F I S C A L I M P A C T R E P O R T

SPONSOR Altamirano

ORIGINAL DATE 1/31/07
LAST UPDATED
HB

SHORT TITLE Accelerate Income Tax Rate Reductions

SB 265

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
($19,800.0)	($46,200.0)		Non-Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 265 accelerates the current phase-in of the personal income tax rate reductions. Under current law, the top personal income tax rate will be 5.3 percent in tax year 2007 and 4.9 percent in 2008. This bill would accelerate the schedule so the rate would be 4.9 percent in 2007 forward, a reduction of 0.4 percent in the top personal income tax rate in 2007.

Tax Rate Cut

Tax Year	Current Law	SB265
2006	5.3%	5.3%
2007	5.3%	4.9%
2008	4.9%	4.9%

FISCAL IMPLICATIONS

Using a model provided by the Taxation and Revenue Department (TRD), the full year impact would be a $66 million reduction in personal income tax collections. Thirty percent of the impact, or $19.8 million, occurs in FY07 because the first quarter of 2007 personal income tax collections will have been at the current rates. In FY08, the impact is $46.2 million or 70 percent of the tax year impact. **This is a revised methodology from previous estimates agreed upon by LFC and TRD.** While this would reduce current estimates of recurring general fund revenues, the reduction is only for these two fiscal years and does not recur in the future.

SIGNIFICANT ISSUES

In 2003, legislation was enacted lowering the top rate and collapsing the number of income brackets. In 2002, the top rate on taxable income over $100,000 for married filers and $65,000 for single filers was 8.2 percent. As a result of the 2003 legislation, by tax year 2007, the top rate would decrease to 4.9 percent and the top income bracket would begin at $24,000 in taxable income for married filers and $16,000 for single filers. In the 2005 session, the phase-in schedule for the top rate decrease was delayed until 2008 and the head-of-household filing status was merged with the married filing jointly status. The schedule was modified again in the 2005 special session as revenues came in stronger than expected. This bill restores the final phase-in year to 2007 rather than 2008. See table one for details about the changes to the personal income tax law over the last four years.

Table 1: Proposed Rate Schedule

Taxable Income						
Married Filing Jointly, Surviving Spouses, Head of Household	Married Filing Separate	Single	2005	2006	2007	2008
<8000	<4000	<5500	1.7%	1.7%	1.7%	1.7%
8000-16000	4000-8000	5500-11000	3.2%	3.2%	3.2%	3.2%
16000-24000	8000-12000	11000-16000	4.7%	4.7%	4.7%	4.7%
24000+	12000+	16000+	**5.7%**	**5.3%**	**4.9%**	**4.9%**

Based on 2005 tax return data, a married filing jointly taxpayer reporting $24 thousand in taxable income has total adjusted gross income (AGI) of about $40 thousand. For singles reporting taxable income of $16 thousand, their AGI starts at $25 thousand. 311,000 taxpayers will receive the benefit of the lower rate, all of them above these AGI levels.

ADMINISTRATIVE IMPLICATIONS

This change would require the Taxation and Revenue Department to modify withholding tables and instructions for 2007 but otherwise should pose little administrative burden.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The executive has proposed lowering the rate to 5.1 percent in tax year 2007.

NF/nt