

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 475** HLS 21RS 215
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 21, 2021	1:32 PM	Author: NELSON
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Phase Out The Individual Income Tax		

TAX/INCOME TAX EG DECREASE GF RV See Note Page 1 of 1
 Phases-out the taxes levied on the income of individuals and estates and trusts and reduces the amount of exemptions, deductions, and credits that may be claimed to reduce income tax liability

Proposed law phases down the individual income tax rates from their current levels of 2%, 4%, and 6%, evenly over four year period beginning with tax year 2023. The existing brackets are retained, but the bill also eliminates the deduction for federal income taxes paid with the 2023 tax year. In addition, the bill phases down the utilization of exemption, deductions, and credits applicable to the individual income tax evenly over four years, as well.

Effective for tax periods beginning on and after January 1, 2023.

Contingent upon adoption of a constitutional amendment contained in House Bill 526 of this session.

EXPENDITURES	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$87,000	\$0	\$0	\$0	\$0	\$87,000
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	\$87,000	\$0	\$0	\$0	\$0	\$87,000

REVENUES	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	(\$65,000,000)	(\$664,000,000)	(\$2,485,000,000)	(\$3,435,000,000)	(\$6,649,000,000)
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	\$0	(\$65,000,000)	(\$664,000,000)	(\$2,485,000,000)	(\$3,435,000,000)	(\$6,649,000,000)

EXPENDITURE EXPLANATION

Administrative expenses to transition out of the individual income tax have not been determined.

REVENUE EXPLANATION

A rough guide to the amount of individual income tax that would ultimately be foregone is reflected in the Revenue Estimating Conference (REC) forecasts of approximately \$4 billion per fiscal year of individual income tax collections (\$3.977 billion for FY23, \$4.079 billion for FY24, and \$4.069 billion for FY25). These are fiscal year forecasts that reflect multiple tax years of returns in each fiscal year, although the bill begins the tax phase down with the single tax year of 2023.

Specific estimates of the annual revenue losses as the tax is phased out are complicated by two major factors: (1) the bill eliminates the deduction for federal taxes paid entirely with the 2023 tax years - expanding the tax base and tax receipts at any given tax rate, and (2) realization of income tax year changes typically occur over a three fiscal year period of transition. The first phase of the bill is a 25% rate reduction applied to a base that does not allow for a federal income tax deduction. That first phase results in tax year revenue losses beginning in FY23 at \$65 million from the drop in withholdings collections during the first half of 2023 (the second half of FY23). Subsequent phases of rate reduction accumulate the revenue losses from each tax year phase down of rates across three subsequent fiscal years, until the entire tax is phased out by FY27.

These estimates assume that the phase-down of exemption, deductions, and credits that limit the individual income tax liability of taxpayers does not apply to the calculation of tax table income tax liability, discussed above, but only to the various credits that are applicable to specific taxpayer situations after tax liability is calculated, and reflected in the REC forecasts above.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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