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FISCAL IMPACT REPORT

SPONSOR: Aragon DATE TYPED: 03/13/01 HB _____
 SHORT TITLE: Reduce Low- and Middle-Income Tax Rates SB 766
 ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (64,300.0)	\$ (65,300.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department

SUMMARY

Synopsis of Bill

The bill authorizes a reduction in personal income taxes.

The bill creates a zero bracket amount which would result in qualifying taxpayers avoiding filing. Zero bracket proposals typically impact lower income tax payers, while reducing general fund revenue on a recurring basis. TRD estimates 65,000 returns would be dropped from liability from this tax package. The zero bracket proposal is the same as that proposed by the Governor.

New personal income tax rates would be as follows: 2.0%, 3.0%, 4.5%, 5.5%, 7.0%, 7.9% and 8.2%, compared to the current: 1.7%, 3.2%, 4.7%, 6.0%, 7.1%, 7.9% and 8.2%. Note that the top rate does not drop. Rate cut proposals also reduce general fund revenue on a recurring basis.

A proposal also contains bracket changes. The bill is applicable beginning tax year 2001.

A table from the Taxation and Revenue fiscal impact report is attached to provide a basis for comparing current and proposed income brackets and tax rates.

FISCAL IMPLICATIONS

TRD has estimated that the proposed changes would decrease general fund revenues by \$64,300.0 in FY02 and by \$65,300.0 in FY03.

The fiscal impact analysis assumes the two technical corrections noted below are made.

The average per return reduction in personal income taxes is projected at \$117. Lower income taxpayers would receive an average tax reduction of 33 percent, while the top bracket taxpayers receive a 2 percent reduction from current tax levels. The average married taxpayer receives a \$171 per family decrease in personal income tax, while singles and head of household average \$66 and \$87, respectively.

ADMINISTRATIVE IMPLICATIONS

TRD reports that it can absorb the proposed changes within existing resources.

TECHNICAL ISSUES

- On page 13, line 25, 7.7% should be 8.2%
- On page 13, line 25, \$3,814 should be \$3,932

DISTRIBUTION OF TAX REDUCTIONS

The TRD FIR provides information as to the distributional changes implied by the proposed tax cuts. The overall reductions by income groups, tax relief by group, share of taxpayers in each group and each group's share of tax relief are summarized in the attached table.

AW/ar/njw
Attachment