



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 7** HLS 162ES 16
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | | |
|---|---------|-------------------------------|
| Date: June 9, 2016 | 1:57 PM | Author: STOKES |
| Dept./Agy.: Revenue | | |
| Subject: Federal Income Tax Deduction and Maximum Tax Rate | | Analyst: Greg Albrecht |

TAX/INCOME TAX Page 1 of 1
 (Constitutional Amendment) Eliminates the income tax deduction for federal income taxes paid for purposes of computing individual income taxes and the references to the maximum amount of individual income tax rates and brackets (Items #39 Present constitution, for purposes of individual income taxation, allows a deduction from gross income for 100% of federal income taxes paid, and restricts the tax rate and bracket structure to no more than those in place on January 1, 2003.

Proposed constitution, for purposes of individual income taxation, prohibits a deduction for federal income taxes paid and establishes the maximum tax rate as 4.75%. Applicable to tax years beginning on and after January 1, 2017.

To be submitted to the electors at the statewide election to be held on November 8, 2016, only if HB 17 and HB 33 of this session (statutory companion bills) are enacted.

| EXPENDITURES | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| 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 | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | SEE BELOW | |
| 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 | | | | | | |

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

This bill appears to be part of a package of bills, where the statutory companions will interact with this bill to modify state individual and corporate income taxation. By itself, this bill would substantially broaden the individual income tax base by prohibiting the deduction of federal income taxes paid, for purposes of individual income taxation. A micro-simulation model of the state personal income tax, processing 2014 tax return data, indicates that the elimination of the deduction for federal income taxes paid, with all other provisions of the tax unchanged, would increase aggregate income tax liabilities by some \$748.5 million for resident filers alone, and only for that single tax year. Companion bills HB 17 and HB 33 would change various provisions of the income tax and interact with the base expansion of this bill. The fiscal impact of the interaction with this bill is discussed on the fiscal notes for those bills.

Senate Dual Referral Rules House

- | | |
|---|---|
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |
|---|---|

John D. Carpenter
 Legislative Fiscal Officer