

# FISCAL NOTE

**Bill #:** HB428

**Title:** Reduce income tax rate from 11% to 7% and retain federal deductibility

**Primary Sponsor:** Gary Forrester

**Status:** Introduced

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
<b>Revenue:</b>		
General Fund	\$0	\$(169,600,000)
<b>Net Impact on General Fund Balance:</b>	<b>\$0</b>	<b>\$(169,600,000)</b>

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<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

1. This act applied to tax year beginning after December 31, 2001 (tax year 2002). There is no impact from this proposal in fiscal year 2002.
2. This bill reduces the top marginal individual income tax rate from 11% to 7%; and redefines the bracket boundaries of the tax rate table. The bill provides for a base year rate structure where the first \$1,000 of taxable income is taxed at 2%; taxable income between \$1,000 and \$3,000 would be taxed at 3%; taxable income between \$3,000 and \$7,000 would be taxed at 4%; taxable income between \$7,000 and \$13,000 would be taxed at 5%; taxable income between \$13,000 and \$28,000 would be taxed at 6%; and taxable income over \$35,000 would be taxed at 7%. The bill makes no provision for taxing taxable income in the range between \$28,000 and \$35,000. For purposes of this fiscal note, it is assumed that taxable incomes in this range would be taxed at a rate of zero percent. The introduced version of the bill provides for the following statutory (base year) tax brackets and rates, and the inflation-adjusted tax table that would have been in effect in tax year 1999:

HB428 - Base Year Rate Table			
\$0	\$1,000	2%	
\$1,000	\$3,000	3%	-10
\$3,000	\$7,000	4%	-40
\$7,000	\$13,000	5%	-110
\$13,000	\$28,000	6%	-240
\$28,000	\$35,000	0%	1440
\$35,000		7%	-1010

HB428 - TY1999 Rate Table			
\$0	\$2,000	2%	
\$2,000	\$6,000	3%	-20
\$6,000	\$14,100	4%	-80
\$14,100	\$26,100	5%	-221
\$26,100	\$56,300	6%	-482
\$56,300	\$70,400	0%	2896
\$70,400		7%	-2032

3. The above rate tables would have reduced tax year 1999 individual income tax liability for full-year residents by \$158.5 million; this increases to a reduction in liability for all filers (including part-year and nonresident filers) of \$169.6 million for tax year 1999.

FISCAL IMPACT:

	FY2002 <u>Difference</u>	FY2003 <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$0	\$(169,600,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$0	\$(169,600,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None.

LONG-RANGE IMPACTS:

It is assumed that the general level of impact that would have occurred in tax year 1999 would continue in each succeeding year. General fund revenues would be reduced by approximately \$169.6 million each fiscal year.

TECHNICAL NOTES:

1. The new tax rate table provided for in this bill inadvertently provides for a zero tax rate bracket on taxable incomes between \$28,000 and \$35,000 in the base year rate table. To provide for a logically consistent rate table, the reference to taxing any taxable income "in excess of \$35,000" on line 24, Section 1, of the bill should be changed to "in excess of \$28,000". Doing so would result in the base year and tax year 1999 tax rate tables shown below, and reduce the net impact on the state general fund from a reduction of \$169.6 million per year to a reduction of \$141 million per year.

HB428 - Base Year Table - Tech Note			
\$0	\$1,000	2%	
\$1,000	\$3,000	3%	-10
\$3,000	\$7,000	4%	-40
\$7,000	\$13,000	5%	-110
\$13,000	\$28,000	6%	-240
\$28,000		7%	-520

HB428 - TY1999 Table - Tech Note			
\$0	\$2,000	2%	
\$2,000	\$6,000	3%	-20
\$6,000	\$14,100	4%	-80
\$14,100	\$26,100	5%	-221
\$26,100	\$56,300	6%	-482
\$56,300		7%	-1045