

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0473S.01I
 Bill No.: SB 176
 Subject: Taxation and Revenue - Income
 Type: Original
 Date: January 5, 2023

Bill Summary: This proposal reduces the top rate of income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$387,260,593)	(\$920,706,625)	(\$970,980,089)
Total Estimated Net Effect on General Revenue	(\$387,260,593)	(\$920,706,625)	(\$970,980,089)

*The timing of the fiscal impact assumes this proposal would use the Net General Revenue Collections for FY 2023 (revised consensus revenue estimate of over \$13 billion) and would therefore trigger 8 separate 0.1% income tax rate reductions for CY 2024. The consensus revenue estimate for FY 2024 is anticipated to be \$13.2 billion.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** and the **Office of Administration - Budget and Planning (B&P)** note starting with tax year 2024; this proposal would reduce the top individual income tax rate by 0.1% in tax years immediately following a fiscal year where net general revenue collections exceed the baseline net general revenue allowed.

The initial baseline general revenue amount is \$12.0 billion. The baseline net general revenue shall increase by \$145 million for each reduction that occurs under Subsection 143.011.5 and more than one reduction may occur per year. For example:

- Example 1: Net general revenues in the first triggering fiscal year are \$12.05 billion, then there would be one 0.1% reduction in the tax rate the following tax year and net general revenue collections would have to be at least \$12.145 billion before the next rate reduction could occur.
- Example 2: Net general revenue collections in the first triggering fiscal year are \$12.20 billion, then there would be two 0.1% reductions in the tax rate the following tax year and net general revenue collections would have to be \$12.29 billion before the next rate reduction could occur.

B&P notes under Subsection 143.011, the top rate of tax is already scheduled to be reduced to 4.5% in the future, dependent on net general revenue growth triggers. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY23, FY25, FY26, and FY27 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2024, 2026, 2027, and 2028 under SB 3 (2022). Table 1 shows the estimated current top tax rate by year.

Table 1: Current Top
Tax Rates

Tax Year	Top Tax Rate - Current Law*
2023	4.95%
2024	4.8%
2025	4.8%
2026	4.7%
2027	4.6%
2028	4.5%

*Assumes rate
reductions scheduled to

occur under SB 3
(2022) are triggered for
TY24, TY26, TY27,
and TY28

B&P notes that the Revised CRE for FY23 is \$13.06 billion and the CRE for FY24 is \$13.15 billion. B&P notes that the baseline net general revenue amount is \$12.0 billion. Therefore, this proposal would trigger an income tax reduction for tax year 2024. In addition, multiple reductions may occur at one time, with each reduction requiring an additional \$145 million in net general revenue collections.

Tax Year 2024

Based on the revised CRE for FY23, general revenue collections would trigger eight reductions in the top income tax rate. B&P used the following math to determine the number of rate reductions that would be triggered for tax year 2024.

Step 1: Determine Initial Trigger

$$\begin{array}{r} \$13.06 \text{ billion} - \text{Revised CRE FY23} \\ - \$12.00 \text{ billion} - \text{Baseline} \\ \hline \$1.06 \text{ billion additional collections} \end{array}$$

Step 2: Determine Additional Triggers

1.06 billion / \$145.0 million = 7 additional triggers

Therefore, B&P estimates that based on the revised FY23 CRE eight reductions (baseline + seven additional) will occur for tax year 2024. B&P notes that under current law, the top tax rate for tax year 2024 will be 4.8%. Therefore, this proposal would reduce the top tax rate to 4.0% (4.8% - 0.8% = 4.0%).

Tax Year 2025

B&P followed the same steps above to determine whether net general revenue collections in FY24 would exceed the increased baseline.

Step 1: Determine New Baseline

$$\begin{array}{r} \$145 \text{ million} - \text{increase per} \\ \text{triggered reduction} \\ \times 8 \text{ triggered reductions (TY24)} \\ \hline \$1.16 \text{ billion} - \text{baseline increase} \\ + \$12.00 \text{ billion original baseline} \\ \hline \hline \end{array}$$

\$13.16 billion new baseline

Step 2: Determine Initial Trigger

\$13.15 billion - FY24 CRE
 - \$387.3 million - estimated FY24 impact from TY24 reductions

 \$12.77 billion - Adjusted FY24 revenue estimate
 - \$13.16 billion - new baseline

 (\$394.6) million revenues under baseline

Therefore, B&P estimates that this proposal will not trigger for tax year 2025, once the FY24 CRE has been adjusted to account for the lost revenue due to the income reductions triggered in tax year 2024.

Future Triggers

B&P is unable to determine when and number of reductions for any tax year beyond tax year 2025. The table below shows the estimated top tax rate and baseline as this proposal is implemented over time.

Table 1: Estimated Proposal Implementation

Tax Year	Top Tax Rate	Change	New Baseline
2023	4.95%	N/A	\$12,000,000,000
		0.15% - SB 3 (2022)	
2024	4.0%	0.8% - Proposal	\$13,160,000,000
2025	4.0%	None	\$13,160,000,000
		0.1% - SB 3 (2022)	
20XX	3.8%	0.1% - Proposal	\$13,305,000,000
		0.1% - SB 3 (2022)	
20XX	3.6%	0.1% - Proposal	\$13,450,000,000
		0.1% - SB 3 (2022)	
20XX	3.4%	0.1% - Proposal	\$13,595,000,000
20XX	3.3%	0.1% - Proposal	\$13,740,000,000
20XX	3.2%	0.1% - Proposal	\$13,885,000,000
20XX	3.1%	0.1% - Proposal	\$14,030,000,000
20XX	3.0%	0.1% - Proposal	\$14,175,000,000
20XX	2.9%	0.1% - Proposal	\$14,320,000,000

20XX	2.8%	0.1% - Proposal	\$14,465,000,000
20XX	2.7%	0.1% - Proposal	\$14,610,000,000
20XX	2.6%	0.1% - Proposal	\$14,755,000,000
20XX	2.5%	0.1% - Proposal	\$14,900,000,000
20XX	2.4%	0.1% - Proposal	\$15,045,000,000
20XX	2.3%	0.1% - Proposal	\$15,190,000,000
20XX	2.2%	0.1% - Proposal	\$15,335,000,000
20XX	2.1%	0.1% - Proposal	\$15,480,000,000
20XX	2.0%	0.1% - Proposal	\$15,625,000,000
20XX	1.9%	0.1% - Proposal	\$15,770,000,000
20XX	1.8%	0.1% - Proposal	\$15,915,000,000
20XX	1.7%	0.1% - Proposal	\$16,060,000,000
20XX	1.6%	0.1% - Proposal	\$16,205,000,000
20XX	1.5%	0.1% - Proposal	\$16,350,000,000
20XX	1.4%	0.1% - Proposal	\$16,495,000,000
20XX	1.3%	0.1% - Proposal	\$16,640,000,000
20XX	1.2%	0.1% - Proposal	\$16,785,000,000
20XX	1.1%	0.1% - Proposal	\$16,930,000,000
20XX	1.0%	0.1% - Proposal	\$17,075,000,000
20XX	0.9%	0.1% - Proposal	\$17,220,000,000
20XX	0.8%	0.1% - Proposal	\$17,365,000,000
20XX	0.7%	0.1% - Proposal	\$17,510,000,000
20XX	0.6%	0.1% - Proposal	\$17,655,000,000
20XX	0.5%	0.1% - Proposal	\$17,800,000,000
20XX	0.4%	0.1% - Proposal	\$17,945,000,000
20XX	0.3%	0.1% - Proposal	\$18,090,000,000
20XX	0.2%	0.1% - Proposal	\$18,235,000,000
20XX	0.1%	0.1% - Proposal	\$18,380,000,000
20XX	0.0%	0.1% - Proposal	\$18,525,000,000

B&P notes that while the initial triggers are shown in conjunction with SB 3 (2022), the income tax reduction triggers are not exactly the same. SB 3 requires net general revenue to grow by \$175 million over the highest of the previous three fiscal years in order to trigger the first 0.15% reduction. In order to trigger the remaining three reductions, SB 3 requires net general revenue to grow by at least \$200 million over the highest of the previous three fiscal years and the amount of net general revenue collected be greater than the amount collected five years prior, adjusted for inflation.

However, this proposal requires net general revenue to be higher than a baseline amount, with the baseline amount growing by \$145 million each time a reduction is triggered.

Therefore, it is possible that this proposal and current law could trigger at different times. If such event were to occur, the baseline amounts and corresponding top tax rates shown above would no longer apply.

Revenue Loss

Using tax year 2020 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this proposal could reduce GR by \$922,049,030 in tax year 2024 and by \$918,852,828 in tax year 2025.

Table 3: Impact by Tax Year

Tax Year	GR Loss
2024	(\$922,049,030)
2025	(\$918,852,828)
2026	(\$1,042,965,355)
2027	(\$1,164,158,749)
2028	(\$1,288,660,318)
Fully Implemented	(\$9,010,025,137)

However, because this proposal would take effect January 1, 2024, individuals will adjust their withholdings and declarations during FY24. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2.

Therefore, B&P estimates that this provision may reduce TSR and GR by \$387,260,593 in FY24. Based on FY22 individual income tax collections, B&P estimates that this proposal could reduce TSR and GR by greater than \$9,010,025,137 once fully implemented.

Table 4: Impact by Fiscal Year

Fiscal Year	GR Loss
2024	(\$387,260,593)
2025	(\$920,706,625)
2026	(\$970,980,089)
2027	(\$1,093,866,581)
2028	(\$1,216,449,408)
2029	(\$1,288,660,318)
Fully Implemented	(\$9,010,025,137)

DOR and B&P use a 42%/58% split when converting tax year data to fiscal year data.

Additionally, **DOR** assumed the proposal will require updates to their individual income tax computer system and modification of their website and forms. These updates will cost \$7,193 annually.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the computer and form upgrade costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight notes both DOR and B&P’s estimates include data from DOR and B&P’s internal Income Tax Model.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

Oversight will utilize DOR’s and B&P’s projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014), SB 153 (2021), and SB 3 (2022).

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Revenue Reduction - §143.011</u> Reduction of top rate of income tax	<u>(\$387,260,593)</u>	<u>(\$920,706,625)</u>	<u>(\$970,980,089)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$387,260,593)</u>	<u>(\$920,706,625)</u>	<u>(\$970,980,089)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

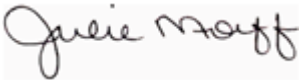
FISCAL DESCRIPTION

Beginning with the 2024 calendar year, this act provides that the top rate of income tax may be reduced in 0.1% increments. A reduction shall only occur if net general revenue collections in the previous fiscal year exceed baseline net general revenue collections, which shall be \$12 billion, increased by \$145 million for each reduction made pursuant to the act. An additional reduction of 0.1% shall be made for every \$145 million of net general revenue collections that is in excess of baseline net general revenue collections during a fiscal year, and more than one reduction may be made during a calendar year.

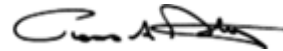
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning



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