



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2023 Biennium

**Bill #** HB0125

**Title:** Provide exemption from income tax withholding

**Primary Sponsor:** Trebas, Jeremy

**Status:** As Introduced

- 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 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$926,115)	(\$81,432)	(\$52,927)	(\$57,625)
<b>Net Impact-General Fund Balance:</b>	<u>(\$926,115)</u>	<u>(\$81,432)</u>	<u>(\$52,927)</u>	<u>(\$57,625)</u>

**Description of fiscal impact:** HB 125 allows employees to waive withholding if they had a refund after having no tax liability in the prior year and they anticipate having no tax liability in the current year.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under current law, employers making wage payments are required to withhold a tax from the wages based on withholding tax tables issued by the department.
- Under HB 125, employees would be able to waive their withholding in the current tax year if they meet two requirements. First, the employee was eligible for a refund in the prior tax year because they had no tax liability. Second, the employee expects a refund of all state income tax withheld in the current tax year because they anticipate having no tax liability.
- HB 125 does not change the tax liability of any taxpayer. However, it does change the timing of state receipts by reducing current fiscal year withholding and the level of subsequent fiscal year income tax refunds.
- In TY 2019, there were approximately 484,000 full-year resident households filing at least one income tax return. Of these households, approximately 39,000 households had no tax liability, but had income withheld.

5. Under HB 125, taxpayers must have had no income tax liability in the prior tax year. A review of TY 2018 and TY 2019 returns shows only 14,331 households had no tax liability in both years, and also reporting positive withholding. The combined withholding of these households was \$5,688,768 in TY 2019.
6. Many taxpayers have income withheld to avoid having to make lump sum payments when they file a return. As a result, it is assumed that many of the taxpayers who qualify for the exemption created in HB 125 will not apply for the exemption.
7. In TY 2019, approximately 69.3% of the 484,058 resident households received a refund on their return.
8. It is assumed that 69.3% of the 14,331 households that potentially qualify for the HB 125 exemption would continue to have tax withheld and receive a subsequent refund.
9. Assuming an application rate of 30.7% (100% - 69.3%), 4,397 (14,331 X 30.7%) taxpayer households would take the withholding exemption.
10. Assuming withholding is proportional to the number of people applying for the exemption, the amount of income withheld in TY 2019 by eligible tax filers would have been \$1,745,314.
11. The calculation of assumptions #4 through #10 is provided in the table below.

	Number	Percent of Total	Withholding
Resident Taxpayer Households	484,058		
Taxpayer Households with Refunds	335,549	69.30%	
Households with No Tax Due and Positive Withholding	38,955		
Qualified Households in Tax Year 2018 and 2019	14,331	36.80%	\$5,688,768
Qualified Households Who Elect to Not to Withhold	4,397	11.30%	\$1,745,314

12. It is assumed that tax year withholding is allocated equally between the last half of the current fiscal year and the first half of the subsequent fiscal year.
13. HJ 2 assumes that individual income tax revenue will decrease by 2.1% in FY 2021 and increase by 2.8% in FY 2022 and 5.5% FY 2023. Consistent with HJ2 assumptions The Legislative Fiscal Division projects growth of 8.8% in FY 2024, and 5.3% in FY 2025.
14. It is assumed qualified withholding exemptions will increase at the individual income tax revenue rate. Eligible exempted withholding would be \$926,115 in FY 2022, \$1,933,662 in FY 2023, \$2,068,021 in FY 2024 and \$2,178,573 in FY 2025.
15. Reducing the income withholdings by individuals with no income tax liability will also reduce the refunds claimed by eligible households. Refunds would decrease by \$1,852,229 in FY 2023, \$2,015,094 in FY 2024 and \$2,120,948.
16. The net impact of reducing income tax withholdings and the offsetting reduction in income tax refunds is estimated to be \$926,115 in FY 2022, \$81,432 in FY 2023, \$52,972 in FY 2024 and \$57,625 in FY 2025.

FY	Withholding Change	Change in Refunds	Total Revenue Reduction
2022	(\$926,115)	\$0	(\$926,115)
2023	(\$1,933,662)	(\$1,852,229)	(\$81,432)
2024	(\$2,068,021)	(\$2,015,094)	(\$52,927)
2025	(\$2,178,573)	(\$2,120,948)	(\$57,625)

17. The changes made by the proposed bill can be made as part of the department’s annual change process. The department does not expect to incur significant additional costs because of this proposed bill.

Fiscal Note Request – As Introduced

(continued)

<b>Fiscal Impact:</b>	<b>FY 2022 Difference</b>	<b>FY 2023 Difference</b>	<b>FY 2024 Difference</b>	<b>FY 2025 Difference</b>
<b>Department of Revenue</b>				
FTE	0.00	0.00	0.00	0.00
<b>Expenditures:</b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Funding of Expenditures:</b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Revenues:</b>				
General Fund (01)	(\$926,115)	(\$81,432)	(\$52,927)	(\$57,625)
<b>TOTAL Revenues</b>	<u>(\$926,115)</u>	<u>(\$81,432)</u>	<u>(\$52,927)</u>	<u>(\$57,625)</u>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</b>				
General Fund (01)	(\$926,115)	(\$81,432)	(\$52,927)	(\$57,625)

**NOT SIGNED BY SPONSOR** 1/13/21  
*Sponsor's Initials* *Date*

KA  
*Budget Director's Initials*

1/12/21  
*Date*