**BILL SUMMARY**
2nd Session of the 59th Legislature

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| **Bill No.:** | **HB2949** |
| **Version:** | **FA 1** |
| **Request Number:** | **10754** |
| **Author:** | **Speaker McCall** |
| **Date:** | **3/13/2024** |
| **Impact:** | **See Analysis Below** |

## Research Analysis

The floor substitute for HB2949 establishes revenue triggers to allow the personal income tax rate to be lowered in future years beginning tax year 2025. The tax rate for every tax bracket may decrease by 0.25 every year that the cumulative revenue growth is equal to or greater than $400 million. When the tax rate has been reduced to 3.0 percent, the rate may be reduced further by 0.3 each year until the rate is zero and the personal income tax is completely phased out after 10 years.

DIFFERENCES BETWEEN FLOOR SUBSTITUTE AND COMMITTEE SUBSTITUTE VERSION

The committee substitute had replaced the bracket system with a flat tax 4.4 percent tax, applicable to income above $10,000 for single filers or $20,000 for joint filers. The floor substitute maintains the current rate and does not establish a flat tax or provide an immediate tax reduction.

Both the floor and committee substitute include a framework to reduce the income tax rate with a $400 million revenue trigger requirement. The only difference between the committee substitute and floor substitute is the rate reduction amount for each increment. In the committee substitute, the rate beginning at 4.4 percent decreases by .233 each time and the 3.0 percent rate would be reached in six successful cycles. In the floor substitute, the rate beginning at the current rate of 4.75 percent decreases by .25 each time and the 3.0 percent rate would be reached in seven successful cycles.

The floor substitute also does not propose a renewable electricity production tax, whereas the committee substitute did.

Prepared By: Quyen Do

## Fiscal Analysis

In its current form, HB2949 establishes revenue triggers to allow the personal income tax rate to be lowered incrementally beginning tax year 2025. The tax rate for each tax bracket is to decrease by 0.25 in each year that the cumulative revenue growth is equal to or greater than $400 million. Once the tax rate has been reduced to 3.0 percent, the rate is to be further reduced by 0.3 annually until the rate is zero.

The Legislative Office of Fiscal Transparency (LOFT) has provided the following analysis:

LOFT estimates each .25% rate reduction would result in approximately $277 million less income tax collections annually. However, when considering the increased collections required to activate the reduction, there is a net positive fiscal impact to the State.

Due to the fact that the trigger for further reductions in the income tax rate is based on total tax collections exceeding the prior year's collections by at least $400 million, it is not possible to predict when a trigger might be activated or by which tax source. Any estimate for the timing of additional revenue reductions would require the assessment of any other tax changes, such as the elimination of the State's portion of the grocery tax.

| Annual Fiscal Impact .25% reductions "triggered" by increased collections | |
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| Enaction of each .25% reduction in the income tax rate from the prior year would result in a loss of approximately $277 million in income tax collections. However, as the rate reduction is only activated upon an increase in total tax collections of at least $400 million, the conditions triggering any rate reduction would result in a net positive impact to State revenue collections. | $277 million reduced income tax collections $400 million increase in total tax collections = **Net positive fiscal impact of $123 million** |

Prepared By: Zach Penrod

## Other Considerations

None.

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