomes effective.

(Amends R.S. 47:32(A), 79, 93(B), 241, 293(3), and (10), 294, 295(B), 300.1, 300.6(A), and 300.7(A); Adds R.S. 47:55(6) and 293(9)(a)(xviii); Repeals R.S. 47:55(5), 293(4) and (9)(a)(ii), 296.1(B)(3)(c), and 298)

#### Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Ways and Means to the original bill:

1. Adds contingent effectiveness on Jan. 1, 2018, for proposed law if the proposed amendment of Article VII, contained in the Act that originated as HB No. 356 of this 2017 R.S. of the Legislature is adopted at a statewide election and HB Nos. 357, 358, 360, 361, 362, 363, and 364 of this 2017 R.S. become effective.

The House Floor Amendments to the engrossed bill:

1. Reduce the flat individual income tax rate from 4% to 3.95%.
2. Change the income tax rates for estates and trusts from a graduated system of rates and

- brackets to a flat tax of 3.76% on La. taxable income in excess of \$12,500.
3. Add provision repealing the deductibility of federal income taxes for individual and estates and trusts.
  4. Delete provisions increasing the earned income tax credit.
  5. Add a deduction of \$1,000 for each dependent allowed in determining federal income tax liability.
  6. Add to the list of income not included in "tax table income" state income tax refunds which are included in federal adjusted gross income.
  7. Add limitation to the exclusion of state income tax refunds from the calculation of "tax table income" for both residents and nonresidents to clarify that the exclusion applies to state income tax refunds which are included in federal adjusted gross income.
  8. Modify provisions relative to the excess federal itemized personal deductions.
  9. Make technical changes.
  10. Delete contingent effectiveness on Jan. 1, 2018, for proposed law if the proposed amendment of Article VII, contained in the Act that originated as HB No. 356 of this 2017 R.S. of the Legislature is adopted at a statewide election and HB Nos. 357, 358, 360, 361, 362, 363, and 364 of this 2017 R.S. become effective.
  11. Add contingent effectiveness on Jan. 1, 2018, for proposed law if the proposed amendment of Article VII, contained in the Act that originated as HB No. 356 of this 2017 R.S. of the Legislature is adopted at a statewide election.