LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 259** SLS 11RS 641
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 18, 2011 5:37 PM | **Author:** MARIONNEAUX
Dept./Agy.: Revenue
Subject: Phase Out Personal and Corporate Income Tax | **Analyst:** Greg Albrecht

TAX/TAXATION EG -$605,000,000 GF RV See Note
Phases out the state personal and corporate state income taxes. (8/15/11)

Phases out the individual and corporate income tax, evenly over a five year period, beginning with tax year 2011. No income tax will be levied for any tax year commencing on or after January 1, 2015.

EXPENDITURES	2011-12	2012-13	2013-14	2014-15	2015-16	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	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	($605,000,000)	($1,284,000,000)	($2,065,000,000)	($2,920,000,000)	($3,808,000,000)	**($10,682,000,000)**
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	**($605,000,000)**	**($1,284,000,000)**	**($2,065,000,000)**	**($2,920,000,000)**	**($3,808,000,000)**	**?**

EXPENDITURE EXPLANATION

The Department of Revenue would incur costs involved in modifying all of its systems dealing with individual and corporate income tax. Taxpayer education and compliance support expenses would also be incurred. Once the tax phase-outs are fully implemented resource reallocations in the Department would seem appropriate from income tax to the remaining taxes collected by the Department.

REVENUE EXPLANATION

The bill provides a straight forward even phase-out of these two taxes over a five year period. Thus, a simple phase out calculation provides a good way to depict the annual revenue reductions likely from such a phase out.

Based on the current official forecast for personal income tax, state revenue reductions over the phase out period would be approximately $563 million in FY12, $1.204 billion in FY13, $1.921 billion in FY14, $2.694 billion in FY15, and $3.505 billion in FY16, when the tax would be fully eliminated.

Based on the current official forecast for corporate income tax, state revenue reductions over the phase out period would be approximately $42 million in FY12, $81 million in FY13, $144 million in FY14, $225 million in FY15, and $303 million in FY16, when the tax would be fully eliminated.

Combined total state revenue reductions over the phase out period would be approximately $605 million in FY12, $1.284 billion in FY13, $2.065 billion in FY14, $2.920 billion in FY15, and $3.808 billion in FY16, when both taxes would be fully eliminated.

The bill is phasing out two revenue sources, against which a large number of benefit programs are charged. For nonrefundable tax credits, the elimination of these taxes entirely is significantly more beneficial to taxpayers than the credits themselves, although there may still be an issue of how to resolve the benefit of unused credit amounts that would be carried forward from prior years. The more significant issue along these lines probably has to do with refundable and transferable credits, and direct cash payment (rebate) programs. In these cases 100% of the benefit is available to taxpayer/participants regardless of tax liability, and in the case of direct cash payment programs without connection to the tax filing of the recipient at all. The Revenue Department charges these benefit disbursements against the particular taxes and pays the benefits to particular recipients from aggregate current collections of these taxes. If these taxes are eliminated it is not clear if these programs cease to exist as well. If these benefit programs are to continue even after the tax they are charged against is eliminated, then total costs to the state from eliminating these taxes will be effectively greater. The state would lose the net revenue expected from the tax after all benefit disbursements are charged, and the state would still have the costs of the programs to cover with other revenue collections or appropriations.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S} 6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☒ 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}

H. Gordon Monk

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