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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED 8/16/08 **HB** 12

SPONSOR Foley

SHORT TITLE Repealing the Income Tax Act **SB** _____

ANALYST White

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(\$413,000.0)	(\$903,000.0)	(\$1,078,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
 Taxation and Revenue Department (TRD)

SUMMARY

House Bill 12 would lower personal income rates in the taxable year beginning January 1, 2009 and lowering it further each subsequent year eventually eliminating the tax all together by January 1, 2012. The applicable tax rates would decrease as follows:

Others	Married Filing Separate	Single	2009	2010	2011	2012
<\$8000	<\$4000	<\$5500	1.7%	1.7%	1.7%	0.0%
\$8000-\$16000	\$4000-\$8000	\$5500-\$11000	\$93.50 + 3.2% Single	\$93.50 + 3.2% Single	1.7%	0.0%
			\$136 + 3.2% Married Separate	\$68 + 3.2% Married Separate	1.7%	0.0%
			\$136 + 3.2% Others	\$132 + 3.2% Others	1.7%	0.0%
>\$16000	>\$8000	>\$11000	\$269.50 + 4.7% Single	\$93.50 + 3.2% Single	1.7%	0.0%
			\$392 + 4.7% Married Separate	\$68 + 3.2% Married Separate	1.7%	0.0%
			\$392 + 4.7% Others	\$132 + 3.2% Others	1.7%	0.0%

FISCAL IMPLICATIONS

Revenues from personal income taxes make up a significant portion of State general fund revenues. Personal income tax revenues are expected to total approximately \$1.09 Billion in

fiscal year 2008 and \$1.14 Billion in fiscal year 2009. Elimination of this tax would incur permanent losses of nearly 20% of total general fund revenues. The following table was provided by the Taxation and Revenue Department to show the estimated revenues impacts as a result of HB12:

	2009	2010	2011	2012	2013
Estimated Revenues per current law (before credits)	\$1,225	\$1,300	\$1,375	\$1,450	\$1,550
Estimated Revenues per new law (before credits)	\$400	\$320	\$200		
Saving from credits after 2011				\$70	\$75
Change	(\$825)	(\$980)	(\$1,175)	(\$1,380)	(\$1,475)
Fiscal Year Estimates	(\$413)	(\$903)	(\$1,078)	(\$1,278)	(\$1,428)

In Millions

SIGNIFICANT ISSUES

By lowering and eventually eliminating the personal income tax, the State loses significant recurring revenues which must be made up from other revenues. The personal income tax is one of three legs which support State spending along with corporate income taxes and consumption taxes such as gross receipts and excise taxes. The result of eliminating this leg is either strengthening the other legs or lessening the weight of the table. Thus by repealing the personal income tax the State will consequently be forced to raise corporate income and consumption taxes or significantly lower State expenditure levels. In either event, as can be seen in the table above, the loss of revenues or the loss of expenditures will have to significantly exceed \$1 Billion dollars annually.

In addition to the overall loss in State revenues, elimination of the personal income tax would greatly reduce the progressivity of the State's overall tax system. Most tax scholars insist that having a progressive tax system, one in which higher incomes pay higher taxes, is the only way to ensure overall fairness amongst income levels. Eliminating the progressive personal income tax could potentially reduce fairness throughout the overall tax system. Also elimination of the tax would also eliminate personal income tax credits, which are designed to address various policy issues.

ADMINISTRATIVE IMPLICATIONS

Certain administrative changes will have to take place within the Taxation and Revenue Department however they are anticipated to be minor and not carry significant costs.

DW/mt