

Highlights of Tax Reform and Revenue Stabilization Scenario #1

- Lower the gross receipts tax (GRT) rate by 1% or more combined (up to 0.75% state and up to 1.25% state and local)
- Broaden the GRT base
- Reduce revenue volatility
- Address local government revenue challenges
- Achieve gross receipts tax reform by:
 - Enacting a hospital tax reform scenario similar to the one passed in the prior session
 - Taxing online sales immediately and then applying local GRT increments and moving to destination-based sourcing for tangible personal property
 - Bringing food into the tax base on Jan 1, 2021
 - Aligning the motor vehicle excise tax with the new, lower GRT rate to bring parity to the taxes at the state level and drive down the GRT rate
 - Broadening personal income tax (PIT) brackets to provide a more gradually progressive tax structure and reduce taxes on low- and middle-income individuals and families
 - Adding new top PIT rate of 5.5 percent and repealing part of the capital gains deduction to drive down the GRT rate
 - Ending hold harmless distributions
 - Applying local government GRT increments to the compensating tax to equalize the rates
 - Repealing nearly 30 tax expenditures to generate revenue and clean up the tax code
- Increase gasoline and special fuel tax revenues to state and local road funds
- Increase motor vehicle registration fees and institute an additional fee for hybrids and electric vehicles, sending the revenue to the road fund
- Sunset the ability for local governments to impose two of the three 1/8 hold harmless GRT increments, repeal increments not bonded against
- Implement corporate income tax market-based sourcing
- Pending future revenue forecasts, additional new money is expected in FY21, and this reform scenario uses some of that new money before tax reform revenue increases gradually take effect
- The long-term (FY22+) general fund impact of this bill is mildly to moderately negative, making the reform scenario an overall tax cut

2019 Legislative Session: Tax Reform & Stabilization Scenario #1

(millions \$)

GENERAL FUND IMPACTS	FY19	FY20	FY21	FY22	FY23
General fund revenue as a result of tax reform -- gain (loss) -- general fund losses occur in FY19/FY20, then approx. revenue neutral		(305)	(184)	(42)	(60)
SOURCES	FY19	FY20	FY21	FY22	FY23
General fund revenues used (excess generated) through tax reform		305	184	42	60
Hospital tax reform		123	128	134	139
Internet sales (state only for two years, then local increments)		44	46	49	51
Increase MVX from 3% to equal new state GRT rate (GF impact)		36	36	74	76
Road fund: 50% of MVX increase distributed to road fund for first two years		36	36		
Road fund: increase motor vehicle registration fee, impose additional electric vehicle/hybrid fee, repeal fee expenditure for older vehicles (road fund)		15	15	15	15
Broaden PIT brackets and add new top rate of 5.5%		25	26	26	27
Repeal PIT 50% deduction for capital gains		35	36	36	37
Repeal food deduction Jan 1, 2021		-	71	147	153
Repeal food hold harmless distributions Jan 1, 2021		-	40	75	68
End medical hold harmless distributions Jul 1, 2021		-	-	24	22
Miscellaneous tax expenditure repeals		34	47	78	78
National lab prime contractor taxation (preserves existing revenues)		-	-	-	-
Road funds: 10 cent gasoline & 5 cent special fuels tax		118	118	118	118
TOTAL SOURCES OF REVENUE	-	770	784	818	844
USES	FY19	FY20	FY21	FY22	FY23
State GRT rate reduction of up to ~0.75% (up to ~1.25% state + local)		(530)	(541)	(579)	(599)
Reduce comp tax rate (must be no more than lowest GRT rate)		(22)	(24)	(9)	(12)
Internet sales (state cost of local sharing)		(25)	(25)	(73)	(76)
Medicaid reimbursement rate increase (part of HB2)		(25)	(25)	(25)	(25)
State and local road funds (increased distributions to road funds)		(169)	(169)	(133)	(133)
TOTAL	-	(770)	(784)	(818)	(844)

PROPOSED Tax Rate Schedules

	over	not over	tax =	plus	times amt over						Difference			
Single						Example	Status	Est AGI	Base Tax	Marginal Tax	Total Tax	from current	%Change in Tax	Effective Rate
	\$0	\$10,000	\$0.00	1.70%	\$0	PT Min Wage	Single	10,500	\$170.00	23.5	\$ 194	\$ (60)	-23.7%	1.8%
	\$10,000	\$20,000	\$170.00	4.70%	\$10,000	Min Wage Full Time	Single	15,600	\$170.00	263.2	\$ 433	\$ (53)	-10.8%	2.8%
	\$20,000	\$30,000	\$640.00	4.90%	\$20,000	Nurse's Aide	Single	26,500	\$640.00	318.5	\$ 959	\$ (61)	-5.9%	3.6%
	\$30,000	\$65,000	\$1,130.00	5.10%	\$30,000	Avg. Teacher/Cop	Single	45,000	\$1,130.00	765	\$ 1,895	\$ (31)	-1.6%	4.2%
	\$65,000	\$100,000	\$2,915.00	5.30%	\$65,000	Programmer	Single	75,000	\$2,915.00	530	\$ 3,445	\$ 50	1.5%	4.6%
	\$100,000	\$100,001	\$4,770.00	5.50%	\$100,000	Engineer	Single	100,000	\$2,915.00	1855	\$ 4,770	\$ 150	3.2%	4.8%
	\$100,001		\$4,770.06	5.50%	\$100,001	CEO	Single	150,000	\$4,770.00	2750	\$ 7,520	\$ 450	6.4%	5.0%
Married Joint														
	\$0	\$15,000	\$0.00	1.70%	\$0	FT min + PT	MJ	23,400	\$255.00	394.8	\$ 650	\$ (90)	-12.2%	2.8%
	\$15,000	\$30,000	\$255.00	4.70%	\$15,000	Dual min wage	MJ	31,200	\$960.00	58.8	\$ 1,019	\$ (102)	-9.1%	3.3%
	\$30,000	\$45,000	\$960.00	4.90%	\$30,000	20K each	MJ	40,000	\$960.00	490	\$ 1,450	\$ (102)	-6.6%	3.6%
	\$45,000	\$100,000	\$1,695.00	5.10%	\$45,000	FT plus PT min wage	MJ	52,800	\$1,695.00	397.8	\$ 2,093	\$ (86)	-4.0%	4.0%
	\$100,000	\$150,000	\$4,500.00	5.30%	\$100,000	Teacher + Cop	MJ	90,000	\$1,695.00	2295	\$ 3,990	\$ (12)	-0.3%	4.4%
	\$150,000	\$150,001	\$7,150.00	5.50%	\$150,000	Programmer + Teach	MJ	120,000	\$4,500.00	1060	\$ 5,560	\$ 88	1.6%	4.6%
	\$150,001		\$7,150.06	5.50%	\$150,001	Programmer + Engine	MJ	175,000	\$7,150.00	1375	\$ 8,525	\$ 358	4.4%	4.9%
Married Separate														
	\$0	\$7,500	\$0.00	1.70%	\$0									
	\$7,500	\$15,000	\$127.50	4.70%	\$7,500	Min Wage FT	HOH	15,600	\$255.00	28.2	\$ 283	\$ (96)	-25.3%	1.8%
	\$15,000	\$22,500	\$480.00	4.90%	\$15,000	Nurse's Aide	HOH	26,500	\$255.00	540.5	\$ 796	\$ (95)	-10.7%	3.0%
	\$22,500	\$50,000	\$847.50	5.10%	\$22,500	Teacher/Cop	HOH	50,000	\$1,695.00	255	\$ 1,950	\$ (92)	-4.5%	3.9%
	\$50,000	\$75,000	\$2,250.00	5.30%	\$50,000	Programmer	HOH	75,000	\$1,695.00	1530	\$ 3,225	\$ (42)	-1.3%	4.3%
	\$75,000	\$75,001	\$3,575.00	5.50%	\$75,000	Engineer	HOH	100,000	\$1,695.00	2805	\$ 4,500	\$ 8	0.2%	4.5%
	\$75,001		\$3,575.03	5.50%	\$75,001	Director	HOH	125,000	\$4,500.00	1325	\$ 5,825	\$ 108	1.9%	4.7%
						CEO	HOH	145,000	\$4,500.00	2385	\$ 6,885	\$ 188	2.8%	4.7%
						CEO	HOH	200,000	\$7,150.00	2750	\$ 9,900	\$ 508	5.4%	5.0%
Head of Household														
	\$0	\$15,000	\$0.00	1.70%	\$0									
	\$15,000	\$30,000	\$255.00	4.70%	\$15,000									
	\$30,000	\$45,000	\$960.00	4.90%	\$30,000									
	\$45,000	\$100,000	\$1,695.00	5.10%	\$45,000									
	\$100,000	\$150,000	\$4,500.00	5.30%	\$100,000									
	\$150,000	\$150,001	\$7,150.00	5.50%	\$150,000									
	\$150,001		\$7,150.06	5.50%	\$150,001									

2019 Legislative Session Tax Reform Scenario #1 - Local Government Impacts

(millions \$)

Funding Increases	FY20	FY21	FY22
Remove TRD notwithstanding fee language from HB2	7	7	7
Internet sales (local sharing of state increase, then local increments)*	25	25	75
Apply local GRT increments to food	-	53	109
Apply local GRT increments to comp tax			94
Miscellaneous tax expenditure repeals	11	11	11
National lab prime contractor taxation	-	-	-
Local road funds	30	30	30
Funding Reductions			
Repeal food hold harmless distributions	-	(40)	(75)
Repeal two of the three 1/8 HH increments for cities and counties			(103)
Repeal Municipal Equivalent			(18)
Repeal medical hold harmless distributions			(24)
TOTAL	73	85	106

Notes

* Make local sharing of new state remote seller tax revenue temporary w/provision for delayed effective date to enact GRT destination reporting and application of local increments in FY22 (destination reporting makes it possible to apply local GRT increments to online sales, putting in-state and out-of-state sellers on an equal playing field; however, it is a significant change to GRT collection for TRD & taxpayers and could shift revenues among local governments)

Miscellaneous tax expenditure/distribution repeals	FY20	FY21	FY22	FY23
1 GRT deduction for sales to nonprofits	9.0	9.0	9.0	9.0
2 GRT exemption for textbook sales	5.3	5.3	5.3	5.3
3 GRT deduction for hosting World Wide Web sites	0.2	0.2	0.2	0.2
4 GRT deduction for durable medical equipment	0.2	0.2	0.2	0.2
5 GRT deduction for resale of certain mfd homes	5.7	5.7	5.7	5.7
6 GRT/comp deduction for jet fuel	-	-	-	-
7 GRT exemption for fuel for space vehicles				
8 GRT deduction for sale of aerospace services to the US				
9 GRT deduction for travel agents' commissions				
10 GRT deduction for military transformational acquisition programs				
11 GRT deduction for certain purchases by the state				
12 GRT deduction for converting electricity				
13 GRT deduction for electricity exchange				
14 GRT & comp deductions for certain electric facilities				
15 Distribution adjustment for hospital credit				
16 GRT credit for welfare-to-work				
17 GRT credit for electronic equipment				
18 GRT credit for physician participation in cancer treatment				
19 GRT credit for hospitals				
20 GRT credit for penalty pursuant to repealed 7-1-71.2				
21 PIT & CIT credits for qualified business facility rehab				
22 PIT & CIT credits for welfare-to-work				
23 PIT & CIT credits for blended biodiesel fuel				
24 PIT credit for certain electronic equipment to verify age				
25 PIT credit for venture capital investments				
26 Premium tax credit for medical insurance pool (MIP) assessments	13.3	26.7	40.0	40.0
27 Comp tax municipal equivalent distribution			18.0	18.0

Highlights of Tax Reform Scenario #2 – No Change to Food Deduction

- Lower the gross receipts tax (GRT) rate by up to 0.6%
- Broaden the GRT base and achieve tax reform by:
 - Enacting a hospital tax reform scenario similar to the one passed in the prior session
 - Taxing online sales immediately and then applying local GRT increments and moving to destination-based sourcing for tangible personal property
 - Aligning the motor vehicle excise tax with the new, lower GRT rate to bring parity to the taxes at the state level and drive down the GRT rate
 - Broadening personal income tax (PIT) brackets to provide a more gradually progressive tax structure
 - Adding new top PIT rate of 6 percent (vs. current 4.9 percent) and repealing part of the capital gains deduction to drive down the GRT rate
 - Ending hold harmless distributions in FY22
 - Applying local government GRT increments to the compensating tax to equalize the rates in FY22
 - Repealing nearly 30 tax expenditures to generate revenue and clean up the tax code
- Increase gasoline and special fuel tax revenues to state and local road funds starting in FY22 – in FY20 and FY21, general fund will be used for major road projects before the tax increases go into effect, and a portion of the increase in motor vehicle excise tax revenues will be used for the road fund in FY22 before the fuel taxes take effect
- Increase motor vehicle registration fees and institute an additional fee for hybrids and electric vehicles, sending the revenue to the road fund
- Implement corporate income tax market-based sourcing
- Pending future revenue forecasts, additional new money is expected in FY21, and this reform scenario uses some of that new money before tax reform revenue increases gradually take effect
- The long-term (FY22+) general fund impact of this bill is roughly revenue neutral

2019 Legislative Session: Tax Reform Scenario #2 - No Change to Food Deduction

(millions \$)

GENERAL FUND IMPACTS	FY19	FY20	FY21	FY22	FY23
General fund revenue as a result of tax reform -- gain (loss) -- general fund losses occur in FY19/FY20, then approx. revenue neutral	-	(299)	(226)	9	(9)

SOURCES	FY19	FY20	FY21	FY22	FY23
General fund revenues used (excess generated) through tax reform	-	299	226	(9)	9
Hospital tax reform		125	130	136	141
Internet sales (state only for two years, then local increments)		44	45	47	49
Increase MVX from 3% to equal new state GRT rate (GF impact)		79	40	83	84
Road fund: 50% of MVX increase distributed to road fund in FY21 before gas tax begins in FY22			40		
Increase motor vehicle registration fee, impose additional electric vehicle/plug-in hybrid fee, repeal fee expenditure for older vehicles (road fund)		15	15	15	15
Broaden PIT brackets and add new top rate of 6%		-	100	102	104
Repeal PIT 50% deduction for capital gains		35	36	36	37
End food hold harmless distributions in FY22		-	-	75	68
End medical hold harmless distributions in FY22		-	-	24	22
Miscellaneous tax expenditure repeals		34	47	78	78
National lab prime contractor taxation (preserves existing revenues)		-	-	-	-
Road funds: 10 cent gasoline & 5 cent special fuels tax				118	118
TOTAL SOURCES OF REVENUE	-	631	680	705	726

USES	FY19	FY20	FY21	FY22	FY23
GRT rate reduction of up to ~0.6% (no local reduction possible)		(430)	(437)	(471)	(487)
Reduce comp tax rate (must be no more than lowest GRT rate)		(18)	(20)	(3)	(6)
State cost of local sharing for Internet sales (inc. destination sourcing)		(25)	(25)	(73)	(76)
Medicaid reimbursement rate increase (part of HB2)		(25)	(25)	(25)	(25)
Major investment projects (using GF, gas tax, motor vehicle reg. fees)		(133)	(173)	(133)	(133)
TOTAL	-	(631)	(680)	(705)	(726)

NET REVENUE IMPACT

\$103,637,809

PROPOSED Tax Rate Schedules

	over	not over	tax =	plus	times amt over
Single					
	\$0	\$6,500	\$0.00	1.70%	\$0
	\$6,500	\$10,000	\$110.50	3.20%	\$6,500
	\$10,000	\$23,500	\$222.50	4.70%	\$10,000
	\$23,500	\$50,000	\$857.00	5.20%	\$23,500
	\$50,000	\$100,000	\$2,235.00	5.50%	\$50,000
	\$100,000	\$200,000	\$4,985.00	5.80%	\$100,000
	\$200,000		\$10,785.00	6.00%	\$200,000
Married Joint					
	\$0	\$10,000	\$0.00	1.70%	\$0
	\$10,000	\$15,000	\$170.00	3.20%	\$10,000
	\$15,000	\$35,000	\$330.00	4.70%	\$15,000
	\$35,000	\$75,000	\$1,270.00	5.20%	\$35,000
	\$75,000	\$150,000	\$3,350.00	5.50%	\$75,000
	\$150,000	\$300,000	\$7,475.00	5.80%	\$150,000
	\$300,000		\$16,175.00	6.00%	\$300,000
Married Separate					
	\$0	\$5,000	\$0.00	1.70%	\$0
	\$5,000	\$7,500	\$85.00	3.20%	\$5,000
	\$7,500	\$17,500	\$165.00	4.70%	\$7,500
	\$17,500	\$37,500	\$635.00	5.20%	\$17,500
	\$37,500	\$75,000	\$1,675.00	5.50%	\$37,500
	\$75,000	\$150,000	\$3,737.50	5.80%	\$75,000
	\$150,000		\$8,087.50	6.00%	\$150,000
Head of Household					
	\$0	\$10,000	\$0.00	1.70%	\$0
	\$10,000	\$15,000	\$170.00	3.20%	\$10,000
	\$15,000	\$35,000	\$330.00	4.70%	\$15,000
	\$35,000	\$75,000	\$1,270.00	5.20%	\$35,000
	\$75,000	\$150,000	\$3,350.00	5.50%	\$75,000
	\$150,000	\$300,000	\$7,475.00	5.80%	\$150,000
	\$300,000		\$16,175.00	6.00%	\$300,000

Example	Status	Est AGI	Base Tax	Marginal Tax	Total Tax	Difference		
						from current	%Change in Tax	Effective Rate
PT Min Wage	Single	10,500	\$222.50	24 \$	246 \$	(8)	-3.0%	2.3%
Min Wage Full Time	Single	15,600	\$222.50	263 \$	486 \$	-	0.0%	3.1%
Nurse's Aide	Single	26,500	\$857.00	156 \$	1,013 \$	(6)	-0.6%	3.8%
Avg. Teacher/Cop	Single	45,000	\$857.00	1118 \$	1,975 \$	50	2.6%	4.4%
State Employee	Single	50,000	\$2,235.00	0 \$	2,235 \$	65	3.0%	4.5%
Programmer	Single	75,000	\$2,235.00	1375 \$	3,610 \$	215	6.3%	4.8%
Engineer	Single	100,000	\$4,985.00	0 \$	4,985 \$	365	7.9%	5.0%
CEO	Single	350,000	\$10,785.00	9000 \$	19,785 \$	2,915	17.3%	5.7%
FT min + PT	MJ	23,400	\$330.00	395 \$	725 \$	(15)	-2.0%	3.1%
Dual min wage	MJ	31,200	\$330.00	761 \$	1,091 \$	(29)	-2.6%	3.5%
20K each	MJ	40,000	\$1,270.00	260 \$	1,530 \$	(22)	-1.4%	3.8%
FT plus PT min wage	MJ	52,800	\$1,270.00	926 \$	2,196 \$	16	0.8%	4.2%
35K each	MJ	70,000	\$1,270.00	1820 \$	3,090 \$	68	2.3%	4.4%
45K each	MJ	90,000	\$3,350.00	825 \$	4,175 \$	173	4.3%	4.6%
90K each	MJ	180,000	\$7,475.00	1740 \$	9,215 \$	803	9.5%	5.1%
200K each	MJ	400,000	\$16,175.00	6000 \$	22,175 \$	2,983	15.5%	5.5%
Min Wage FT	HOH	15,600	\$330.00	28.2 \$	358 \$	(21)	-5.5%	2.3%
Nurse's Aide	HOH	26,500	\$330.00	540.5 \$	871 \$	(20)	-2.2%	3.3%
Teacher/Cop	HOH	45,000	\$1,270.00	520 \$	1,790 \$	(7)	-0.4%	4.0%
Asst. Professor	HOH	65,000	\$1,270.00	1560 \$	2,830 \$	53	1.9%	4.4%
Programmer	HOH	80,000	\$3,350.00	275 \$	3,625 \$	113	3.2%	4.5%
Engineer	HOH	100,000	\$3,350.00	1375 \$	4,725 \$	233	5.2%	4.7%
Director	HOH	125,000	\$3,350.00	2750 \$	6,100 \$	383	6.7%	4.9%
Investment Officer	HOH	250,000	\$7,475.00	5800 \$	13,275 \$	1,433	12.1%	5.3%
Corporate VP	HOH	550,000	\$16,175.00	15000 \$	31,175 \$	4,633	17.5%	5.7%