

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 29, 2009

TO: Honorable Rene Oliveira, Chair, House Committee on Ways & Means

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB1735 by Burnam (Relating to the imposition of an income tax on income that exceeds \$100,000 to provide property tax relief and fund public education; providing penalties.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1735, As Introduced: a negative impact of (\$74,429,000) through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$29,747,000)
2011	(\$44,682,000)
2012	\$1,374,203,000
2013	\$1,473,203,000
2014	\$1,579,203,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>General Revenue Fund</i> 1	Probable Revenue Gain/(Loss) from <i>Foundation School</i> <i>Fund</i> 193	Probable Revenue Gain/(Loss) from <i>New GR-Dedicated - Ad</i> <i>Valorem Maintenance</i> <i>& Operations</i>	Change in Number of State Employees from FY 2009
2010	(\$29,747,000)	\$0	\$0	100.0
2011	(\$44,682,000)	\$0	\$0	663.0
2012	(\$44,797,000)	\$1,419,000,000	\$2,881,000,000	664.0
2013	(\$44,797,000)	\$1,518,000,000	\$3,082,000,000	664.0
2014	(\$44,797,000)	\$1,624,000,000	\$3,297,000,000	664.0

Fiscal Analysis

The bill would add new Chapter 261 to the Tax Code, regarding the imposition of a personal income tax.

The bill would impose a personal income tax on persons making more than \$100,000 per year. Incomes would be reported separately for joint returns and the tax due would be based on each single income. For incomes above \$100,000 and not exceeding \$150,000, the tax due would be 2 percent of the income above \$100,000. For incomes above \$150,000 and not exceeding \$250,000, the tax due would be \$1,000 plus 3 percent of the income above \$150,000. For incomes above \$250,000 and not exceeding \$500,000, the tax due would be \$4,000 plus 4 percent of the income above \$250,000. For incomes above \$500,000 and not exceeding \$1,000,000, the tax due would be \$14,000 and plus 5 percent of the income above \$500,000. For incomes in excess of \$1,000,000, the tax due would be

\$39,000 plus 6 percent of the income above \$1,000,000.

The bill would provide allowances for income tax paid to other states, for dual residents, and Texas nonresidents; conform Texas taxpayer's method of accounting to the federal income tax; and exempt partnerships from the tax. Tax payments would be due April 15, and estimated tax payments for certain returns would be due at such time as federal prepayments are due.

From the revenue generated by this tax, two-thirds would be deposited into new GR Account—Ad Valorem Maintenance & Operations, and could be appropriated only for the purpose of reducing the rate of ad valorem maintenance and operations taxes levied for public education. The remaining one-third would be deposited into GR Account—Foundation School 0193.

A constitutional referendum would be submitted to Texas voters on November 3, 2009 authorizing the enactment of statutes to implement the income tax provisions.

The bill would take effect September 1, 2009.

Methodology

The fiscal analysis was based on Internal Revenue Service data regarding Texas individual and joint federal income tax filers. The estimate assumes passage of the required referendum in November 2009, followed by a period of implementation by the Comptroller's Office in which computer systems would be prepared for the new tax, personnel hired and trained, and forms and rules adopted. It is assumed the first collections would occur in fiscal 2012.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

The administrative cost estimate reflects the funds that would be necessary to hire additional auditors, enforcement officers, processing staff and programmers to administer the new state income tax. In fiscal 2010, the administrative cost estimate reflects a one-time technology cost of \$23,008,000 for computer hardware, software and programming to develop an automated system for the new tax.

Technology

There would be a technology cost to the Comptroller's Office of \$23,008,000 in fiscal 2010 for computer hardware, software and programming to develop an automated system for the new tax.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: JOB, MN, SD, SM