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

SPONSOR Lopez **DATE TYPED** 3-04-2005 **HB**

SHORT TITLE Eliminate 2006 & 2007 Income Tax Reductions **SB** 469

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	$45,700.0	$122,850.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

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

SUMMARY

Senate Bill 469 eliminates the personal income tax rate reductions that are scheduled to take effect in tax year 2006 and 2007. Under current law, in tax year 2006, the top marginal tax rate will be reduced from 6.0 percent to 5.3 percent; in tax year 2007, the top marginal rate will be reduced from 5.3 percent to 4.9 percent.

The bill carries no effective date and thus its provisions would become applicable 90 days after the end of the legislative session

FISCAL IMPLICATIONS

The Taxation and Revenue Department estimates that eliminating the rate reductions would increase state general fund revenues by $45.7 million in FY06, $122.9 million in FY07 and $159.8 million in FY08. They build their estimate from 2003 tax returns, growing underlying tax liability by 6 percent per year. They also provide a table showing the impact by filing status. The table is attached to this FIR.

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department reports no significant administrative implications.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department's analysis included the following issues:

The attached table presents an illustration of the impacts of SB 469 by taxpayer filing status and income bracket in tax year 2007. The income brackets are based on taxable income, which is the net amount remaining after all exemptions and deductions have been subtracted from total income.

Major impacts of SB 469 in tax year 2007:

> Married taxpayers filing jointly would see an increase in liability if their taxable income exceeds $24,000. This corresponds roughly with $45,000 of total income. Their total liability increase would be $112.6 million on 193 thousand tax returns for an average tax increase of $583 per return. The tax increase per return increases with income. Taxpayers with taxable income below $40,000 would see an increase of $90 per return, while those with taxable income over $100 thousand would see an increase of over $2,000 per return.
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> Single taxpayers would see an increase in liability if their taxable income exceeds $16,000. This corresponds roughly with $25,000 of total income. Their total liability increase would be $33.5 million on 120 thousand tax returns for an average tax increase of $280 per return. The tax increase per return increases with income. Taxpayers with taxable income below $26,000 would see an increase of $54 per return, while those with taxable income over $65 thousand would see an increase of over $1,500 per return.
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> Head of Household taxpayers would see an increase in liability if their taxable income exceeds $20,000. This corresponds roughly with $36,000 of total income. Their total liability increase would be $6.6 million on 27 thousand tax returns for an average tax increase of $244 per return. The tax increase per return increases with income. Taxpayers with taxable income below $33,000 would see an increase of $61 per return, while those with taxable income over $83 thousand would see an increase of over $1,900 per return.

BT/yr

Attachment