



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0143	Title:	Generally revise individual income tax laws
Primary Sponsor:	Schwaderer, Nicholas	Status:	As Amended in House Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$6,000	\$0	\$0	\$0
Revenue:				
General Fund	(\$18,438,000)	(\$12,566,000)	(\$13,042,000)	(\$13,641,000)
Net Impact-General Fund Balance:	<u>(\$18,444,000)</u>	<u>(\$12,566,000)</u>	<u>(\$13,042,000)</u>	<u>(\$13,641,000)</u>

Description of fiscal impact: This bill would exempt income in the current 1% rate bracket from the income tax. This would reduce income tax revenue by \$12 million per year with the impact growing over time as income grows. The revenue reduction from the first one-and-a-half tax years would occur in FY 2014.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Beginning in TY 2013, this bill would exempt the first \$2,700 of taxable income from the income tax, with the exempt amount adjusted annually for inflation. This is equivalent to replacing the 1% rate in the current law rate table with a 0% rate.
2. The income tax forecasting model was run with the rate table modified by replacing the 1% rate with 0%. The following table shows the resulting differences in calendar year tax liability.

Change in Calendar Year Tax Liability	
Year	\$ million
2013	(\$12.218)
2014	(\$12.440)
2015	(\$12.692)
2016	(\$13.392)
2017	(\$13.891)

3. The department will issue new withholding tables to reflect the new law, but half of CY 2013 will have passed before withholding and estimated payments are reduced. Taxpayers will be refunded overpayments from the first half of CY 2013 when they file returns in the spring of CY 2014. Thus, a year-and-an-half of revenue reductions will occur in FY 2014, that being reduced collections in the second half of CY 2013 and the first half of CY 2014 and refunds of over-collections in the first half of CY 2013. Beginning in FY 2015, each change in calendar year tax liability will be split evenly between two fiscal years. The following table shows the changes in fiscal year revenue.

<u>FY</u>	<u>\$ million</u>
2014	(\$18.438)
2015	(\$12.566)
2016	(\$13.042)
2017	(\$13.641)

4. Changes to income tax and withholding forms will be made as part of the normal annual update process with no additional costs. Programming the changed rate table into the department’s data processing system will be done by the system vendor at a cost of \$6,000 in FY 2014.

<u>Fiscal Impact:</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Expenditures:</u>				
Operating Expenses	\$6,000	\$0	\$0	\$0
TOTAL Expenditures	\$6,000	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$6,000	\$0	\$0	\$0
TOTAL Funding of Exp.	\$6,000	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$18,438,000)	(\$12,566,000)	(\$13,042,000)	(\$13,641,000)
TOTAL Revenues	(\$18,438,000)	(\$12,566,000)	(\$13,042,000)	(\$13,641,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$18,444,000)	(\$12,566,000)	(\$13,042,000)	(\$13,641,000)

Sponsor’s Initials

Date

Budget Director’s Initials

Date