LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 36** HLS 02- 207
Bill Text Version: **ENROLLED**
Opp Chamb Action:
Sub Bill For: **REVISED**
Proposed Amd:

Date: July 17, 2002 1:39 PM
Author: STELLY
Dept/Agy: Revenue
Subject: Individual Income Tax - Narrow Brackets, Repeal Excess Itemized
Analyst: Greg Albrecht

TAX/INCOME TAX EN +$55,000,000 GF RV See Note

Revises the state individual income tax brackets and repeals the deduction for excess federal itemized deductions

Current law imposes the individual income tax on joint returns as follows: 2% of the first $20,000, 4% of income from $20,000 to $100,000, and 6% of income over $100,000. For single returns the bracket thresholds are one-half these values. A deduction on state returns for 57.5% of excess federal itemized deductions is allowed for tax period 2002 (FY03), and a 65% deduction is allowed for tax period 2003 (FY04). A 100% deduction is allowed for subsequent tax periods.
Proposed law would impose the individual income tax on joint returns as follows: 2% of the first $25,000, 4% of income from $25,000 to $50,000, and 6% of income over $50,000. For single returns the bracket thresholds are one-half these values. The state deduction for excess federal itemized deductions is repealed.
Effective for all tax periods beginning after December 31, 2002, if the Constitution is amended as proposed in HB 31 of this session. That bill allows the changes proposed by this bill and limits and ultimately prohibits state taxation of food for home consumption and residential utilities.

EXPENDITURES	2002-03	2003-04	2004-05	2005-06	2006-07	5 YEAR TOTAL
State General Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Stat. Deds./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	2002-03	2003-04	2004-05	2005-06	2006-07	5 YEAR TOTAL
State General Fd.	$55,000,000	$244,000,000	$263,000,000	$282,000,000	$304,000,000	**$1,148,000,000**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Stat. Deds./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	**$55,000,000**	**$244,000,000**	**$263,000,000**	**$282,000,000**	**$304,000,000**	**$1,148,000,000**

EXPENDITURE EXPLANATION:

The Department of Revenue estimates that it would incur approximately $77,000 of costs associated with system reprogramming, testing, and form adjustment to incorporate the changes proposed by this bill into its processes.

REVENUE EXPLANATION:

This fiscal note incorporates the allowance of a 57.5% deduction and then a 65% deduction on state returns during tax year 2002 (FY03) and tax year 2003 (FY04), respectively, as provided in Act 24 of the 2002 Regular Session (HB 171). For tax year 2004 (FY05) and subsequent periods the fiscal note takes the perspective that the allowance of a state deduction for 65% of excess federal itemized deductions will be continued into the future indefinitely. From that perspective, this bill eliminates that level of deduction and, combined with the bill's bracket compression, results in the increase of state income tax revenue shown in the table above. Some revenue is raised in FY03 because it is expected that withholdings in the first half of the 2003 calendar year will be adjusted by taxpayers as employers receive new withholding tables from the Department of Revenue.

This bill is effective only if the Constitution is amended as proposed in HB 31. That bill (HB 31) allows the income tax changes proposed by this bill (HB 36), and limits and then prohibits state sales taxation of food for home consumption and residential utilities (in the absence of HB 31 those taxes are assumed to remain in effect into the future indefinitely). That bill (HB 31) results in a decrease in state sales tax collections. The estimated net impact of the two bills together is a $9 million revenue reduction in FY03, a $4 million increase in FY04, a $18 million increase in FY05, a $33 million increase in FY06, and a $50 million increase in FY07. The net revenue gains tend to increase over time because the growth rate of income taxes (7.5% per year trend growth) tends to exceed the growth rate of sales taxes on food and utilities (1.8% per year projected growth). Actual annual results will differ from these estimates because actual annual growth will differ from historical trend and projected growth.

Obviously, should the state allowance of a deduction for excess federal itemized deductions be increased or fully restored for tax periods beyond 2003 (FY04), this bill (HB 36) would result in a greater increase in revenue than is contemplated in this fiscal note.

Senate — Dual Referral Rules

☐ 13.5.1 >= $500,000 Annual Fiscal Cost

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change

House

☐ 6.8(F) >= $500,000 Annual Fiscal Cost

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease per year

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