



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2019 Biennium

Bill #	HB0452	Title:	Revise individual income tax rate structure
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Primary Sponsor:	Woods, Tom	Status:	As Introduced
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- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>	<u>FY 2020 Difference</u>	<u>FY 2021 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$6,558,000	\$24,489,000	\$22,779,000	\$24,423,000
Net Impact-General Fund Balance:	<u>\$6,558,000</u>	<u>\$24,489,000</u>	<u>\$22,779,000</u>	<u>\$24,423,000</u>

Description of fiscal impact: HB 452 changes the income tax rate structure by creating a new 7.4% rate bracket beginning at \$300,000 and a new 7.9% rate bracket beginning at \$500,000. This would increase general fund revenue by \$6.5 million in FY 2018 and by \$24.5 million in FY 2019.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- HB 452 would change the income tax rate structure by creating a new 7.4% rate bracket beginning at \$300,000 and a new 7.9% rate bracket beginning at \$500,000. This change would apply beginning in TY 2018.
- The income tax forecasting model was modified by adding the proposed rate brackets. The following table shows the differences between fiscal year revenue forecast by the modified model and HJ 2.

<u>Fiscal Year</u>	<u>Forecast Difference (\$ million)</u>
2018	10.090
2019	20.957
2020	22.779
2021	24.423

- Taxpayers are required to withhold or pay at least 100% of last year's tax liability or 90% of the current year's tax liability, whichever is lower. Thus, taxpayers whose tax liability would be increased by this bill would

not be required to increase their payments in TY 2018. The department would issue new withholding tables to take effect January 1, 2018, so affected taxpayers who have tax withheld from periodic payments would have their withholding increase automatically. Some taxpayers who make estimated payments would increase their payments in the first half of TY 2018, which is in FY 2018, and some would not.

4. On TY 2015 returns that would have been affected by this bill, about 60% of payments during the tax year were estimated payments.
5. Because of the information in Assumptions #3 and #4, it is assumed that 65% of the increase in the revenue forecast for FY 2018 would occur in FY 2018 but the other 35% would occur in FY 2019 as taxpayers are slow to increase estimated payments or wait to pay the increased tax when they file their 2018 returns in the spring of CY 2019. The following table shows fiscal year revenue with this delayed increase in payments.

Fiscal Year	Revenue Change with Slow Payment Adjustment (\$ million)
2018	6.558
2019	24.489
2020	22.779
2021	24.423

6. The department would make changes to tax forms and instructions and to its information processing systems as part of the normal annual update process with no increase in costs.

<u>Fiscal Impact:</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Department of Revenue	Difference	Difference	Difference	Difference
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$6,558,000</u>	<u>\$24,489,000</u>	<u>\$22,779,000</u>	<u>\$24,423,000</u>
TOTAL Revenues	<u>\$6,558,000</u>	<u>\$24,489,000</u>	<u>\$22,779,000</u>	<u>\$24,423,000</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>\$6,558,000</u>	<u>\$24,489,000</u>	<u>\$22,779,000</u>	<u>\$24,423,000</u>

<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>
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