

Fiscal Estimate - 2023 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 23-1939/1	Introduction Number AB-0262	
Description phase-in changes to individual income tax rates and brackets		
Fiscal Effect		
State:		
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local:		
<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected		
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
Affected Ch. 20 Appropriations		
Agency/Prepared By	Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984	Michael Oakleaf (608) 261-5173	5/16/2023

Fiscal Estimate Narratives

DOR 5/16/2023

LRB Number	23-1939/1	Introduction Number	AB-0262	Estimate Type	Original
Description phase-in changes to individual income tax rates and brackets					

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, there are four individual income tax rates and brackets. The brackets are indexed for inflation. In 2023, the tax rates and brackets under current law for the individuals filing with the 'single' or 'head of household' filing statuses is as follows:

1. For taxable income not exceeding \$13,810, 3.54 percent.
2. For taxable income exceeding \$13,810, but not \$27,630, 4.65 percent.
3. For taxable income exceeding \$27,630, but not \$304,170, 5.30 percent.
4. For taxable income exceeding \$304,170, 7.65 percent.

The tax rates in each bracket for married persons filing jointly and married persons filing separately are the same, but the dollar amounts are approximately one third higher for joint filers and one third lower for separate filers.

This bill decreases the individual income tax rates each year from tax year 2024 to 2028 as follows:

In the following taxable years : 2024 , 2025 , 2026 , 2027 , 2028

1. The rate in the 1st bracket : 3.15%, 2.20%, 1.25%, 0.00%, 0.00%
2. The rate in the 2nd bracket: 4.50%, 4.50%, 4.50%, 4.50%, 4.50%
3. The rate in the 3rd bracket : 5.00%, 4.75%, 4.50%, 4.50%, 4.50%
4. The rate in the 4th bracket : 7.40%, 6.70%, 6.00%, 5.20%, 4.50%

Each year, the bill requires DOR to determine if general fund tax collections fall below the level of collections in fiscal year 2020, adjusted for inflation. If collections are below that level, the implementation of the rate reductions will be delayed. The bill also requires DOR to update withholding tables each year to account for anticipated rate reductions.

The bill is expected to reduce revenue by \$385 million in fiscal year 2024 increasing each year as rates decline. In 2025 dollars, the bill is expected to reduce revenue by \$1.01 billion in fiscal year 2025, \$1.88 billion in fiscal year 2026, \$2.65 billion in fiscal year 2027, \$3.27 billion in fiscal year 2028, and \$3.57 billion annually beginning in fiscal year 2029.

Because this bill affects tax revenue, it may impact the state's maintenance of effort requirement under the American Rescue Plan Act. The Dept of Administration should review this bill for this specific purpose to provide further clarity on the matter.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

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Description phase-in changes to individual income tax rates and brackets		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By	Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984	Michael Oakleaf (608) 261-5173	5/16/2023