

Fiscal Estimate Narratives

DOR 9/25/2023

LRB Number	23-4303/1	Introduction Number	SB-0435	Estimate Type	Original
Description lowering the individual income tax rates in the third bracket and increasing and expanding the retirement income subtraction					

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, there are four individual income tax rates and brackets. The brackets are indexed for inflation. In 2023, the tax rates and brackets under current law for the individuals filing with the 'single' or 'head of household' filing statuses is as follows:

1. For taxable income not exceeding \$13,810, 3.50 percent.
2. For taxable income exceeding \$13,810, but not \$27,630, 4.40 percent.
3. For taxable income exceeding \$27,630, but not \$304,170, 5.30 percent.
4. For taxable income exceeding \$304,170, 7.65 percent.

The tax rates in each bracket for married persons filing jointly and married persons filing separately are the same, but the dollar amounts are approximately one third higher for joint filers and one third lower for separate filers.

This bill decreases the individual income tax rate in the third tax bracket from 5.30 percent to 4.40 percent beginning with the 2023 tax year.

The rate reduction will reduce revenue by approximately \$1.435 billion in fiscal year 2023-24 and \$1.030 billion annually beginning in fiscal year 2024-25.

This bill also increases and expands the individual state income tax subtraction for payments or distributions received from qualified retirement plans under the Internal Revenue Code or from certain individual retirement accounts. Beginning in tax year 2023, up to \$100,000 of payments or distributions received from qualified retirement plans or certain individual retirement accounts may be subtracted annually from an individual's taxable income, if the individual is at least 67 years of age. If the individual and individual's spouse are both at least 67 years of age, the sum of the amount that the couple may subtract annually from their combined taxable income may not exceed \$150,000.

The retirement income subtraction will reduce revenue by approximately \$468 million in fiscal year 2023-24 and \$422 million annually beginning in fiscal year 2024-25.

One part of the bill lowers the rate of taxation and the other part lowers the amount of taxable income, so the combined fiscal effect is smaller the sum of the two parts. Because of the interaction, the bill will result in a total revenue loss of approximately \$1.845 billion in fiscal year 2023-24 and \$1.400 billion annually beginning in fiscal year 2024-25.

According to the American Rescue Plan Act (ARPA) Net Tax Reduction Calculation Update memo released by the Department of Administration on 8/28/2023, the remaining margin for tax reductions before triggering potential SLFRF recoupment at \$113 million for fiscal year 2023-24 and \$319 million for fiscal year 2024-25. The figures in this fiscal estimate exceed those margins.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description lowering the individual income tax rates in the third bracket and increasing and expanding the retirement income subtraction		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
II. Annualized Costs:		
	Annualized Fiscal Impact on funds from:	
	Increased Costs Decreased Costs	
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By	Authorized Signature	Date
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