

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

During the 2021 Regular Legislative Session, a package of bills was passed that made significant changes to three major taxes affecting individuals and businesses in the state; the individual income tax, the corporate income tax, and the corporate franchise tax. The core of the package is broadening of the tax base, through the elimination of the state deduction for federal taxes paid and the state deduction for excess federal itemized deductions, allowing for the lowering of tax rates on both individual and business tax filers. In addition, the package delinks the state tax system from that of the federal tax system with regard to the effect of federal tax liabilities on state tax liabilities, as well as to a large extent, the effect of federal itemized deductions¹. The package also includes provisions to trigger further tax rate reductions for the individual income tax and the corporate franchise tax, but not the corporate income tax.

This report is meant to inform policymakers and the public as to the aggregate fiscal consequences to the state fisc of this package, as well as the tax liability consequences to taxpayers. Estimates of the effects attributable to the individual income tax are based on an individual income tax microsimulation model maintained by the Legislative Fiscal Office, processing actual state income tax filer data. Estimates of the effects attributable to the corporate income and franchise tax are based on tax return simulations performed by the State Department of Revenue, also processing actual state tax return data². While any such estimates will be imperfect, the results reported here can serve as approximations of the aggregate liability changes attributable to the tax law changes being proposed, as well as the distribution of these changes across various subsets of tax filers and income cohorts³.

This report will describe each legislative instrument that comprises the package and the aggregate state fiscal effect of each instrument as reflected in the associated fiscal notes⁴, as well as the combined aggregate fiscal effect of the package. Distributional effects of the package across different taxpayers will also be examined. Finally, appendices will provide more distributional breakdown, and other metrics describing the distributional effects of the package.

Legislation

The package is comprised of four legislative instruments, including a resolution proposing an amendment to the State Constitution, and three statutory companion bills that implement the changes in state tax law. Each instrument is contingent upon the adoption of the constitutional

¹ Increases and decreases of federal taxes results in greater or lesser state deductions of federal taxes paid, leading to lessor or greater state tax liabilities. Expanded or diminished federal itemized deductions also worked to reduce or increase state tax liabilities in the same way. Other than diminishing the annual variability of state income taxes due to variability of federal income taxes, another motivating factor to the delinking was the expectation that federal individual tax liabilities and itemized deductions would return to their pre-2018 levels, as provided in the federal Tax Cuts and Jobs Act of 2017. By reducing federal taxes and itemized deductions, that Act significantly boosted state income tax liabilities, and when the provisions for individuals expire after 2025, significant reductions to state income tax liabilities and receipts are expected.

² The individual income tax model is currently processing 2019 tax year return data provided by the state Department of Revenue across federal adjusted gross income ranges for a variety of subsets of filers. The corporate tax simulations are based on 2018 and 2019 tax year tax return data. These are the latest tax years with near complete filings, and both simulation models are the basis of estimates of the likely effects of proposed legislative changes to the state's individual and corporate income and corporate franchise tax collections.

³ Individual income taxes tend to be relatively stable from year to year, while business taxes are not, especially corporate taxes, which are concentrated in large national and international firms subject to variability in worldwide economic conditions, and able to apply considerable tax planning strategies to their tax filings.

⁴ Fiscal Notes are formal assessments of the likely effects of legislation on governmental receipts and expenditures provided by the Legislative Fiscal Office, with input from the affected or administering agencies.

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amendment and the enactment of each of the statutory bills. The constitutional amendment will be submitted to the voters at a statewide election on October 9, 2021 (now November 13), and if adopted by the voters, will authorize implementation of the tax law changes beginning with the 2022 tax year. Each instrument and its accompanying fiscal note is described below.

Constitutional Amendment ([Act 134, SB 159](#))

The current state constitutional provisions require that federal income taxes paid be deducted from income as part of the calculation of state taxable income and tax liability, for both individual and corporate income tax. In addition, the constitution mandates that the rates and brackets for individual income tax cannot exceed those in effect as of January 1, 2003⁵.

The proposed constitutional amendment makes the deductibility of federal income tax paid permissive, but does not require it. In addition, the rates and brackets for individual income taxes are no longer to be constrained to those in effect as of January 1, 2003, but a maximum individual income tax rate of 4.75% is established, effective for tax year 2022 and beyond. The maximum individual income tax rate in current law is 6%⁶. These constitutional changes allow for the base broadening statutory elimination of the federal income tax deduction for both individual and corporate income tax, but still allows for the reinstatement of the deduction in the future by statutory law. The amendment will be submitted to the voters at the statewide election on October 9, 2021 (now November 13). If adopted by the voters, the maximum individual tax rate and the other statutory instruments of the package would become effective on January 1, 2022.

Fiscal Note: The constitutional amendment reduces the top marginal tax rate to a maximum of 4.75% from the current top rate of 6%, effective for the tax year that begins January 1, 2022. In isolation, with no statutory change to the deductibility of federal income taxes paid or other rate and base changes, that rate drop would result in a \$278 million drop in total individual income tax liabilities for a full tax year. This is not itself a very interesting result, in that the amendment facilitates statutory changes to the individual income tax that eliminates the federal income tax paid deduction and lower tax rates in general. However, future legislatures will be limited in the top marginal tax rate that can be applied to individual income to finance services to the citizens and businesses of the state; although, the amendment does not limit the current bottom and middle tax rates of 2% and 4%, respectively, or the proposed bottom and middle rates of 1.85% and 3.50%, respectively, to any maximum other than the proposed 4.75% maximum rate.

Individual Income Tax ([Act 395, HB 278](#))

This bill eliminates the deduction for federal income taxes paid, as allowed by the constitutional amendment, as well as almost all of the deduction for excess federal itemized deductions - a

⁵ The prohibition against individual income tax rates and brackets exceeding those in effect as of a specific date, January 1, 2003 in the current constitution, has typically been interpreted as preventing any changes to those tax parameters that would increase tax on any tax filer. The January 1, 2003 date is the effective date of the last major reform to individual income tax, commonly referred to as the Stelly Plan. Prior to the Stelly Plan changes, the specified date was January 1, 1974, and referred only to "rates". The reference was changed to "rates and brackets" by the Stelly Plan package.

⁶ The 6% maximum tax rate in current law is the top marginal tax rate effective as of January 1, 2003.

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statutory deduction not required by the state constitution⁷. The bill still allows taxpayers who itemize on their federal return to claim any excess on their state return that is attributable to the medical expense itemized deduction allowed on the federal return. This will allow only a relatively small number of state tax filers to claim an excess federal itemized deduction⁸. These two deduction eliminations broaden the individual income tax base, allowing for rate reductions without material revenue losses to the State. Advocates of the package were particularly interested in lowering the top marginal tax rate, and a substantial reduction of the top rate from 6% to 4.25% was incorporated. The bill retained the current law tax brackets⁹, and the bill's tax rate reductions were applied to those current brackets and the broadened base of income. The bill is effective for tax years beginning on or after January 1, 2022. A provision to trigger further tax rate reductions over a ten-year period is also included in the bill, and will be discussed later in this report. The current and proposed tax rates are illustrated in the table below.

| <u>Individual Income Tax</u> | | | | | | |
|------------------------------|----------------------|-----------------|-----------------------|----------------------|-----------------|----------|
| <u>Current Law</u> | | | <u>Proposed Law</u> | | | |
| <u>Taxable Income</u> | | <u>Tax Rate</u> | <u>Taxable Income</u> | | <u>Tax Rate</u> | |
| Single | Joint | | Single | Joint | | % Change |
| \$0 - \$12,500 | \$0 - \$25,000 | 2% | \$0 - \$12,500 | \$0 - \$25,000 | 1.85% | -7.5% |
| \$12,500 - \$50,000 | \$25,000 - \$100,000 | 4% | \$12,500 - \$50,000 | \$25,000 - \$100,000 | 3.50% | -12.5% |
| \$50,000 + | \$100,000 + | 6% | \$50,000 + | \$100,000 + | 4.25% | -29.2% |

Fiscal Note: The aggregate fiscal effect of the bill is essentially revenue neutral, as the broadened tax base is offset by the lower tax rates. Given the very large amount of income associated with the bill's base broadening, as well as the large amount of tax liability associated with the rate reductions¹⁰, the estimated fiscal results below are about as close to revenue neutral to the state government fisc as can be achieved.

The fiscal note is constructed by first comparing the tax year liability under current law to the liability that would occur under the bill's broadened base and lower rates. That results in an aggregate tax year liability increase of \$6.9 million. This aggregate liability change is the net liability result of a \$76.9 million reduction in liabilities for filers that do not itemize on their federal returns and a \$83.8 million increase in liabilities for filers that itemize on their federal returns.

⁷ Excess federal itemized deductions are total federal itemized deductions minus the federal standard deduction for a tax filer's filing status (single, joint etc). Any such excess is allowed to be deducted from federal adjusted gross income when calculating state taxable income and liability. This deduction is only available to state filers who itemized on their federal returns. Prior to the 2017 federal Tax Cuts and Jobs Act, which constrained federal itemized deductions and significantly increased the federal standard deductions, approximately 25% of resident tax filers itemized on their federal returns, and were able to claim excess federal itemized deductions on their state returns. For tax year 2019, only about 7% of resident filers itemized, and were able to claim excess federal itemized deductions on their state returns.

⁸ For the 2017 tax year, over 121,000 residents claimed medical expense itemized deductions. After the federal tax law changes of late 2017, slightly under 52,000 Louisiana residents filed federal returns claiming medical expense itemized deduction for the 2018 tax year. While this is some 43% of the returns filing with itemized deductions, the proposed state deduction allows only the federal medical expense deduction amount in excess of the federal standard deduction to be claimed on state returns. It will be difficult to achieve any excess itemized deduction based only on medical expenses in excess of the nearly doubled standard deductions in current federal law.

⁹ Louisiana has significantly wider tax brackets than many states, and the top marginal tax rate applies at significantly higher taxable income levels than in many states, especially southern and regional states with income taxes. This works to make Louisiana's current actual tax burden lower than in many states, and the top marginal tax rate is itself not significantly higher than these other states, and even lower than some.

¹⁰ Based on 2019 tax year returns, nearly \$12.4 billion of federal income tax deduction and nearly \$2.2 billion of excess federal itemized deduction was added to the tax base for resident filers, plus the apportioned amounts for non-resident filers. With that expanded tax base, each 1% of rate change (for example the 6% top rate becomes 5.94%, the 4% rate 3.96%, the 2% rate 1.98%) is worth a little over \$43 million of tax liability.

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The distinctly different result between these two filer groups will be discussed later in the report. The aggregate net tax year liability increase is realized by the state fisc over a three-year period based on the timing of monthly withholding remittances, quarterly declaration payments, and annual payments with returns, along with an assumed one-quarter lag for discernible taxpayer withholdings, and the catch-up of the withholding response lag when returns are filed in the following spring¹¹. Applying these patterns and assumptions results in a small revenue gain in fiscal year 2021-22 (the second quarter of 2022), a catchup bump in revenue in 2022-23, and then a stabilized revenue change in 2023-24 and beyond, where the fiscal year receipt change matches the tax year liability change.

An additional complication is associated with the retention of excess federal itemized deduction attributable to the federal medical expense itemized deduction. In the estimate discussed above, all excess federal itemized deduction was eliminated. The tax dollar effect of this retained portion of that deduction was estimated separately based on federal tax return information for Louisiana residents, then added as an aggregate liability reduction of \$7.5 million¹² per year affecting annual fiscal year receipts when returns are filed for each tax year; first affecting 2022-23 receipts for tax year 2022 deductions. The table below depicts the estimated annual fiscal year revenue effect on state government receipts over the five-year fiscal note horizon.

| Act 395 (HB 278), Individual Income Tax, Fiscal Note | | | | | | |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>5-Year Total</u> |
| Liability Change Translated to Fiscal Year Receipts | \$1,500,000 | \$8,500,000 | \$6,900,000 | \$6,900,000 | \$6,900,000 | \$30,700,000 |
| Medical Excess Itemized Deduction | | (\$7,500,000) | (\$7,500,000) | (\$7,500,000) | (\$7,500,000) | (\$30,000,000) |
| Revenue Change | \$1,500,000 | \$1,000,000 | (\$600,000) | (\$600,000) | (\$600,000) | \$700,000 |

Corporate Income Tax (Act 396, HB 292)

This bill eliminates the deduction for federal income taxes paid, as allowed by the constitutional amendment, and modifies the five rates and brackets of current law to three rates and brackets. However, while a modest reduction of the top marginal rate was incorporated, the goal of this bill overall was to raise aggregate corporate income tax liabilities so that reductions in corporate franchise tax liabilities could be achieved. The bill is effective for tax years beginning on or after

¹¹ Based on fiscal year receipts, approximately 79% of total receipts are received through monthly withholding remittances, 8% through quarterly declaration payments, and 13% through annual payments with returns. A one-quarter lag in discernible receipts was assumed for withholdings, with this absence of first-quarter 2022 remittances caught up when tax year 2022 returns are filed in the spring of 2023.

¹² Federal return data for 2018 (the latest available at the time) was examined to establish a range of medical excess itemized deduction, with a maximum state tax value of \$39.5 million if all itemized medical expense deduction was allowed by the proposed law (not possible as an excess itemized deduction) and a minimum tax value of \$3.8 million based strictly on average expenses (implausibly implies no deduction at all for most incomes). Additionally, the midpoint and average (\$18M and \$29M) of the range were implausibly large since it will be difficult to have excess itemized deductions only from medical expenses with the high federal standard deductions. Thus, to acknowledge the retained deduction, a doubling of the minimum tax value was utilized for the fiscal note estimate.

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January 1, 2022. The rate and bracket modifications of the corporate income tax are illustrated in the table below.

| <u>Corporate Income Tax</u> | | | |
|-----------------------------|-----------------|-----------------------|-----------------|
| <u>Current Law</u> | | <u>Proposed Law</u> | |
| <u>Taxable Income</u> | <u>Tax Rate</u> | <u>Taxable Income</u> | <u>Tax Rate</u> |
| \$0 - \$25,000 | 4% | \$0 - \$50,000 | 3.5% |
| \$25,000 - \$50,000 | 5% | | |
| \$50,000 - \$100,000 | 6% | \$50,000 - \$150,000 | 5.5% |
| \$100,000 - \$200,000 | 7% | | |
| \$200,000 + | 8% | \$150,000 + | 7.5% |

Fiscal Note: Comparing the tax year liability under current law to the liability that would occur under the bill's broadened base and lower rates, results in an estimated aggregate tax year liability increase of \$29.2 million. That tax year liability increase is realized by the state fisc over three fiscal years based on the timing of corporate income tax year filings over subsequent fiscal year periods. This results in an accumulation of receipts in fiscal years as each subsequent tax year is subject to the proposed law's new broadened base and, rate and bracket structure¹³. Applying the filing pattern to the liability increase for successive tax years, results in the fiscal year receipts estimates depicted in the table below.

| Act 396 (HB 292), Corporate Income Tax, Fiscal Note | | | | | | |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>5-Year Total</u> |
| Liability Change | | | | | | |
| Translated to | | | | | | |
| Fiscal Year Receipts | \$5,300,000 | \$26,300,000 | \$29,200,000 | \$29,200,000 | \$29,200,000 | \$119,200,000 |

Corporate Franchise Tax (Act 389, SB 161)

This bill eliminates the bottom tier of the corporate franchise tax and reduces the top tier rate. In addition, the bill continues an existing suspension of the bottom tier rate¹⁴. This maintains a current tax reduction until the broader provisions of the bill are effective. The bill does not change the base of the franchise tax, which is the equity capital of firms¹⁵. The bill results in an aggregate reduction in franchise tax liabilities that partially offsets the aggregate increase in corporate income tax liabilities resulting from Act 396 (HB 292) of the package. The bill is effective for tax years beginning on or after January 1, 2023. A provision to trigger further tax rate reductions over

¹³ The Dept of Revenue examined returns received in a fiscal year, estimating that approximately 18% of corporate income tax receipts received in a fiscal year were attributable to declaration payments for the immediate tax year, 72% were attributable to payments with returns for the previous tax year, and 10% were attributable to payments with returns for an earlier tax year.

¹⁴ House Concurrent Resolution 66 of the 2020 Regular Session and Act 15 of the First Extraordinary Session of 2020 suspended the bottom tier of tax for one year, affecting tax collections largely in fiscal year 2020-21.

¹⁵ Capital stock, surplus, and undivided profits as reported on Schedule G-1 of the combined corporate income & franchise tax return.

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an indefinite period is also included in the bill, and will be discussed later in this report. The rate and bracket modifications of the corporate franchise tax are illustrated in the table below¹⁶.

| <u>Corporate Franchise Tax</u> | | | |
|--------------------------------|-----------------|------------------------|-----------------|
| <u>Current Law</u> | | <u>Proposed Law</u> | |
| <u>Taxable Capital</u> | <u>Tax Rate</u> | <u>Taxable Capital</u> | <u>Tax Rate</u> |
| \$0 - \$300,000 | 0.15% | \$0 - \$300,000 | 0.0% |
| \$300,000 + | 0.30% | \$300,000 + | 0.275% |

Fiscal Note: Comparing the tax year liability under current law to the liability that would occur under the bill's lower rates, results in an aggregate tax year liability decrease of \$55.9 million. That tax year liability decrease is realized by the state fisc over three fiscal years based on the timing of corporate franchise tax year filings over subsequent fiscal year periods. This results in an accumulation of declining receipts in fiscal years as each subsequent tax year is subject to the proposed law's new rate reduction¹⁷. The franchise tax is due at the beginning of the tax year. Thus, being made effective for tax periods beginning January 1, 2023 results in revenue losses in the second half of fiscal year 2022-23, which is the first half of calendar year 2023. Revenue losses occur in fiscal year 2021-22 as a result of the continuation of the current suspension of the bottom tier of tax. That revenue loss is incorporated into the loss estimates for fiscal year 2022-23 and beyond. Applying the filing pattern to each tax year's liability decrease, results in the fiscal year receipts estimate depicted in the table below.

| Act 389 (SB 161), Corporate Franchise Tax, Fiscal Note | | | | | | |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>5-Year Total</u> |
| Liability Change | | | | | | |
| Translated to | | | | | | |
| Fiscal Year Receipts | (\$7,500,000) | (\$25,200,000) | (\$50,300,000) | (\$55,900,000) | (\$55,900,000) | (\$194,800,000) |

¹⁶ Corporate franchise tax rates are actually levied as \$1.50/\$1,000 of the first \$300,000 of taxable capital (the bottom tier of tax), and \$3.00/\$1,000 of taxable capital in excess of \$300,000 (the top tier). The bottom tier of tax is currently suspended for firms with up to \$1 million of taxable capital by HCR 66 of 2020 and Act 15 of 2020ES1, and the suspension is continued through fiscal year 2022-23 by Act 389 (SB 161), discussed in this report, even if the tax package's constitutional amendment of Act 134 (SB 159) is not adopted by the voters at the October 9, 2021 statewide election (now November 13).

¹⁷ The Dept of Revenue examined returns received in a fiscal year, estimating that approximately 45% of corporate franchise tax receipts received in a fiscal year were attributable to the immediate tax year, 50% were attributable to the previous tax year, and 5% were attributable to an earlier tax year.

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Combined Package Fiscal Note

The estimated aggregate fiscal impact on state government tax receipts resulting from the combined tax package legislation is depicted in the table below.

| Combined Tax Package Fiscal Note | | | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>5-Year Total</u> |
| Individual Income Tax | \$1,500,000 | \$1,000,000 | (\$600,000) | (\$600,000) | (\$600,000) | \$700,000 |
| Corporate Income Tax | \$5,300,000 | \$26,300,000 | \$29,200,000 | \$29,200,000 | \$29,200,000 | \$119,200,000 |
| Corporate Franchise Tax | (\$7,500,000) | (\$25,200,000) | (\$50,300,000) | (\$55,900,000) | (\$55,900,000) | (\$194,800,000) |
| Combined | (\$700,000) | \$2,100,000 | (\$21,700,000) | (\$27,300,000) | (\$27,300,000) | (\$74,900,000) |

Tax Rate Reduction Trigger Provisions

The package contains provisions for further tax rate reductions for the individual income tax and the corporate franchise tax, but not the corporate income tax. These provisions require three conditions to be met involving the Budget Stabilization Fund¹⁸, the total tax receipts of the state, and the particular receipts of the individual income tax and corporate income and franchise tax, before calculated rate reductions are allowed. The provisions for both taxes are essentially the same, and will be discussed here in the context of the individual income tax, with the discussion equally applicable to the corporate franchise tax.

Beginning on April 1, 2024, the first condition for rate reduction is tested. That condition requires the balance of the Budget Stabilization Fund to be at least 2.5% of total state revenue receipts during the prior fiscal year. For this first annual test, the prior fiscal year would be fiscal year 2022-23. The balance of the Fund is routinely reported by the state treasury to the Revenue Estimating Conference at its September meeting each year¹⁹. This condition insures that the state has some minimum set-aside of resources before tax rate reductions are allowed.

The second condition requires that the prior fiscal year's actual total tax, license, and fee collections²⁰ exceed those collections for fiscal year 2018-19, adjusted annually by the growth factor utilized in the calculation of the state's expenditure limit²¹. This growth adjustment to fiscal year 2018-19 collections provides a counterfactual total state tax collection baseline starting from before the effects of the coronavirus pandemic. Actual total tax collections have to exceed that baseline before tax rate reductions are allowed.

¹⁸ The Budget Stabilization Fund is commonly known as the state's rainy day fund and, under its own constitutional and statutory provisions, accumulates a balance of funds that can be used to help finance state government operations in periods of declining state tax revenue.

¹⁹ The balance of the Budget Stabilization Fund is limited to 4% of total state revenue receipts. These receipts include federal funds except for disaster assistance. At each September Revenue Estimating Conference meeting, the treasury reports the balance of the fund and its maximum balance. Thus, the tax rate reduction trigger requires the balance to be at least 62.5% (2.5% ÷ 4%) of the maximum balance allowed.

²⁰ The phrase "tax, licenses, and fees" is the Revenue Estimating Conference concept of total collections from which the state general fund – direct revenue forecast is derived for the annual state government budgeting process.

²¹ The expenditure limit growth factor is provided for in Article VII, Section 10(C) of the State Constitution, and is routinely calculated near the mid-point of each fiscal year (late December of each calendar year) for purposes of constructing the state budget for the ensuing fiscal year. The growth factor is reported in the governor's Executive Budget proposal and in the State Budget after each fiscal year's budget is enacted.

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The third condition requires that the prior fiscal year's actual individual income tax collections exceed those collections for fiscal year 2018-19, adjusted annually by the growth factor utilized in the calculation of the state's expenditure limit. This growth adjustment to fiscal year 2018-19 collections provides a counterfactual individual income tax collection baseline starting from before the effects of the coronavirus pandemic. Actual individual income tax collections have to exceed that baseline before tax rate reductions are allowed.

Should these three conditions be met, the individual income tax rates proposed in Act 395 (HB 278) are reduced by the percent difference that the actual prior year individual income tax collections exceed the prior year counterfactual baseline individual income tax collections²². This insures that baseline growth in individual income tax collections, as proxied by the expenditure limit growth factor, is retained for support of the state budget, but growth in excess of that baseline is returned to taxpayers through tax rate reductions. The rate reductions are then applied to the ensuing tax year, which would initially be the tax year beginning January 1, 2025. With regard to the individual income tax, this process would be repeated each year for ten consecutive years, and then cease.

The process of determining further tax rate reductions for the corporate franchise tax is essentially the same as for the individual income tax, but with two differences. The process for the corporate franchise tax does not expire after ten years, but continues indefinitely. Additionally, the condition requiring the particular tax receipts to have exceeded their counterfactual baseline value is based on corporate income and franchise taxes combined, rather than the corporate franchise tax alone. Likewise, the calculated rate reductions are based on the extent to which the actual prior year combined corporate income and franchise tax collections exceed the prior year counterfactual baseline combined corporate income and franchise tax collections²³.

Given the three separate tests required for triggering tax rate reductions, based on future values for all three tests, the likelihood of rate reductions being triggered beginning over two years from now will not be speculated to in this report. However, something can be said with respect to the effects of rate reductions. Advocates for these rate reductions, and tax rate reductions in general, have argued that reductions will make the state more attractive for individuals and businesses, resulting in greater economic activity resulting in additional state tax receipts that offset the revenue losses associated with the rate reductions. While there is intuitive appeal to such an argument, it ignores various economic and fiscal realities of state government finance, probably the most important one being the balanced budget constraint within which state government operates²⁴. Tax rate reductions and their associated revenue reductions ultimately require

²² For example, if the actual prior year individual income tax collections exceed the prior year counterfactual baseline individual income tax collections by 1%, then each of the three individual income tax marginal tax rates would be reduced by 1%: 1.85% would drop to 1.83%, 3.50% would drop to 3.46%, and 4.25% would drop to 4.21%.

²³ This combined set of calculations for the franchise tax acknowledges the fact that actual corporate income and franchise tax collections cannot separately be readily determined. The two taxes are ultimately filed on the same annual tax return, with refundable tax credits applicable to both taxes subtracted from the combined liability of the two taxes. An actual combined collection result can be readily determined, and is utilized in this rate reduction process.

²⁴ State & local governments have little ability to affect the macro economy within which they operate. In addition to the balanced budget constraint, state & local tax rates and expenditure levels are relatively small in relation to the economy, as well as in relation to household and business costs, and Louisiana

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expenditure reductions. Any macroeconomic expansionary effect of the rate reductions is offset, even more than offset²⁵, by the negative macroeconomic contractionary effects of the spending restraint necessary to maintain a balanced state government budget. Thus, tax rate reductions, whether triggered by means-tests or not, ultimately result in net lower state tax revenue.

Distributional Effects: Individual Income Tax

The discussion below attempts to inform with regard to the distribution of the effects of the tax package across different individual income tax filers, with estimates of the effect on tax liability for tax filers in various income ranges²⁶.

While the elimination of the federal income tax paid deduction potentially effects all state tax filers, the elimination of the excess federal itemized deduction effects only the roughly 7% of resident state tax filers and 18% of nonresident state tax filers that claim itemized deductions on their federal returns²⁷. These itemizer tax filers lose two state deductions and, consequently, tend to have their state tax base increased more than tax filers that do not itemize, and who lose only the deduction for federal taxes paid; albeit, the most sizable deduction in the aggregate. This results in many itemizers experiencing a greater percentage tax base expansion than percentage tax rate reduction, whereas non-itemizers tend to experience a larger percentage tax rate reduction than percentage tax base expansion. Thus, non-itemizers will likely receive lower tax liabilities as a result of the tax package, while itemizers will likely receive higher tax liabilities. In the aggregate, non-itemizers experience a \$76.9 million tax liability decrease, while itemizers experience a \$83.8 million tax liability increase.

The table below summarizes the percentage increase of the tax base for all filing status non-itemizers and itemizers resulting from the elimination of the two state deductions, compared to the percentage decrease in tax rates. The table also displays the percent change in the effective tax rate for each income, inclusive of both the tax base and tax rate changes. For most of the income cohorts, the percentage increase in tax base for non-itemizers is less than the percentage decreases in the marginal tax rates, resulting in reductions in the overall effective tax rates. In contrast, for most of the income cohorts, the percentage increase in tax base for itemizers is more than the percentage decreases in the marginal tax rates, resulting in increases in the overall effective tax rates²⁸. Comparable tables for each filing status group are provided in Appendix A.

is already ranked as a relatively low tax state. To the extent state & local governments affect their macro economies, it is largely over the long-run through the provision of basic public services and amenities, more closely associated with the distribution of expenditures than the level of taxation.

²⁵ State government expenditures tend to occur through industry sectors with high degrees of local labor and suppliers. Consequently, economic multipliers associated with those expenditures tend to be relatively high. The contraction of those expenditures can more than offset the macroeconomic effect of the expansion of expenditures by households and firms receiving tax reductions.

²⁶ Distributional effects of the changes to the individual income tax are generated by the Legislative Fiscal Office.

²⁷ In absolute numbers, the individual income tax model used in this analysis utilizes data from 1,746,641 resident non-itemizers and 126,412 resident itemizers, plus 190,000 and 43,583 non-resident filer non-itemizers and itemizers, respectively.

²⁸ The table reflects average results for all filers and filing status' within each income cohort. The effective tax rate is the tax liability divided by federal adjusted gross income. Not all filers in each cohort will experience these results, but average results are indicative of the general likely result for individual tax filers. The very large percentage changes in taxable income and effective tax rate for itemizers at relatively low incomes is partially indicative of filers with higher gross income, but large income adjustments/exclusions such as business losses and federal itemized deductions.

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**Individual Income Tax, 2019 Returns
Base Expansion Compared To Rate Reduction
Summary Table: All Filing Status' Combined**

| | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | |
|--------------|------------------|----------------------|------------------|----------------|----------------------|------------------|--------|
| | | Base Expansion | Base Expansion | Rate Cut | | | |
| | | FIT Deduc | FIT & EID Deduc | | | | |
| | | % Chg In | % Chg In | % Chg In | % Chg In | % Chg In | |
| Federal | Adjusted | Taxable Income | Taxable Income | Marginal Rates | Effec Tax Rate | Effec Tax Rate | |
| Gross Income | | | | | | | |
| | \$0 | \$5,000 | 0.3% | 816.5% | <u>2% to 1.85%</u> | -0.2% | 25.3% |
| | \$5,000 | \$10,000 | 0.2% | 2425.2% | -7.5% | -6.4% | 188.7% |
| | \$10,000 | \$15,000 | 0.3% | 225.8% | | -6.9% | 111.5% |
| | \$15,000 | \$20,000 | 1.2% | 178.4% | | -7.5% | 153.4% |
| | \$20,000 | \$25,000 | 2.2% | 153.6% | | -7.0% | 129.5% |
| | \$25,000 | \$30,000 | 3.0% | 98.0% | <u>4% to 3.50%</u> | -6.5% | 87.3% |
| | \$30,000 | \$40,000 | 4.4% | 71.1% | -12.5% | -5.3% | 66.1% |
| | \$40,000 | \$50,000 | 6.0% | 53.5% | | -4.0% | 48.9% |
| | \$50,000 | \$60,000 | 7.3% | 42.9% | | -2.6% | 38.6% |
| | \$60,000 | \$70,000 | 8.6% | 37.5% | | -3.2% | 32.9% |
| | \$70,000 | \$80,000 | 9.3% | 35.5% | | -3.5% | 25.8% |
| | \$80,000 | \$90,000 | 9.7% | 31.5% | | -3.2% | 19.0% |
| | \$90,000 | \$100,000 | 9.9% | 32.1% | <u>6% to 4.25%</u> | -3.2% | 17.8% |
| | \$100,000 | \$120,000 | 10.8% | 28.6% | -29.2% | -2.3% | 12.9% |
| | \$120,000 | \$140,000 | 12.8% | 26.4% | | -1.0% | 10.0% |
| | \$140,000 | \$160,000 | 14.4% | 25.8% | | -1.9% | 8.3% |
| | \$160,000 | \$180,000 | 15.9% | 25.4% | | -3.1% | 5.7% |
| | \$180,000 | \$200,000 | 17.1% | 25.6% | | -3.8% | 3.8% |
| | \$200,000 | \$250,000 | 18.8% | 27.6% | | -4.7% | 3.2% |
| | \$250,000 | \$300,000 | 20.9% | 29.5% | | -5.4% | 2.2% |
| | \$300,000 | \$350,000 | 22.4% | 30.6% | | -5.8% | 1.3% |
| | \$350,000 | \$400,000 | 23.7% | 32.5% | | -5.8% | 1.5% |
| | \$400,000 | \$450,000 | 26.0% | 34.3% | | -4.8% | 2.1% |
| | \$450,000 | \$500,000 | 28.1% | 36.3% | | -3.8% | 3.0% |
| | \$500,000 | \$600,000 | 30.0% | 39.1% | | -3.0% | 4.4% |
| | \$600,000 | \$700,000 | 32.5% | 41.1% | | -1.8% | 5.0% |
| | \$700,000 | \$800,000 | 34.4% | 44.3% | | -0.9% | 6.9% |
| | \$800,000 | \$900,000 | 35.6% | 45.4% | | -0.5% | 7.2% |
| | \$900,000 | \$1,000,000 | 37.0% | 45.6% | | 0.2% | 6.9% |
| | \$1,000,000 plus | | 41.3% | 52.8% | | 1.7% | 10.0% |

The table below summarizes the estimated change in state tax liability over a range of incomes, attributable to the individual income tax provisions of the tax package, for resident tax filers who do not itemize on their federal tax returns²⁹. The table illustrates that most resident non-itemizers are likely to see a tax liability reduction, and only at the very highest income ranges would the average non-itemizer tax filer be likely to see a tax liability increase. These would be tax filers whose loss of federal income tax deduction increased their state income tax base by a greater percentage than the percentage reduction in the state tax rates. This is due to the progressiveness of the federal income tax, which imposes significantly higher tax liabilities on higher income filers and consequently, a larger loss of state deduction.

²⁹ Distributional tables only reflect resident tax filers, and do not include returns with zero or negative federal adjusted gross income. In the 2019 tax year dataset, there were 98,026 resident returns reporting zero or negative federal adjusted gross income.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

| DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT NONITEMIZER FILERS ONLY ALL RESIDENT FILING STATUS* COMBINED* TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS | | | | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|-------------------|------------------------------|-------------------------------------|---------------------------|---------------------------|-------------------------|------------------------|----------------------------|-----------------------------|
| Cumu. Return % | Federal Gross | Adjusted Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Inc Tax Rate | Aggregate Inc Tax Change |
| 5.3% | \$0 | \$5,000 | 86,920 | \$2,638 | 0.0% | \$1 | \$1 | (\$0) | -0.2% | 0.0% | (\$170) |
| 11.8% | \$5,000 | \$10,000 | 107,382 | \$7,562 | 0.5% | \$40 | \$37 | (\$3) | -6.4% | 0.5% | (\$273,828) |
| 21.2% | \$10,000 | \$15,000 | 154,803 | \$12,555 | 0.8% | \$106 | \$99 | (\$7) | -6.9% | 0.8% | (\$1,124,292) |
| 30.3% | \$15,000 | \$20,000 | 150,108 | \$17,425 | 1.4% | \$250 | \$232 | (\$19) | -7.5% | 1.3% | (\$2,816,992) |
| 38.1% | \$20,000 | \$25,000 | 128,893 | \$22,418 | 1.8% | \$407 | \$379 | (\$28) | -7.0% | 1.7% | (\$3,653,536) |
| 44.9% | \$25,000 | \$30,000 | 112,392 | \$27,419 | 2.0% | \$559 | \$523 | (\$36) | -6.5% | 1.9% | (\$4,052,630) |
| 55.8% | \$30,000 | \$40,000 | 180,027 | \$34,726 | 2.2% | \$779 | \$738 | (\$42) | -5.3% | 2.1% | (\$7,480,448) |
| 64.1% | \$40,000 | \$50,000 | 137,499 | \$44,749 | 2.4% | \$1,072 | \$1,029 | (\$43) | -4.0% | 2.3% | (\$5,953,042) |
| 70.5% | \$50,000 | \$60,000 | 105,006 | \$54,774 | 2.5% | \$1,354 | \$1,319 | (\$35) | -2.6% | 2.4% | (\$3,721,254) |
| 75.5% | \$60,000 | \$70,000 | 82,008 | \$64,810 | 2.6% | \$1,661 | \$1,608 | (\$53) | -3.2% | 2.5% | (\$4,337,962) |
| 79.5% | \$70,000 | \$80,000 | 66,560 | \$74,823 | 2.6% | \$1,966 | \$1,897 | (\$70) | -3.5% | 2.5% | (\$4,626,760) |
| 82.9% | \$80,000 | \$90,000 | 56,098 | \$84,829 | 2.7% | \$2,262 | \$2,190 | (\$72) | -3.2% | 2.6% | (\$4,031,158) |
| 85.8% | \$90,000 | \$100,000 | 47,826 | \$94,851 | 2.7% | \$2,580 | \$2,496 | (\$84) | -3.2% | 2.6% | (\$4,001,471) |
| 90.3% | \$100,000 | \$120,000 | 74,991 | \$109,362 | 2.8% | \$3,083 | \$3,013 | (\$70) | -2.3% | 2.8% | (\$5,240,699) |
| 93.4% | \$120,000 | \$140,000 | 50,175 | \$129,293 | 3.0% | \$3,885 | \$3,848 | (\$38) | -1.0% | 3.0% | (\$1,885,642) |
| 95.4% | \$140,000 | \$160,000 | 33,557 | \$149,318 | 3.2% | \$4,739 | \$4,649 | (\$89) | -1.9% | 3.1% | (\$2,999,571) |
| 96.7% | \$160,000 | \$180,000 | 21,578 | \$169,237 | 3.3% | \$5,624 | \$5,449 | (\$175) | -3.1% | 3.2% | (\$3,770,785) |
| 97.6% | \$180,000 | \$200,000 | 14,075 | \$189,334 | 3.4% | \$6,490 | \$6,244 | (\$246) | -3.8% | 3.3% | (\$3,464,525) |
| 98.7% | \$200,000 | \$250,000 | 18,086 | \$221,231 | 3.6% | \$7,936 | \$7,567 | (\$370) | -4.7% | 3.4% | (\$6,688,998) |
| 99.1% | \$250,000 | \$300,000 | 7,893 | \$272,518 | 3.8% | \$10,228 | \$9,678 | (\$550) | -5.4% | 3.6% | (\$4,341,173) |
| 99.4% | \$300,000 | \$350,000 | 4,350 | \$322,744 | 3.9% | \$12,518 | \$11,797 | (\$721) | -5.8% | 3.7% | (\$1,134,855) |
| 99.6% | \$350,000 | \$400,000 | 2,543 | \$372,958 | 4.0% | \$14,775 | \$13,923 | (\$852) | -5.8% | 3.7% | (\$2,167,512) |
| 99.7% | \$400,000 | \$450,000 | 1,715 | \$422,729 | 4.0% | \$16,869 | \$16,062 | (\$807) | -4.8% | 3.8% | (\$1,384,323) |
| 99.7% | \$450,000 | \$500,000 | 1,148 | \$473,332 | 4.0% | \$18,876 | \$18,154 | (\$721) | -3.8% | 3.8% | (\$828,198) |
| 99.8% | \$500,000 | \$600,000 | 1,432 | \$545,864 | 4.0% | \$21,837 | \$21,182 | (\$655) | -3.0% | 3.9% | (\$938,430) |
| 99.9% | \$600,000 | \$700,000 | 846 | \$644,611 | 4.0% | \$25,816 | \$25,348 | (\$468) | -1.8% | 3.9% | (\$395,756) |
| 99.9% | \$700,000 | \$800,000 | 556 | \$744,939 | 4.0% | \$30,013 | \$29,728 | (\$285) | -0.9% | 4.0% | (\$158,483) |
| 99.9% | \$800,000 | \$900,000 | 328 | \$848,409 | 4.0% | \$34,128 | \$33,950 | (\$178) | -0.5% | 4.0% | (\$58,373) |
| 99.9% | \$900,000 | \$1,000,000 | 246 | \$946,840 | 4.0% | \$38,043 | \$38,107 | \$64 | 0.2% | 4.0% | \$15,811 |
| 100.0% | \$1,000,000 plus | | 1,093 | \$2,014,532 | 3.9% | \$78,667 | \$80,002 | \$1,335 | 1.7% | 4.0% | \$1,459,372 |
| | | | 1,650,134 | | | | | | | | (\$82,055,683) |

| | | | |
|-------------------------------------------------------------|--------------|-------------------------------------------------------------|--------------|
| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/ Joint) | Rates |
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

* Includes all resident filing status; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers.
** Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.
1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.
2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

It should be noted here that the table above combines all filing status' into one table; single, married filing separately, joint, qualifying widowers, and head-of-household. Varying results will occur for different filing status groups based on the peculiarities of the filers in each income range of each group; particularly peculiarities that affect their federal income tax liability and itemized deductions³⁰. Comparable to the summary table above, in each separate filing status group, the general result that very high income tax filers are likely to see a tax liability increase also occurs. However, It is notable that single and married-filing-separate filers within the income ranges of \$50,000 - \$90,000 are likely to see small increases in tax liability. A notable result also occurs for joint and widower filers in the \$120,000 - \$140,000 income range, in that these filers on average see only a very small tax liability decrease; significantly smaller than exhibited by the income ranges above and below them. Tables for each non-itemizer filing status group are contained in Appendix B.

The non-itemizer case is contrasted with those of itemizers, who will likely experience increases in their state tax liabilities as a result of losing both the federal income tax paid deduction and

³⁰ An advantage of utilizing actual tax filing data is that it reflects the actual tax circumstances of tax filers rather than assumed circumstances. A disadvantage is that those actual circumstances can result in tax effect estimates that are unexpected or counter-intuitive.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

the deduction for excess federal itemized deductions. The table below summarizes the estimated change in state liability over a range of incomes, for resident tax filers who do itemize on their federal tax returns. While these tax filers comprise only about 7% of resident returns, in all of the income ranges illustrated, the combined loss of the federal income tax deduction and the excess itemized deduction increased their state income tax base by a greater percentage than the percentage reduction in the state tax rates, resulting in likely tax liability increases for these filers. Of note here is the fact that there are itemizers throughout the reported income spectrum, and not only in the higher income ranges³¹. The aggregate tax liability increase of state tax filers that itemize on their federal returns largely offsets the aggregate tax liability decrease of state tax filers that do not itemize on their federal returns; resulting in the close aggregate revenue neutrality of the individual income tax proposal as a whole.

| DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT ITEMIZER FILERS ONLY ALL RESIDENT FILING STATUS' COMBINED* TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS | | | | | | | | | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------|-------------------|------------------------------|-------------------------------------|---------------------------|---------------------------|-------------------------|------------------------|----------------------------|-----------------------------|--|
| Cumu. Return % | Federal Gross Income | Adjusted Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Inc Tax Rate | Aggregate Inc Tax Change | |
| 0.3% | \$0 | \$5,000 | 383 | \$2,378 | 0.7% | \$17 | \$22 | \$4 | 25.3% | 0.9% | \$1,689 | |
| 0.8% | \$5,000 | \$10,000 | 579 | \$7,823 | 0.2% | \$12 | \$35 | \$23 | 188.7% | 0.4% | \$13,294 | |
| 1.5% | \$10,000 | \$15,000 | 940 | \$12,768 | 0.6% | \$72 | \$152 | \$80 | 111.5% | 1.2% | \$75,424 | |
| 2.8% | \$15,000 | \$20,000 | 1,537 | \$17,620 | 0.5% | \$89 | \$225 | \$136 | 153.4% | 1.3% | \$209,149 | |
| 4.3% | \$20,000 | \$25,000 | 1,975 | \$22,560 | 0.8% | \$177 | \$407 | \$229 | 129.5% | 1.8% | \$453,047 | |
| 6.3% | \$25,000 | \$30,000 | 2,416 | \$27,580 | 1.0% | \$288 | \$539 | \$252 | 87.3% | 2.0% | \$607,686 | |
| 11.3% | \$30,000 | \$40,000 | 6,237 | \$35,138 | 1.4% | \$475 | \$789 | \$314 | 66.1% | 2.2% | \$1,958,310 | |
| 17.1% | \$40,000 | \$50,000 | 7,255 | \$45,045 | 1.7% | \$764 | \$1,137 | \$373 | 48.9% | 2.5% | \$2,706,510 | |
| 23.1% | \$50,000 | \$60,000 | 7,570 | \$55,033 | 1.9% | \$1,051 | \$1,457 | \$406 | 38.6% | 2.6% | \$3,073,698 | |
| 29.0% | \$60,000 | \$70,000 | 7,378 | \$64,926 | 2.1% | \$1,354 | \$1,799 | \$445 | 32.9% | 2.8% | \$3,282,822 | |
| 34.6% | \$70,000 | \$80,000 | 7,003 | \$74,894 | 2.3% | \$1,703 | \$2,143 | \$440 | 25.8% | 2.9% | \$3,081,921 | |
| 39.7% | \$80,000 | \$90,000 | 6,306 | \$84,887 | 2.5% | \$2,124 | \$2,526 | \$402 | 19.0% | 3.0% | \$2,537,736 | |
| 44.3% | \$90,000 | \$100,000 | 5,791 | \$94,917 | 2.6% | \$2,423 | \$2,855 | \$432 | 17.8% | 3.0% | \$2,504,061 | |
| 52.5% | \$100,000 | \$120,000 | 10,261 | \$109,704 | 2.7% | \$2,995 | \$3,382 | \$387 | 12.9% | 3.1% | \$3,969,939 | |
| 59.5% | \$120,000 | \$140,000 | 8,717 | \$129,856 | 2.9% | \$3,770 | \$4,145 | \$375 | 10.0% | 3.2% | \$3,271,209 | |
| 65.4% | \$140,000 | \$160,000 | 7,322 | \$149,771 | 3.1% | \$4,569 | \$4,949 | \$380 | 8.3% | 3.3% | \$2,778,755 | |
| 70.4% | \$160,000 | \$180,000 | 6,248 | \$169,653 | 3.2% | \$5,386 | \$5,695 | \$308 | 5.7% | 3.4% | \$1,927,071 | |
| 74.5% | \$180,000 | \$200,000 | 5,066 | \$189,712 | 3.3% | \$6,266 | \$6,503 | \$237 | 3.8% | 3.4% | \$1,199,908 | |
| 81.6% | \$200,000 | \$250,000 | 8,918 | \$222,598 | 3.4% | \$7,595 | \$7,841 | \$246 | 3.2% | 3.5% | \$2,197,244 | |
| 86.0% | \$250,000 | \$300,000 | 5,477 | \$273,476 | 3.6% | \$9,750 | \$9,961 | \$211 | 2.2% | 3.6% | \$1,155,505 | |
| 88.8% | \$300,000 | \$350,000 | 3,494 | \$323,552 | 3.7% | \$11,871 | \$12,025 | \$154 | 1.3% | 3.7% | \$537,920 | |
| 90.8% | \$350,000 | \$400,000 | 2,586 | \$373,473 | 3.7% | \$13,961 | \$14,177 | \$216 | 1.5% | 3.8% | \$558,428 | |
| 92.4% | \$400,000 | \$450,000 | 1,925 | \$423,835 | 3.8% | \$16,003 | \$16,339 | \$336 | 2.1% | 3.9% | \$646,164 | |
| 93.5% | \$450,000 | \$500,000 | 1,418 | \$473,589 | 3.8% | \$17,879 | \$18,416 | \$537 | 3.0% | 3.9% | \$760,864 | |
| 95.2% | \$500,000 | \$600,000 | 2,100 | \$545,976 | 3.8% | \$20,603 | \$21,507 | \$904 | 4.4% | 3.9% | \$1,899,200 | |
| 96.3% | \$600,000 | \$700,000 | 1,376 | \$646,371 | 3.8% | \$24,557 | \$25,785 | \$1,228 | 5.0% | 4.0% | \$1,689,722 | |
| 97.1% | \$700,000 | \$800,000 | 949 | \$747,551 | 3.7% | \$28,007 | \$29,941 | \$1,934 | 6.9% | 4.0% | \$1,835,009 | |
| 97.6% | \$800,000 | \$900,000 | 698 | \$847,267 | 3.7% | \$31,762 | \$34,055 | \$2,293 | 7.2% | 4.0% | \$1,600,363 | |
| 98.0% | \$900,000 | \$1,000,000 | 480 | \$948,342 | 3.8% | \$35,711 | \$38,172 | \$2,462 | 6.9% | 4.0% | \$1,181,540 | |
| 100.0% | \$1,000,000 plus | | 2,488 | \$2,171,301 | 3.7% | \$79,911 | \$87,912 | \$8,001 | 10.0% | 4.0% | \$19,906,450 | |
| | | | 124,893 | | | | | | | | \$67,620,639 | |

| | | | |
|-------------------------------------------------------------|--------------|-------------------------------------------------------------|--------------|
| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

* Includes all resident filing status; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers.
** Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.
1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.
2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

³¹ A tax filing with a low federal adjusted gross income in any particular year can not only reflect a true low-income filer or household, but also higher income filers with federal tax circumstances such as business losses passed through to individual returns as well as exempt income that results in low federal adjusted gross income in any particular year, even though gross income is actually higher. However, for each tax year, there are filers in relatively low federal adjusted gross income ranges that itemize, and will likely face a state tax liability increase.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

As with nonitemizer filers, the separate filing status groups of itemizers can exhibit results that vary from those depicted in the itemizer summary table above. Notable is the case of joint and widower filers in the \$250,000 - \$450,000 income range, in that these filers on average see only small tax liability increases or even liability decreases; significantly different than exhibited by the income ranges above and below these ranges. Similar results occur for head-of-household itemizers between the income ranges of \$100,000 and \$250,000.

It is appropriate here to point out that the distributional tables for itemizers are estimated with the deduction for excess federal itemized deductions entirely eliminated, even though the deduction is retained for itemized deductions attributable only to allowed medical expenses on federal returns. While that provision of the tax proposal will likely be taken advantage of by some filers, it seems likely that the number of filers and the amount of excess deduction will be relatively small, and cannot be reasonably built into the distributional tables in any meaningful way. Thus, that aspect of the tax proposal is omitted from the distributional analysis, but is included in the aggregate fiscal note analysis of the proposal. Tables for each itemizer filing status group are contained in Appendix C.

Distributional Effects: Corporate Income and Franchise Taxes

The tax proposal makes changes to both the corporate income tax and the corporate franchise tax. The discussion and tables below attempt to inform with regard to estimates of the distribution of the tax liability effects of the tax package across various La net income cohorts for corporate tax filers³². The tables below depict the effects of the changes to the corporate income and franchise tax separately, across the same filers, and then a combined effect on those filers³³.

Corporate Income Tax

The corporate income tax changes expand the corporate income tax base by eliminating the deduction for federal income taxes paid, and modify the tax rate and bracket structure applicable to that expanded tax base. While the tax base is expanded for all corporations with federal income tax liabilities, the tax rate and bracket changes are not simple rate reductions to the five rates in current law as is proposed for the three rates of the individual income tax. As described above, the current five-rate and bracket structure is modified to a three-rate and bracket structure. These changes combine to result in some tax filers likely to experience a corporate income tax decrease while some are likely to experience an income tax increase. The table below depicts estimates of the corporate income tax changes on filers within various La net income cohorts³⁴.

³² Distributional effects of the changes to both the corporate income tax and the franchise tax are generated by the Dept. of Revenue, based on cohorts of La net income; the amount of business income attributable to Louisiana.

³³ Each corporation files its corporate income and franchise taxes on different portions of the same return. Thus, the combined effect of the changes to both taxes can be assessed on each filer.

³⁴ The concept of an average filer of corporate tax is not as meaningful as for individual income tax, even if much more narrow income cohorts were examined. There can be many different types of business enterprises included in each net income row, and for many reasons their tax circumstances can vary widely for similar income circumstances. Although based on actual corporate tax filings, these results should be interpreted as very general in nature.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

**DISTRIBUTION OF STATE CORPORATE INCOME TAX LIABILITY
RETURNS WITH NO S-CORP EXCLUSION *
ALL BUSINESS ENTERPRISES COMBINED
POSITIVE NET INCOME**, TAX TABLE LIABILITY BASIS ***
TAX YEAR 2019 TAX RETURNS**

| Cumu. Return % | La. Net Income | Number Returns | Average Net Income ¹ | Curr Effec Tax Rate ² | Curr Law Avg Tax Liability | Prop Law Avg Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | % Chg Effec Tax Rate | Aggregate Inc Tax Change | |
|-------------------|-------------------|-------------------|------------------------------------|-------------------------------------|-------------------------------|-------------------------------|-------------------------|------------------------|------------------------|-------------------------|-----------------------------|--------------|
| 40.0% | \$1 | \$12,500 | 10,049 | \$3,964 | 2.9% | \$115 | \$111 | (\$5) | -4.0% | 2.8% | -4.0% | (\$46,556) |
| 52.0% | \$12,501 | \$25,000 | 2,990 | \$18,328 | 3.0% | \$542 | \$522 | (\$21) | -3.8% | 2.8% | -3.8% | (\$61,929) |
| 64.0% | \$25,001 | \$50,000 | 3,024 | \$35,918 | 3.1% | \$1,114 | \$1,026 | (\$88) | -7.9% | 2.9% | -7.9% | (\$266,941) |
| 70.3% | \$50,001 | \$75,000 | 1,563 | \$61,631 | 3.3% | \$2,062 | \$1,914 | (\$147) | -7.1% | 3.1% | -7.1% | (\$230,368) |
| 74.4% | \$75,001 | \$100,000 | 1,034 | \$86,613 | 3.6% | \$3,119 | \$2,966 | (\$152) | -4.9% | 3.4% | -4.9% | (\$157,358) |
| 84.6% | \$100,001 | \$250,000 | 2,561 | \$159,260 | 4.2% | \$6,763 | \$6,636 | (\$127) | -1.9% | 4.2% | -1.9% | (\$324,449) |
| 90.2% | \$250,001 | \$500,000 | 1,387 | \$355,006 | 5.1% | \$18,139 | \$18,677 | \$538 | 3.0% | 5.3% | 3.0% | \$746,279 |
| 92.5% | \$500,001 | \$750,000 | 581 | \$617,419 | 5.5% | \$33,729 | \$34,895 | \$1,166 | 3.5% | 5.7% | 3.5% | \$677,418 |
| 93.9% | \$750,001 | \$1,000,000 | 348 | \$886,074 | 5.8% | \$51,371 | \$52,492 | \$1,122 | 2.2% | 5.9% | 2.2% | \$390,416 |
| 95.0% | \$1,000,001 | \$1,250,000 | 253 | \$1,128,594 | 5.7% | \$64,506 | \$66,582 | \$2,076 | 3.2% | 5.9% | 3.2% | \$525,204 |
| 95.6% | \$1,250,001 | \$1,500,000 | 172 | \$1,385,971 | 5.7% | \$79,230 | \$82,293 | \$3,063 | 3.9% | 5.9% | 3.9% | \$526,819 |
| 96.6% | \$1,500,001 | \$2,000,000 | 241 | \$1,755,883 | 5.8% | \$102,312 | \$107,550 | \$5,238 | 5.1% | 6.1% | 5.1% | \$1,262,413 |
| 98.2% | \$2,000,001 | \$4,000,000 | 390 | \$2,780,727 | 5.8% | \$160,067 | \$167,256 | \$7,189 | 4.5% | 6.0% | 4.5% | \$2,803,769 |
| 98.8% | \$4,000,001 | \$6,000,000 | 152 | \$4,986,666 | 5.8% | \$290,188 | \$301,473 | \$11,285 | 3.9% | 6.0% | 3.9% | \$1,715,379 |
| 99.1% | \$6,000,001 | \$8,000,000 | 79 | \$6,905,632 | 5.8% | \$399,071 | \$407,253 | \$8,182 | 2.1% | 5.9% | 2.1% | \$646,380 |
| 99.3% | \$8,000,001 | \$10,000,000 | 48 | \$8,886,723 | 5.5% | \$488,532 | \$509,728 | \$21,196 | 4.3% | 5.7% | 4.3% | \$1,017,414 |
| 100.0% | \$10,000,001 plus | | 178 | \$34,256,235 | 6.2% | \$2,136,317 | \$2,202,587 | \$66,270 | 3.1% | 6.4% | 3.1% | \$11,795,994 |
| | | | 25,050 | | | | | | | | | \$21,019,884 |

* The table does not include S-corporation returns where all or a portion of net income was excluded from corporate taxation and passed through to individual income tax returns.

** For state tax purposes, it is typical for large numbers of corporate returns to report zero or negative net income. For the 2019 tax year, there have been over 57,000 such returns.

*** Tax table liability is prior to any credits (nonrefundable or refundable) and rebates, that determine final liability. While final liability incorporates all credits and rebates, they are largely unique to each firm, and are not generally applicable or utilized.

¹ Average net income is the average amount of total income apportioned to La. as reported on the returns included in each net income cohort row.

² Effective tax rate is the income tax liability divided by La net income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate and bracket structure.

As can be seen in the table above, nearly 85% of the business entities with positive La net income, that are subject to the corporate income tax, are likely to see an income tax decrease. The 15% of affected business entities with La net income greater than that are likely to see a tax increase. Even though most firms receive a tax decrease, average tax decreases are small relative to the average tax increases. Thus, the smaller share of firms with tax increases dominate the aggregate income tax effect, resulting in an aggregate tax increase for this set of firms³⁵.

As with the individual income tax changes, the explanation of the aggregate tax liability effect and the distributional effect revolves around the relative tax base and rate changes. The table below summarizes the percentage increase of the tax base resulting from the elimination of the state deduction for federal taxes paid, compared to the percentage reductions in marginal tax rates. The table also displays the percent change in the effective tax rate for each net income cohort, inclusive of both the tax base and rate changes.

³⁵ The corporate tax change distribution presented here is based on 2019 tax year return information, while the fiscal note estimates for the corporate legislative bills were based on 2018 tax year returns, both provided by the Department of Revenue. The 2019 returns result in somewhat smaller aggregate tax liability effects, but the distributional effects are largely the same.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Corporate Income Tax, 2019 Returns Base Expansion Compared To Rate Reduction

| La. Net Income | | Base Expansion FIT Deduc % Chg In Taxable Income | % Chg In Marginal Rates | % Chg Effec Tax Rate |
|-------------------|--------------|-----------------------------------------------------------|----------------------------|-------------------------|
| \$1 | \$12,500 | 8.7% | -12.5% | -4.0% |
| \$12,501 | \$25,000 | 9.1% | -12.5% | -3.8% |
| \$25,001 | \$50,000 | 9.4% | -30.0% | -7.9% |
| \$50,001 | \$75,000 | 9.9% | -30.0% | -7.1% |
| \$75,001 | \$100,000 | 9.9% | -8.3% | -4.9% |
| \$100,001 | \$250,000 | 10.0% | -21.4% | -1.9% |
| \$250,001 | \$500,000 | 10.0% | -6.3% | 3.0% |
| \$500,001 | \$750,000 | 10.2% | -6.3% | 3.5% |
| \$750,001 | \$1,000,000 | 9.4% | -6.3% | 2.2% |
| \$1,000,001 | \$1,250,000 | 9.4% | -6.3% | 3.2% |
| \$1,250,001 | \$1,500,000 | 10.4% | -6.3% | 3.9% |
| \$1,500,001 | \$2,000,000 | 10.1% | -6.3% | 5.1% |
| \$2,000,001 | \$4,000,000 | 11.1% | -6.3% | 4.5% |
| \$4,000,001 | \$6,000,000 | 11.0% | -6.3% | 3.9% |
| \$6,000,001 | \$8,000,000 | 8.9% | -6.3% | 2.1% |
| \$8,000,001 | \$10,000,000 | 11.3% | -6.3% | 4.3% |
| \$10,000,001 plus | | 10.0% | -6.3% | 3.1% |

However, the tax base and rate decomposition of the corporate income tax changes is more complicated than for the individual income tax changes. While the corporate base expansion is simply the elimination of the state deduction for federal income taxes paid, the tax rate changes were combined with modifications to the bracket structure rather than simple reductions to the existing tax rates, as was done for the individual income tax. For all but one of the net income cohorts up to \$250,000, the percentage increases in the tax base are less than the absolute percentage decreases in the marginal tax rates, resulting in reductions in the overall effective tax rates³⁶. In contrast, for net income cohorts above \$250,000, the percentage increases in tax base are materially more than the absolute percentage decreases in the marginal tax rates, resulting in increases in the overall effective tax rates. Thus, firms with La net income as high as \$250,000 are likely to experience income tax decreases, while firms with La net income greater than that are likely to experience tax increases.

Corporate Franchise Tax

The corporate franchise tax changes reduce the franchise tax by eliminating the \$1.50 per \$1,000 of taxable capital first tier of tax on the first \$300,000 of taxable capital, and reducing the top tier of tax from \$3.00 per \$1,000 of taxable capital in excess of \$300,000, to \$2.75 per \$1,000 of taxable capital. These changes result in all filers subject to the franchise tax receiving a franchise tax reduction. The table below depicts estimates of the corporate franchise tax changes on filers

³⁶ The more complicated base expansion versus rate reduction comparison for corporate income tax is apparent in the \$75,000 - \$100,000 net income cohort, where the base expansion of 9.9% is closest to, but still exceeds, the marginal rate reduction of 8.3%, while the effective tax rate, encompassing rate reductions from three current law rates and income portions, actually declines by 4.9%.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

within various La net income cohorts³⁷. These filers are primarily traditional corporations that do not pass-through their income to individuals for tax purposes, and are therefore subject to the corporate income and franchise tax.

**DISTRIBUTION OF STATE CORPORATE FRANCHISE TAX LIABILITY
RETURNS WITH NO S-CORP EXCLUSION *
ALL BUSINESS ENTERPRISES COMBINED
ALL NET INCOMES**, TAX TABLE LIABILITY BASIS ***
TAX YEAR 2019 TAX RETURNS**

| Cumu. Return % | La. Net Income | Number Returns | Avg Taxable Capital ¹ | Curr Effec Tax Rate ² | Curr Law Avg Tax Liability | Prop Law Avg Tax Liability | Franchise Tax \$ Change | Franchise Tax % Change | Prop Effec Tax Rate | % Chg Effec Tax Rate | Aggregate Franchise Tax Change |
|----------------|--------------------------|----------------|----------------------------------|----------------------------------|----------------------------|----------------------------|-------------------------|------------------------|---------------------|----------------------|--------------------------------|
| 0.88% | Exempt from Corp Inc Tax | 652 | \$2,886,120 | 0.270% | \$7,793 | \$6,983 | (\$810) | -10.4% | 0.242% | -10.4% | (\$528,101) |
| 37.7% | Less than \$0 | 27,442 | \$2,430,393 | 0.279% | \$6,773 | \$6,122 | (\$651) | -9.6% | 0.252% | -9.6% | (\$17,858,196) |
| 68.1% | Equal to \$0 | 22,632 | \$345,689 | 0.246% | \$852 | \$765 | (\$87) | -10.2% | 0.221% | -10.2% | (\$1,966,518) |
| 81.0% | \$1 | 9,573 | \$171,186 | 0.144% | \$246 | \$176 | (\$69) | -28.2% | 0.103% | -28.2% | (\$664,237) |
| 84.8% | \$12,501 | 2,822 | \$239,477 | 0.157% | \$377 | \$248 | (\$129) | -34.2% | 0.104% | -34.2% | (\$363,953) |
| 88.6% | \$25,001 | 2,845 | \$408,987 | 0.171% | \$700 | \$501 | (\$199) | -28.5% | 0.122% | -28.5% | (\$566,940) |
| 90.6% | \$50,001 | 1,479 | \$620,105 | 0.179% | \$1,112 | \$835 | (\$277) | -24.9% | 0.135% | -24.9% | (\$409,814) |
| 91.9% | \$75,001 | 989 | \$1,116,482 | 0.226% | \$2,521 | \$2,096 | (\$425) | -16.9% | 0.188% | -16.9% | (\$420,362) |
| 95.1% | \$100,001 | 2,383 | \$1,600,791 | 0.259% | \$4,153 | \$3,573 | (\$580) | -14.0% | 0.223% | -14.0% | (\$1,383,070) |
| 96.9% | \$250,001 | 1,319 | \$2,728,794 | 0.274% | \$7,487 | \$6,559 | (\$928) | -12.4% | 0.240% | -12.4% | (\$1,223,970) |
| 97.6% | \$500,001 | 552 | \$4,820,466 | 0.285% | \$13,736 | \$12,275 | (\$1,460) | -10.6% | 0.255% | -10.6% | (\$806,020) |
| 98.1% | \$750,001 | 332 | \$6,528,392 | 0.289% | \$18,847 | \$16,959 | (\$1,888) | -10.0% | 0.260% | -10.0% | (\$626,951) |
| 98.4% | \$1,000,001 | 244 | \$10,355,697 | 0.292% | \$30,234 | \$27,380 | (\$2,855) | -9.4% | 0.264% | -9.4% | (\$696,502) |
| 98.6% | \$1,250,001 | 169 | \$9,495,904 | 0.270% | \$25,657 | \$23,179 | (\$2,478) | -9.7% | 0.244% | -9.7% | (\$418,789) |
| 98.9% | \$1,500,001 | 229 | \$15,400,064 | 0.265% | \$40,792 | \$37,063 | (\$3,729) | -9.1% | 0.241% | -9.1% | (\$854,027) |
| 99.4% | \$2,000,001 | 371 | \$25,349,783 | 0.295% | \$74,807 | \$68,276 | (\$6,531) | -8.7% | 0.269% | -8.7% | (\$2,422,904) |
| 99.6% | \$4,000,001 | 144 | \$49,673,413 | 0.295% | \$146,567 | \$134,048 | (\$12,519) | -8.5% | 0.270% | -8.5% | (\$1,802,670) |
| 99.7% | \$6,000,001 | 78 | \$49,918,972 | 0.299% | \$149,386 | \$136,617 | (\$12,768) | -8.5% | 0.274% | -8.5% | (\$995,939) |
| 99.8% | \$8,000,001 | 45 | \$57,624,275 | 0.299% | \$172,493 | \$157,770 | (\$14,723) | -8.5% | 0.274% | -8.5% | (\$662,523) |
| 100.0% | \$10,000,001 plus | 169 | \$199,916,092 | 0.298% | \$595,147 | \$545,642 | (\$49,505) | -8.3% | 0.273% | -8.3% | (\$8,366,334) |
| | | 74,469 | | | | | | | | | (\$43,037,818) |

* The table does not include S-corporation returns where all or a portion of net income was excluded from corporate taxation and passed through to individual income tax returns.
 ** Firms reporting zero or negative La net income for corporate tax purposes, or are exempt from the corporate income tax entirely, are still subject to the corporate franchise tax and are included in table. Firms exempt from the corporate franchise tax are not included in the table.
 *** Tax table liability is prior to any credits (nonrefundable or refundable) and rebates, that determine final liability. While final liability incorporates all credits and rebates, they are largely unique to each firm, and are not generally applicable or utilized.
¹ Average taxable capital is the average amount of total taxable capital apportioned to La. as reported on the returns included in each net income cohort row.
² Effective tax rate is the franchise tax liability divided by La taxable capital. It reflects the overall tax imposed, inclusive of the actual taxable capital base and the marginal tax rate and bracket structure.

Note that the table above includes the large number of corporate filers that reported zero or negative La net income, as well as a small number of firms exempt from the corporate income tax and, thus, had no corporate income tax liability. However, these firms still have a corporate franchise tax liability based on their taxable capital, and should all experience a franchise tax reduction as a result of the proposed changes.

The table below also depicts estimates of the corporate franchise tax changes on filers within various La net income cohorts. However, these filers are corporations that pass-through their income to individuals for tax purposes³⁸, and are therefore not subject to the corporate income tax, but are subject to the corporate franchise tax. As with the traditional corporate filers depicted above, the proposed tax changes result in all filers subject to the franchise tax receiving a franchise tax reduction.

³⁷ La net income cohorts rather than taxable capital cohorts were utilized here in order to be able to depict the changes in the corporate franchise tax and the corporate income tax on the same firms within the same income cohorts, for each tax separately as well as combined.
³⁸ This pass-through income is a component of the individual income tax, and is incorporated into that portion of this report's analysis. As a matter of interest, roughly 25% of the state individual income tax liability may be attributable to various forms of business income.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

| DISTRIBUTION OF STATE CORPORATE FRANCHISE TAX LIABILITY | | | | | | | | | | | | |
|---------------------------------------------------------|-------------------|--------------|---------|----------------------|-----------------------|---------------|---------------|---------------|---------------|------------|-------------|---------------|
| S-CORPORATION RETURNS * | | | | | | | | | | | | |
| ALL BUSINESS ENTERPRISES COMBINED | | | | | | | | | | | | |
| TAX TABLE LIABILITY BASIS ** | | | | | | | | | | | | |
| TAX YEAR 2019 TAX RETURNS | | | | | | | | | | | | |
| Cumu. | | | Number | Avg Taxable | Curr Effec | Curr Law Avg | Curr Law Avg | Franchise Tax | Franchise Tax | Prop Effec | % Chg Effec | Aggregate |
| Return % | La. Net Income | | Returns | Capital ¹ | Tax Rate ² | Tax Liability | Tax Liability | \$ Change | % Change | Tax Rate | Tax Rate | Franchise Tax |
| | | | | | | | | | | | | Change |
| 24.3% | \$1 | \$12,500 | 6,272 | \$64,030 | 0.146% | \$94 | \$43 | (\$51) | -54.4% | 0.067% | -54.4% | (\$319,639) |
| 37.0% | \$12,501 | \$25,000 | 3,278 | \$112,435 | 0.140% | \$158 | \$81 | (\$77) | -48.9% | 0.072% | -48.9% | (\$252,706) |
| 54.1% | \$25,001 | \$50,000 | 4,406 | \$118,519 | 0.145% | \$172 | \$77 | (\$95) | -55.1% | 0.065% | -55.1% | (\$416,989) |
| 64.3% | \$50,001 | \$75,000 | 2,655 | \$175,305 | 0.144% | \$253 | \$129 | (\$124) | -49.1% | 0.073% | -49.1% | (\$329,825) |
| 71.2% | \$75,001 | \$100,000 | 1,764 | \$210,488 | 0.161% | \$339 | \$198 | (\$141) | -41.6% | 0.094% | -41.6% | (\$248,866) |
| 87.5% | \$100,001 | \$250,000 | 4,229 | \$362,260 | 0.149% | \$540 | \$345 | (\$195) | -36.1% | 0.095% | -36.1% | (\$823,528) |
| 94.5% | \$250,001 | \$500,000 | 1,788 | \$754,458 | 0.145% | \$1,092 | \$789 | (\$302) | -27.7% | 0.105% | -27.7% | (\$540,214) |
| 96.6% | \$500,001 | \$750,000 | 557 | \$1,471,494 | 0.148% | \$2,176 | \$1,740 | (\$436) | -20.0% | 0.118% | -20.0% | (\$242,653) |
| 97.7% | \$750,001 | \$1,000,000 | 278 | \$2,399,146 | 0.135% | \$3,227 | \$2,672 | (\$555) | -17.2% | 0.111% | -17.2% | (\$154,421) |
| 98.3% | \$1,000,001 | \$1,250,000 | 159 | \$3,390,456 | 0.127% | \$4,293 | \$3,649 | (\$644) | -15.0% | 0.108% | -15.0% | (\$102,449) |
| 98.7% | \$1,250,001 | \$1,500,000 | 101 | \$3,585,399 | 0.132% | \$4,729 | \$4,024 | (\$704) | -14.9% | 0.112% | -14.9% | (\$71,146) |
| 99.1% | \$1,500,001 | \$2,000,000 | 110 | \$6,463,434 | 0.096% | \$6,209 | \$5,434 | (\$775) | -12.5% | 0.084% | -12.5% | (\$85,292) |
| 99.7% | \$2,000,001 | \$4,000,000 | 135 | \$14,099,182 | 0.094% | \$13,208 | \$11,815 | (\$1,393) | -10.5% | 0.084% | -10.5% | (\$188,078) |
| 99.8% | \$4,000,001 | \$6,000,000 | 36 | \$17,521,104 | 0.112% | \$19,646 | \$17,724 | (\$1,922) | -9.8% | 0.101% | -9.8% | (\$69,194) |
| 99.9% | \$6,000,001 | \$8,000,000 | 20 | \$18,860,111 | 0.115% | \$21,686 | \$19,631 | (\$2,055) | -9.5% | 0.104% | -9.5% | (\$41,100) |
| 99.9% | \$8,000,001 | \$10,000,000 | 7 | \$39,322,581 | 0.033% | \$12,849 | \$11,552 | (\$1,298) | -10.1% | 0.029% | -10.1% | (\$9,084) |
| 100.0% | \$10,000,001 plus | | 24 | \$71,527,170 | 0.060% | \$42,781 | \$38,980 | (\$3,801) | -8.9% | 0.054% | -8.9% | (\$91,215) |
| | | | 25,819 | | | | | | | | | (\$3,986,395) |

* The table includes S-corporation returns that are not subject to corporate income tax, but are subject to the franchise tax. S-corp income passes through to the individual income tax returns of the members of the corporation.

** Tax table liability is prior to any credits (nonrefundable or refundable) and rebates, that determine final liability. While final liability incorporates all credits and rebates, they are largely unique to each firm, and are not generally applicable or utilized.

¹ Average taxable capital is the average amount of total taxable capital apportioned to La. as reported on the returns included in each net income cohort row.

² Effective tax rate is the franchise tax liability divided by La taxable capital. It reflects the overall tax imposed, inclusive of the actual taxable capital base and the marginal tax rate and bracket structure.

Combined Corporate Income and Franchise Tax

The table below depicts estimates of the combined corporate income tax and corporate franchise tax changes on filers within various La net income cohorts³⁹. These filers are primarily traditional corporations that do not pass-through their income to individuals for tax purposes, and are subject to both the corporate income tax and franchise tax. All of these filers receive a franchise tax reduction, and approximately 85% also receive an income tax reduction. Approximately 15% receive an income tax increase, but most of those filers receive enough franchise tax reduction to offset the income tax increase, and thus receive a combined tax decrease. As can be seen in the table below, only about 1.25% of all of these filers are facing a combined tax increase resulting from the proposed tax changes.

³⁹ Note that all filers in the table are still grouped by La net income, but for the corporate income tax component of the combined effect, the table displays average taxable income rather than average net income, prior to the proposed tax changes, in order to be consistent with the displayed average taxable capital for the corporate franchise tax component. The difference between net income and taxable income is due to the federal income tax paid deduction in each cohort. As a matter of interest, across net income cohorts, taxable incomes average 75% of net incomes, with a relatively small variation of only 9.2 ppts across cohorts, and an even smaller 5.2 ppts when the single maximum and minimum differences are removed. This small variation occurs even though the average net income of the highest cohort is 8.6 multiples of that of the lowest cohort.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

DISTRIBUTION OF COMBINED STATE CORPORATE INCOME & FRANCHISE TAX LIABILITY
RETURNS WITH NO S-CORP EXCLUSION *
ALL BUSINESS ENTERPRISES COMBINED
ALL NET INCOMES, TAX TABLE LIABILITY BASIS *****
TAX YEAR 2019 TAX RETURNS

| La. Net Income | Number Returns | Average | Average | Aggregate | Average | Average | Aggregate | Combined | Combined |
|--------------------------|----------------|-----------------------------|----------------------|-------------------|------------------------------|-------------------------|----------------------|-------------------|---------------------|
| | | Taxable Income ¹ | Income Tax \$ Change | Income Tax Change | Taxable Capital ¹ | Franchise Tax \$ Change | Franchise Tax Change | Avg Tax \$ Change | Aggregate \$ Change |
| Exempt from CIT | 955 | n/a | n/a | n/a | \$2,886,120 | (\$810) | (\$528,101) | (\$810) | (\$528,101) |
| Less than 0 | 32,945 | n/a | n/a | n/a | \$2,430,393 | (\$651) | (\$17,858,196) | (\$651) | (\$17,858,196) |
| Equal to 0 | 24,649 | n/a | n/a | n/a | \$345,689 | (\$87) | (\$1,966,518) | (\$87) | (\$1,966,518) |
| \$1 \$12,500 | 10,058 | \$2,912 | (\$5) | (\$46,556) | \$171,186 | (\$69) | (\$664,237) | (\$74) | (\$710,793) |
| \$12,501 \$25,000 | 2,991 | \$13,659 | (\$21) | (\$61,929) | \$239,477 | (\$129) | (\$363,953) | (\$150) | (\$425,882) |
| \$25,001 \$50,000 | 3,030 | \$26,809 | (\$88) | (\$266,941) | \$408,987 | (\$199) | (\$566,940) | (\$288) | (\$833,881) |
| \$50,001 \$75,000 | 1,569 | \$45,668 | (\$147) | (\$230,368) | \$620,105 | (\$277) | (\$409,814) | (\$424) | (\$640,182) |
| \$75,001 \$100,000 | 1,037 | \$63,778 | (\$152) | (\$157,358) | \$1,116,482 | (\$425) | (\$420,362) | (\$577) | (\$577,720) |
| \$100,001 \$250,000 | 2,570 | \$120,598 | (\$127) | (\$324,449) | \$1,600,791 | (\$580) | (\$1,383,070) | (\$707) | (\$1,707,519) |
| \$250,001 \$500,000 | 1,396 | \$273,387 | \$538 | \$746,279 | \$2,728,794 | (\$928) | (\$1,223,970) | (\$390) | (\$477,691) |
| \$500,001 \$750,000 | 589 | \$473,301 | \$1,166 | \$677,418 | \$4,820,466 | (\$1,460) | (\$806,020) | (\$294) | (\$128,602) |
| \$750,001 \$1,000,000 | 355 | \$695,444 | \$1,122 | \$390,416 | \$6,528,392 | (\$1,888) | (\$626,951) | (\$767) | (\$236,535) |
| \$1,000,001 \$1,250,000 | 255 | \$863,664 | \$2,076 | \$525,204 | \$10,355,697 | (\$2,855) | (\$696,502) | (\$779) | (\$171,298) |
| \$1,250,001 \$1,500,000 | 174 | \$1,047,997 | \$3,063 | \$526,819 | \$9,495,904 | (\$2,478) | (\$418,789) | \$585 | \$108,030 |
| \$1,500,001 \$2,000,000 | 243 | \$1,356,027 | \$5,238 | \$1,262,413 | \$15,400,064 | (\$3,729) | (\$854,027) | \$1,509 | \$408,387 |
| \$2,000,001 \$4,000,000 | 392 | \$2,062,622 | \$7,189 | \$2,803,769 | \$25,349,783 | (\$6,531) | (\$2,422,904) | \$658 | \$380,865 |
| \$4,000,001 \$6,000,000 | 153 | \$3,681,567 | \$11,285 | \$1,715,379 | \$49,673,413 | (\$12,519) | (\$1,802,670) | (\$1,233) | (\$87,291) |
| \$6,000,001 \$8,000,000 | 79 | \$5,035,267 | \$8,182 | \$646,380 | \$49,918,972 | (\$12,768) | (\$995,939) | (\$4,586) | (\$349,559) |
| \$8,000,001 \$10,000,000 | 48 | \$6,153,521 | \$21,196 | \$1,017,414 | \$57,624,275 | (\$14,723) | (\$662,523) | \$6,473 | \$354,891 |
| \$10,000,001 plus | 178 | \$26,750,837 | \$66,270 | \$11,795,994 | \$199,916,092 | (\$49,505) | (\$8,366,334) | \$16,765 | \$3,429,660 |
| | 83,666 | | | \$21,019,884 | | | (\$43,037,818) | | (\$22,017,934) |

* The table does not include S-corporation returns where all or a portion of net income was excluded from corporate taxation and passed through to individual income tax returns.

** For state tax purposes, it is typical for large numbers of corporate returns to report zero or negative net income.

*** Tax table liability is prior to any credits (nonrefundable or refundable) and rebates, that determine final liability. While final liability incorporates all credits and rebates, they are largely unique to each firm, and are not generally applicable or utilized.

¹ Average taxable income and capital are the reported tax table tax bases on the returns included in each net income cohort row under current law, prior to the effect the proposed tax changes.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Appendix A: Individual Income Tax Comparative Base Expansion and Rate Reduction

The tables below summarize the estimated effects, on average filers in various federal adjusted gross income cohorts, of the individual income tax proposal with respect to the tax base expansion that occurs from the loss of the deduction of federal taxes paid by non-itemizers, and the additional loss of the deduction for excess federal itemized deductions for itemizers. The first table summarizes all filing status' combined. The subsequent three tables summarize the results for three filing status sub-groups: single and married filing separate filers, joint and qualifying widower filers, and head of household filers. The peculiarities of actual tax returns become more evident in the filer sub-groups, and especially with regard to itemizers reporting relatively low federal adjusted gross income.

**Individual Income Tax, 2019 Returns
Base Expansion Compared To Rate Reduction
Summary Table: All Filing Status' Combined**

| | | <u>NON-ITEMIZERS</u> | | <u>ITEMIZERS</u> | | <u>NON-ITEMIZERS</u> | | <u>ITEMIZERS</u> | |
|------------------|--------------|----------------------|----------|------------------|----------|----------------------|--|------------------|--------|
| | | Base Expansion | | Base Expansion | | Rate Cut | | | |
| | | FIT Deduc | | FIT & EID Deduc | | % Chg In | | % Chg In | |
| | | % Chg In | | % Chg In | | Marginal Rates | | Effec Tax Rate | |
| Federal Adjusted | Gross Income | Taxable Income | % Chg In | Taxable Income | % Chg In | | | | |
| \$0 | \$5,000 | | 0.3% | 816.5% | | <u>2% to 1.85%</u> | | -0.2% | 25.3% |
| \$5,000 | \$10,000 | | 0.2% | 2425.2% | | -7.5% | | -6.4% | 188.7% |
| \$10,000 | \$15,000 | | 0.3% | 225.8% | | | | -6.9% | 111.5% |
| \$15,000 | \$20,000 | | 1.2% | 178.4% | | | | -7.5% | 153.4% |
| \$20,000 | \$25,000 | | 2.2% | 153.6% | | | | -7.0% | 129.5% |
| \$25,000 | \$30,000 | | 3.0% | 98.0% | | <u>4% to 3.50%</u> | | -6.5% | 87.3% |
| \$30,000 | \$40,000 | | 4.4% | 71.1% | | -12.5% | | -5.3% | 66.1% |
| \$40,000 | \$50,000 | | 6.0% | 53.5% | | | | -4.0% | 48.9% |
| \$50,000 | \$60,000 | | 7.3% | 42.9% | | | | -2.6% | 38.6% |
| \$60,000 | \$70,000 | | 8.6% | 37.5% | | | | -3.2% | 32.9% |
| \$70,000 | \$80,000 | | 9.3% | 35.5% | | | | -3.5% | 25.8% |
| \$80,000 | \$90,000 | | 9.7% | 31.5% | | | | -3.2% | 19.0% |
| \$90,000 | \$100,000 | | 9.9% | 32.1% | | <u>6% to 4.25%</u> | | -3.2% | 17.8% |
| \$100,000 | \$120,000 | | 10.8% | 28.6% | | -29.2% | | -2.3% | 12.9% |
| \$120,000 | \$140,000 | | 12.8% | 26.4% | | | | -1.0% | 10.0% |
| \$140,000 | \$160,000 | | 14.4% | 25.8% | | | | -1.9% | 8.3% |
| \$160,000 | \$180,000 | | 15.9% | 25.4% | | | | -3.1% | 5.7% |
| \$180,000 | \$200,000 | | 17.1% | 25.6% | | | | -3.8% | 3.8% |
| \$200,000 | \$250,000 | | 18.8% | 27.6% | | | | -4.7% | 3.2% |
| \$250,000 | \$300,000 | | 20.9% | 29.5% | | | | -5.4% | 2.2% |
| \$300,000 | \$350,000 | | 22.4% | 30.6% | | | | -5.8% | 1.3% |
| \$350,000 | \$400,000 | | 23.7% | 32.5% | | | | -5.8% | 1.5% |
| \$400,000 | \$450,000 | | 26.0% | 34.3% | | | | -4.8% | 2.1% |
| \$450,000 | \$500,000 | | 28.1% | 36.3% | | | | -3.8% | 3.0% |
| \$500,000 | \$600,000 | | 30.0% | 39.1% | | | | -3.0% | 4.4% |
| \$600,000 | \$700,000 | | 32.5% | 41.1% | | | | -1.8% | 5.0% |
| \$700,000 | \$800,000 | | 34.4% | 44.3% | | | | -0.9% | 6.9% |
| \$800,000 | \$900,000 | | 35.6% | 45.4% | | | | -0.5% | 7.2% |
| \$900,000 | \$1,000,000 | | 37.0% | 45.6% | | | | 0.2% | 6.9% |
| \$1,000,000 plus | | | 41.3% | 52.8% | | | | 1.7% | 10.0% |

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Individual Income Tax, 2019 Returns Base Expansion Compared To Rate Reduction Single & MFS Filing Status

| | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | Rate Cut | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> |
|------------------|-------------|-----------------------------------------------------------|-----------------------------------------------------------------|----------------------------|----------------------------|----------------------------|
| Federal | Adjusted | Base Expansion FIT Deduc % Chg In Taxable Income | Base Expansion FIT & EID Deduc % Chg In Taxable Income | % Chg In Marginal Rates | % Chg In Effec Tax Rate | % Chg In Effec Tax Rate |
| Gross Income | | | | | | |
| \$0 | \$5,000 | 0.3% | 0.0% | <u>2% to 1.85%</u> | -0.3% | 0.0% |
| \$5,000 | \$10,000 | 0.2% | 279022.5% | -7.5% | -6.4% | 346.4% |
| \$10,000 | \$15,000 | 0.5% | 286.1% | | -6.5% | 138.9% |
| \$15,000 | \$20,000 | 2.4% | 199.6% | | -5.6% | 144.3% |
| \$20,000 | \$25,000 | 4.3% | 166.2% | | -3.9% | 124.2% |
| \$25,000 | \$30,000 | 5.9% | 116.5% | <u>4% to 3.50%</u> | -2.9% | 90.2% |
| \$30,000 | \$40,000 | 8.0% | 80.5% | -12.5% | -1.6% | 69.6% |
| \$40,000 | \$50,000 | 9.5% | 59.6% | | -0.9% | 51.5% |
| \$50,000 | \$60,000 | 11.1% | 43.9% | | 1.0% | 38.2% |
| \$60,000 | \$70,000 | 13.9% | 40.0% | | 0.9% | 33.6% |
| \$70,000 | \$80,000 | 15.9% | 38.4% | | 0.3% | 26.6% |
| \$80,000 | \$90,000 | 17.5% | 35.0% | | 0.7% | 20.4% |
| \$90,000 | \$100,000 | 18.6% | 35.6% | <u>6% to 4.25%</u> | -0.4% | 18.6% |
| \$100,000 | \$120,000 | 20.0% | 34.4% | -29.2% | -1.7% | 14.1% |
| \$120,000 | \$140,000 | 21.5% | 34.2% | | -2.9% | 9.9% |
| \$140,000 | \$160,000 | 22.8% | 34.7% | | -3.5% | 7.9% |
| \$160,000 | \$180,000 | 23.2% | 34.3% | | -4.6% | 5.5% |
| \$180,000 | \$200,000 | 24.2% | 35.7% | | -4.8% | 5.6% |
| \$200,000 | \$250,000 | 26.1% | 38.5% | | -4.4% | 6.4% |
| \$250,000 | \$300,000 | 29.0% | 42.6% | | -3.4% | 8.0% |
| \$300,000 | \$350,000 | 31.7% | 44.5% | | -2.1% | 8.4% |
| \$350,000 | \$400,000 | 32.7% | 47.1% | | -2.0% | 9.6% |
| \$400,000 | \$450,000 | 34.7% | 50.4% | | -0.9% | 11.5% |
| \$450,000 | \$500,000 | 35.0% | 46.0% | | -1.1% | 7.5% |
| \$500,000 | \$600,000 | 36.6% | 49.1% | | -0.4% | 9.4% |
| \$600,000 | \$700,000 | 37.4% | 51.3% | | -0.3% | 10.4% |
| \$700,000 | \$800,000 | 38.7% | 49.8% | | 0.4% | 8.8% |
| \$800,000 | \$900,000 | 38.6% | 58.5% | | 0.0% | 15.1% |
| \$900,000 | \$1,000,000 | 41.4% | 58.0% | | 1.9% | 14.4% |
| \$1,000,000 plus | | 46.9% | 54.5% | | 5.0% | 10.5% |

Individual Income Tax, 2019 Returns Base Expansion Compared To Rate Reduction Joint & QW Filing Status

| | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | Rate Cut | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> |
|------------------|-------------|-----------------------------------------------------------|-----------------------------------------------------------------|----------------------------|----------------------------|----------------------------|
| Federal | Adjusted | Base Expansion FIT Deduc % Chg In Taxable Income | Base Expansion FIT & EID Deduc % Chg In Taxable Income | % Chg In Marginal Rates | % Chg In Effec Tax Rate | % Chg In Effec Tax Rate |
| Gross Income | | | | | | |
| \$0 | \$5,000 | 1.4% | 297.0% | <u>2% to 1.85%</u> | 0.0% | 25.0% |
| \$5,000 | \$10,000 | 0.7% | 722.3% | -7.5% | 0.0% | 32.5% |
| \$10,000 | \$15,000 | 0.3% | 116.8% | | -3.5% | 33.0% |
| \$15,000 | \$20,000 | 0.2% | 242.7% | | -5.0% | 185.1% |
| \$20,000 | \$25,000 | 0.1% | 132.6% | | -6.0% | 141.0% |
| \$25,000 | \$30,000 | 0.5% | 105.4% | <u>4% to 3.50%</u> | -6.1% | 120.5% |
| \$30,000 | \$40,000 | 1.7% | 88.5% | -12.5% | -5.5% | 98.0% |
| \$40,000 | \$50,000 | 3.1% | 67.8% | | -4.6% | 77.2% |
| \$50,000 | \$60,000 | 4.5% | 56.6% | | -4.2% | 63.7% |
| \$60,000 | \$70,000 | 5.7% | 40.0% | | -3.6% | 45.3% |
| \$70,000 | \$80,000 | 6.6% | 35.6% | | -3.3% | 35.1% |
| \$80,000 | \$90,000 | 7.3% | 29.1% | | -3.1% | 24.0% |
| \$90,000 | \$100,000 | 7.8% | 28.3% | <u>6% to 4.25%</u> | -3.0% | 21.3% |
| \$100,000 | \$120,000 | 9.2% | 23.0% | -29.2% | -1.6% | 14.7% |
| \$120,000 | \$140,000 | 11.7% | 21.6% | | -0.1% | 12.2% |
| \$140,000 | \$160,000 | 13.7% | 22.2% | | -1.4% | 10.0% |
| \$160,000 | \$180,000 | 15.3% | 22.7% | | -2.8% | 6.4% |
| \$180,000 | \$200,000 | 16.6% | 23.1% | | -3.6% | 3.7% |
| \$200,000 | \$250,000 | 18.2% | 25.2% | | -4.6% | 2.7% |
| \$250,000 | \$300,000 | 20.1% | 26.7% | | -5.6% | 0.8% |
| \$300,000 | \$350,000 | 21.4% | 27.8% | | -6.2% | -0.2% |
| \$350,000 | \$400,000 | 22.9% | 29.6% | | -6.2% | -0.1% |
| \$400,000 | \$450,000 | 25.1% | 31.4% | | -5.2% | 0.3% |
| \$450,000 | \$500,000 | 27.2% | 34.6% | | -4.2% | 2.2% |
| \$500,000 | \$600,000 | 29.2% | 37.4% | | -3.3% | 3.5% |
| \$600,000 | \$700,000 | 31.9% | 39.4% | | -2.0% | 4.1% |
| \$700,000 | \$800,000 | 33.8% | 43.4% | | -1.2% | 6.6% |
| \$800,000 | \$900,000 | 35.2% | 43.7% | | -0.6% | 6.1% |
| \$900,000 | \$1,000,000 | 36.4% | 44.1% | | 0.0% | 6.0% |
| \$1,000,000 plus | | 40.6% | 52.5% | | 1.4% | 10.0% |

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

**Individual Income Tax, 2019 Returns
Base Expansion Compared To Rate Reduction
Head of Household Filing Status**

| | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | | <u>NON-ITEMIZERS</u> | <u>ITEMIZERS</u> | |
|--------------|------------------|----------------------|------------------|----------------|----------------------|------------------|--------|
| | | Base Expansion | Base Expansion | Rate Cut | | | |
| | | FIT Deduc | FIT & EID Deduc | | | | |
| | | % Chg In | % Chg In | % Chg In | % Chg In | % Chg In | |
| Federal | Adjusted | Taxable Income | Taxable Income | Marginal Rates | Effec Tax Rate | Effec Tax Rate | |
| Gross Income | | | | | | | |
| | \$0 | \$5,000 | 0.1% | 943.8% | <u>2% to 1.85%</u> | 0.0% | 0.0% |
| | \$5,000 | \$10,000 | 0.0% | 290.9% | -7.5% | 0.0% | 76.8% |
| | \$10,000 | \$15,000 | 0.0% | 121.6% | | -9.0% | 463.9% |
| | \$15,000 | \$20,000 | 0.0% | 84.1% | | -11.4% | 230.0% |
| | \$20,000 | \$25,000 | 0.1% | 109.1% | | -11.8% | 165.3% |
| | \$25,000 | \$30,000 | 0.3% | 48.5% | <u>4% to 3.50%</u> | -11.7% | 70.0% |
| | \$30,000 | \$40,000 | 0.8% | 45.0% | -12.5% | -11.1% | 49.7% |
| | \$40,000 | \$50,000 | 2.1% | 35.2% | | -9.8% | 33.7% |
| | \$50,000 | \$60,000 | 3.7% | 32.7% | | -8.6% | 29.0% |
| | \$60,000 | \$70,000 | 5.1% | 28.6% | | -10.4% | 23.1% |
| | \$70,000 | \$80,000 | 6.7% | 27.0% | | -11.5% | 16.1% |
| | \$80,000 | \$90,000 | 9.0% | 24.6% | | -11.1% | 8.8% |
| | \$90,000 | \$100,000 | 10.9% | 27.8% | <u>6% to 4.25%</u> | -10.7% | 9.8% |
| | \$100,000 | \$120,000 | 13.1% | 25.7% | -29.2% | -10.3% | 3.7% |
| | \$120,000 | \$140,000 | 15.5% | 26.1% | | -9.9% | 1.0% |
| | \$140,000 | \$160,000 | 17.6% | 25.1% | | -9.2% | -2.1% |
| | \$160,000 | \$180,000 | 18.9% | 26.9% | | -9.1% | -1.6% |
| | \$180,000 | \$200,000 | 20.6% | 27.6% | | -8.3% | -2.1% |
| | \$200,000 | \$250,000 | 23.8% | 31.3% | | -6.7% | -0.1% |
| | \$250,000 | \$300,000 | 27.6% | 38.7% | | -4.6% | 4.8% |
| | \$300,000 | \$350,000 | 32.1% | 39.9% | | -1.9% | 4.6% |
| | \$350,000 | \$400,000 | 32.7% | 42.9% | | -2.1% | 6.2% |
| | \$400,000 | \$450,000 | 34.1% | 43.1% | | -1.3% | 5.7% |
| | \$450,000 | \$500,000 | 33.7% | 40.6% | | -2.2% | 3.3% |
| | \$500,000 | \$600,000 | 36.0% | 47.9% | | -0.9% | 8.5% |
| | \$600,000 | \$700,000 | 38.8% | 45.1% | | 0.8% | 5.6% |
| | \$700,000 | \$800,000 | 40.7% | 48.0% | | 1.9% | 7.5% |
| | \$800,000 | \$900,000 | 39.0% | 54.2% | | 0.3% | 11.8% |
| | \$900,000 | \$1,000,000 | 35.6% | 41.4% | | -2.3% | 2.0% |
| | \$1,000,000 plus | | 42.4% | 52.1% | | 1.3% | 8.7% |

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Appendix B: Non-itemizer Tax filers

The tables below summarize the estimated effects of the individual income tax proposal on average non-itemizer tax filers in various federal adjusted gross income cohorts. The first table summarizes all filers combined. The subsequent three tables summarize the results for three filing status sub-groups: single and married filing separate filers, joint and qualifying widower filers, and head of household filers. The peculiarities of actual tax returns become more evident in the filer sub-groups.

| DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT NONITEMIZER FILERS ONLY ALL RESIDENT FILING STATUS' COMBINED* TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS | | | | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|-------------------------|--------------------------|
| Cumu. Return % | Federal Gross Income | Adjusted Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Inc Tax Rate | Aggregate Inc Tax Change |
| 5.3% | \$0 | \$5,000 | 86,920 | \$2,638 | 0.0% | \$1 | \$1 | (\$0) | -0.2% | 0.0% | (\$170) |
| 11.8% | \$5,000 | \$10,000 | 107,382 | \$7,562 | 0.5% | \$40 | \$37 | (\$3) | -6.4% | 0.5% | (\$273,828) |
| 21.2% | \$10,000 | \$15,000 | 154,803 | \$12,555 | 0.8% | \$106 | \$99 | (\$7) | -6.9% | 0.8% | (\$1,124,292) |
| 30.3% | \$15,000 | \$20,000 | 150,108 | \$17,425 | 1.4% | \$250 | \$232 | (\$19) | -7.5% | 1.3% | (\$2,816,992) |
| 38.1% | \$20,000 | \$25,000 | 128,893 | \$22,418 | 1.8% | \$407 | \$379 | (\$28) | -7.0% | 1.7% | (\$3,653,536) |
| 44.9% | \$25,000 | \$30,000 | 112,392 | \$27,419 | 2.0% | \$559 | \$523 | (\$36) | -6.5% | 1.9% | (\$4,052,630) |
| 55.8% | \$30,000 | \$40,000 | 180,027 | \$34,726 | 2.2% | \$779 | \$738 | (\$42) | -5.3% | 2.1% | (\$7,480,448) |
| 64.1% | \$40,000 | \$50,000 | 137,499 | \$44,749 | 2.4% | \$1,072 | \$1,029 | (\$43) | -4.0% | 2.3% | (\$5,953,042) |
| 70.5% | \$50,000 | \$60,000 | 105,006 | \$54,774 | 2.5% | \$1,354 | \$1,319 | (\$35) | -2.6% | 2.4% | (\$3,721,254) |
| 75.5% | \$60,000 | \$70,000 | 82,008 | \$64,810 | 2.6% | \$1,661 | \$1,608 | (\$53) | -3.2% | 2.5% | (\$4,337,962) |
| 79.5% | \$70,000 | \$80,000 | 66,560 | \$74,823 | 2.6% | \$1,966 | \$1,897 | (\$70) | -3.5% | 2.5% | (\$4,626,760) |
| 82.9% | \$80,000 | \$90,000 | 56,098 | \$84,829 | 2.7% | \$2,262 | \$2,190 | (\$72) | -3.2% | 2.6% | (\$4,031,158) |
| 85.8% | \$90,000 | \$100,000 | 47,826 | \$94,851 | 2.7% | \$2,580 | \$2,496 | (\$84) | -3.2% | 2.6% | (\$4,001,471) |
| 90.3% | \$100,000 | \$120,000 | 74,991 | \$109,362 | 2.8% | \$3,083 | \$3,013 | (\$70) | -2.3% | 2.8% | (\$5,240,699) |
| 93.4% | \$120,000 | \$140,000 | 50,175 | \$129,293 | 3.0% | \$3,885 | \$3,848 | (\$38) | -1.0% | 3.0% | (\$1,885,642) |
| 95.4% | \$140,000 | \$160,000 | 33,557 | \$149,318 | 3.2% | \$4,739 | \$4,649 | (\$89) | -1.9% | 3.1% | (\$2,999,571) |
| 96.7% | \$160,000 | \$180,000 | 21,578 | \$169,237 | 3.3% | \$5,624 | \$5,449 | (\$175) | -3.1% | 3.2% | (\$3,770,785) |
| 97.6% | \$180,000 | \$200,000 | 14,075 | \$189,334 | 3.4% | \$6,490 | \$6,244 | (\$246) | -3.8% | 3.3% | (\$3,464,525) |
| 98.7% | \$200,000 | \$250,000 | 18,086 | \$221,231 | 3.6% | \$7,936 | \$7,567 | (\$370) | -4.7% | 3.4% | (\$6,688,998) |
| 99.1% | \$250,000 | \$300,000 | 7,893 | \$272,518 | 3.8% | \$10,228 | \$9,678 | (\$550) | -5.4% | 3.6% | (\$4,341,173) |
| 99.4% | \$300,000 | \$350,000 | 4,350 | \$322,744 | 3.9% | \$12,518 | \$11,797 | (\$721) | -5.8% | 3.7% | (\$3,134,855) |
| 99.6% | \$350,000 | \$400,000 | 2,543 | \$372,958 | 4.0% | \$14,775 | \$13,923 | (\$852) | -5.8% | 3.7% | (\$2,167,512) |
| 99.7% | \$400,000 | \$450,000 | 1,715 | \$422,729 | 4.0% | \$16,869 | \$16,062 | (\$807) | -4.8% | 3.8% | (\$1,384,323) |
| 99.7% | \$450,000 | \$500,000 | 1,148 | \$473,332 | 4.0% | \$18,876 | \$18,154 | (\$721) | -3.8% | 3.8% | (\$828,198) |
| 99.8% | \$500,000 | \$600,000 | 1,432 | \$545,864 | 4.0% | \$21,837 | \$21,182 | (\$655) | -3.0% | 3.9% | (\$938,430) |
| 99.9% | \$600,000 | \$700,000 | 846 | \$644,611 | 4.0% | \$25,816 | \$25,348 | (\$468) | -1.8% | 3.9% | (\$395,756) |
| 99.9% | \$700,000 | \$800,000 | 556 | \$744,939 | 4.0% | \$30,013 | \$29,728 | (\$285) | -0.9% | 4.0% | (\$158,483) |
| 99.9% | \$800,000 | \$900,000 | 328 | \$848,409 | 4.0% | \$34,128 | \$33,950 | (\$178) | -0.5% | 4.0% | (\$58,373) |
| 99.9% | \$900,000 | \$1,000,000 | 246 | \$946,840 | 4.0% | \$38,043 | \$38,107 | \$64 | 0.2% | 4.0% | \$15,811 |
| 100.0% | \$1,000,000 plus | | 1,093 | \$2,014,532 | 3.9% | \$78,667 | \$80,002 | \$1,335 | 1.7% | 4.0% | \$1,459,372 |
| | | | 1,650,134 | | | | | | | | (\$82,055,683) |

| | | | |
|-------------------------------------------------------------|--------------|-------------------------------------------------------------|--------------|
| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

* Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers.
** Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.
1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.
2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT NON-ITEMIZER FILERS ONLY SINGLE / MARRIED SEPARATE FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 9.9% | \$0 | \$5,000 | 74,663 | \$2,626 | 0.0% | \$1 | \$1 | \$0 | -0.3% | 0.0% | (\$170) |
| 20.8% | \$5,000 | \$10,000 | 81,883 | \$7,487 | 0.7% | \$52 | \$49 | (\$3) | -6.4% | 0.6% | (\$273,828) |
| 32.7% | \$10,000 | \$15,000 | 89,991 | \$12,518 | 1.2% | \$147 | \$138 | (\$10) | -6.5% | 1.1% | (\$861,651) |
| 43.2% | \$15,000 | \$20,000 | 79,250 | \$17,406 | 1.7% | \$299 | \$282 | (\$17) | -5.6% | 1.6% | (\$1,314,791) |
| 52.0% | \$20,000 | \$25,000 | 66,371 | \$22,433 | 2.0% | \$457 | \$439 | (\$18) | -3.9% | 2.0% | (\$1,190,721) |
| 59.4% | \$25,000 | \$30,000 | 56,061 | \$27,419 | 2.2% | \$613 | \$595 | (\$18) | -2.9% | 2.2% | (\$1,000,733) |
| 71.4% | \$30,000 | \$40,000 | 90,223 | \$34,741 | 2.4% | \$837 | \$824 | (\$13) | -1.6% | 2.4% | (\$1,177,670) |
| 80.7% | \$40,000 | \$50,000 | 70,210 | \$44,729 | 2.6% | \$1,141 | \$1,131 | (\$10) | -0.9% | 2.5% | (\$725,145) |
| 87.2% | \$50,000 | \$60,000 | 49,262 | \$54,631 | 2.6% | \$1,441 | \$1,456 | \$15 | 1.0% | 2.7% | \$726,161 |
| 91.4% | \$60,000 | \$70,000 | 31,566 | \$64,637 | 2.8% | \$1,788 | \$1,805 | \$17 | 0.9% | 2.8% | \$522,482 |
| 94.1% | \$70,000 | \$80,000 | 20,029 | \$74,642 | 2.9% | \$2,183 | \$2,190 | \$8 | 0.3% | 2.9% | \$152,484 |
| 95.8% | \$80,000 | \$90,000 | 13,033 | \$84,645 | 3.0% | \$2,568 | \$2,587 | \$19 | 0.7% | 3.1% | \$242,481 |
| 97.0% | \$90,000 | \$100,000 | 8,584 | \$94,665 | 3.2% | \$3,001 | \$2,990 | (\$11) | -0.4% | 3.2% | (\$95,169) |
| 98.3% | \$100,000 | \$120,000 | 10,018 | \$108,842 | 3.3% | \$3,618 | \$3,555 | (\$63) | -1.7% | 3.3% | (\$628,821) |
| 98.9% | \$120,000 | \$140,000 | 4,884 | \$128,941 | 3.5% | \$4,471 | \$4,342 | (\$130) | -2.9% | 3.4% | (\$632,675) |
| 99.3% | \$140,000 | \$160,000 | 2,594 | \$148,842 | 3.5% | \$5,284 | \$5,099 | (\$185) | -3.5% | 3.4% | (\$479,059) |
| 99.5% | \$160,000 | \$180,000 | 1,493 | \$169,333 | 3.7% | \$6,213 | \$5,929 | (\$284) | -4.6% | 3.5% | (\$423,679) |
| 99.6% | \$180,000 | \$200,000 | 909 | \$189,595 | 3.7% | \$7,085 | \$6,747 | (\$337) | -4.8% | 3.6% | (\$306,585) |
| 99.8% | \$200,000 | \$250,000 | 1,222 | \$222,069 | 3.9% | \$8,576 | \$8,196 | (\$380) | -4.4% | 3.7% | (\$464,267) |
| 99.8% | \$250,000 | \$300,000 | 620 | \$273,469 | 3.9% | \$10,714 | \$10,350 | (\$364) | -3.4% | 3.8% | (\$225,758) |
| 99.9% | \$300,000 | \$350,000 | 360 | \$322,069 | 3.9% | \$12,701 | \$12,433 | (\$269) | -2.1% | 3.9% | (\$96,761) |
| 99.9% | \$350,000 | \$400,000 | 203 | \$372,800 | 4.0% | \$14,827 | \$14,528 | (\$299) | -2.0% | 3.9% | (\$60,794) |
| 99.9% | \$400,000 | \$450,000 | 142 | \$422,493 | 3.9% | \$16,620 | \$16,474 | (\$146) | -0.9% | 3.9% | (\$20,777) |
| 99.9% | \$450,000 | \$500,000 | 111 | \$473,601 | 3.9% | \$18,643 | \$18,447 | (\$196) | -1.1% | 3.9% | (\$21,805) |
| 100.0% | \$500,000 | \$600,000 | 129 | \$544,173 | 4.0% | \$21,797 | \$21,718 | (\$79) | -0.4% | 4.0% | (\$10,243) |
| 100.0% | \$600,000 | \$700,000 | 82 | \$643,612 | 4.1% | \$26,168 | \$26,100 | (\$69) | -0.3% | 4.1% | (\$5,624) |
| 100.0% | \$700,000 | \$800,000 | 61 | \$741,498 | 4.1% | \$30,458 | \$30,565 | \$107 | 0.4% | 4.1% | \$6,554 |
| 100.0% | \$800,000 | \$900,000 | 27 | \$847,205 | 4.2% | \$35,329 | \$35,340 | \$11 | 0.0% | 4.2% | \$293 |
| 100.0% | \$900,000 | \$1,000,000 | 31 | \$943,933 | 4.1% | \$39,162 | \$39,906 | \$744 | 1.9% | 4.2% | \$23,079 |
| 100.0% | \$1,000,000 plus | | 104 | \$2,087,626 | 3.6% | \$75,312 | \$79,082 | \$3,770 | 5.0% | 3.8% | \$392,082 |
| | | | 754,116 | | | | | | | | (\$7,951,112) |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|-------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT NON-ITEMIZER FILERS ONLY JOINT / WIDOWER FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 1.2% | \$0 | \$5,000 | 6,523 | \$2,407 | 0.1% | \$3 | \$3 | \$0 | 0.0% | 0.1% | \$0 |
| 2.8% | \$5,000 | \$10,000 | 8,276 | \$7,611 | 0.0% | \$1 | \$1 | \$0 | 0.0% | 0.0% | \$0 |
| 5.1% | \$10,000 | \$15,000 | 12,286 | \$12,499 | 0.2% | \$31 | \$30 | (\$1) | -3.5% | 0.2% | (\$13,314) |
| 7.8% | \$15,000 | \$20,000 | 14,078 | \$17,365 | 0.6% | \$96 | \$91 | (\$5) | -5.0% | 0.5% | (\$66,871) |
| 10.8% | \$20,000 | \$25,000 | 15,453 | \$22,346 | 0.8% | \$169 | \$159 | (\$10) | -6.0% | 0.7% | (\$157,847) |
| 14.0% | \$25,000 | \$30,000 | 17,144 | \$27,399 | 1.0% | \$270 | \$254 | (\$16) | -6.1% | 0.9% | (\$280,610) |
| 20.5% | \$30,000 | \$40,000 | 34,125 | \$34,960 | 1.4% | \$481 | \$454 | (\$27) | -5.5% | 1.3% | (\$909,808) |
| 27.0% | \$40,000 | \$50,000 | 33,982 | \$44,945 | 1.7% | \$779 | \$743 | (\$36) | -4.6% | 1.7% | (\$1,223,465) |
| 33.6% | \$50,000 | \$60,000 | 34,975 | \$55,058 | 2.0% | \$1,079 | \$1,034 | (\$45) | -4.2% | 1.9% | (\$1,573,267) |
| 40.6% | \$60,000 | \$70,000 | 36,616 | \$65,026 | 2.1% | \$1,384 | \$1,334 | (\$50) | -3.6% | 2.1% | (\$1,828,125) |
| 47.7% | \$70,000 | \$80,000 | 37,548 | \$74,993 | 2.3% | \$1,705 | \$1,649 | (\$56) | -3.3% | 2.2% | (\$2,121,422) |
| 54.8% | \$80,000 | \$90,000 | 37,326 | \$84,923 | 2.4% | \$2,037 | \$1,974 | (\$63) | -3.1% | 2.3% | (\$2,347,160) |
| 61.5% | \$90,000 | \$100,000 | 35,474 | \$94,922 | 2.5% | \$2,383 | \$2,313 | (\$71) | -3.0% | 2.4% | (\$2,507,269) |
| 73.0% | \$100,000 | \$120,000 | 60,702 | \$109,490 | 2.7% | \$2,923 | \$2,876 | (\$46) | -1.6% | 2.6% | (\$2,808,720) |
| 81.2% | \$120,000 | \$140,000 | 43,163 | \$129,354 | 2.9% | \$3,762 | \$3,757 | (\$4) | -0.1% | 2.9% | (\$192,665) |
| 86.9% | \$140,000 | \$160,000 | 29,882 | \$149,386 | 3.1% | \$4,650 | \$4,585 | (\$65) | -1.4% | 3.1% | (\$1,937,481) |
| 90.6% | \$160,000 | \$180,000 | 19,562 | \$169,233 | 3.3% | \$5,546 | \$5,392 | (\$154) | -2.8% | 3.2% | (\$3,020,294) |
| 93.1% | \$180,000 | \$200,000 | 12,874 | \$189,330 | 3.4% | \$6,424 | \$6,193 | (\$231) | -3.6% | 3.3% | (\$2,975,305) |
| 96.2% | \$200,000 | \$250,000 | 16,544 | \$221,197 | 3.6% | \$7,871 | \$7,506 | (\$365) | -4.6% | 3.4% | (\$6,035,525) |
| 97.6% | \$250,000 | \$300,000 | 7,139 | \$272,466 | 3.7% | \$10,174 | \$9,607 | (\$567) | -5.6% | 3.5% | (\$4,048,543) |
| 98.3% | \$300,000 | \$350,000 | 3,908 | \$322,765 | 3.9% | \$12,493 | \$11,720 | (\$772) | -6.2% | 3.6% | (\$3,018,179) |
| 98.8% | \$350,000 | \$400,000 | 2,306 | \$373,022 | 4.0% | \$14,767 | \$13,858 | (\$909) | -6.2% | 3.7% | (\$2,096,190) |
| 99.1% | \$400,000 | \$450,000 | 1,535 | \$422,862 | 4.0% | \$16,900 | \$16,017 | (\$883) | -5.2% | 3.8% | (\$1,355,402) |
| 99.2% | \$450,000 | \$500,000 | 1,006 | \$473,384 | 4.0% | \$18,879 | \$18,091 | (\$788) | -4.2% | 3.8% | (\$793,019) |
| 99.5% | \$500,000 | \$600,000 | 1,283 | \$545,962 | 4.0% | \$21,827 | \$21,106 | (\$720) | -3.3% | 3.9% | (\$924,050) |
| 99.6% | \$600,000 | \$700,000 | 748 | \$644,617 | 4.0% | \$25,773 | \$25,247 | (\$526) | -2.0% | 3.9% | (\$393,654) |
| 99.7% | \$700,000 | \$800,000 | 486 | \$745,657 | 4.0% | \$29,963 | \$29,613 | (\$350) | -1.2% | 4.0% | (\$170,148) |
| 99.8% | \$800,000 | \$900,000 | 291 | \$848,611 | 4.0% | \$33,986 | \$33,781 | (\$206) | -0.6% | 4.0% | (\$59,838) |
| 99.8% | \$900,000 | \$1,000,000 | 211 | \$947,533 | 4.0% | \$37,904 | \$37,885 | (\$19) | 0.0% | 4.0% | (\$3,963) |
| 100.0% | \$1,000,000 plus | | 955 | \$1,945,145 | 3.9% | \$76,347 | \$77,394 | \$1,047 | 1.4% | 4.0% | \$999,451 |
| | | | 526,401 | | | | | | | | (\$41,862,684) |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|-------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT NON-ITEMIZER FILERS ONLY HEAD OF HOUSEHOLD FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 1.6% | \$0 | \$5,000 | 5,734 | \$3,056 | 0.0% | \$0 | \$0 | \$0 | 0.0% | 0.0% | \$0 |
| 6.2% | \$5,000 | \$10,000 | 17,223 | \$7,899 | 0.0% | \$0 | \$0 | \$0 | 0.0% | 0.0% | \$0 |
| 20.4% | \$10,000 | \$15,000 | 52,526 | \$12,633 | 0.4% | \$53 | \$48 | (\$5) | -9.0% | 0.4% | (\$249,327) |
| 35.8% | \$15,000 | \$20,000 | 56,780 | \$17,467 | 1.3% | \$221 | \$196 | (\$25) | -11.4% | 1.1% | (\$1,435,330) |
| 48.5% | \$20,000 | \$25,000 | 47,069 | \$22,420 | 1.9% | \$415 | \$366 | (\$49) | -11.8% | 1.6% | (\$2,304,968) |
| 59.1% | \$25,000 | \$30,000 | 39,187 | \$27,427 | 2.2% | \$606 | \$536 | (\$71) | -11.7% | 2.0% | (\$2,771,287) |
| 74.2% | \$30,000 | \$40,000 | 55,679 | \$34,558 | 2.5% | \$869 | \$772 | (\$97) | -11.1% | 2.2% | (\$5,392,969) |
| 83.2% | \$40,000 | \$50,000 | 33,307 | \$44,590 | 2.7% | \$1,225 | \$1,105 | (\$120) | -9.8% | 2.5% | (\$4,004,432) |
| 88.8% | \$50,000 | \$60,000 | 20,769 | \$54,633 | 3.0% | \$1,613 | \$1,475 | (\$138) | -8.6% | 2.7% | (\$2,874,148) |
| 92.6% | \$60,000 | \$70,000 | 13,826 | \$64,634 | 3.3% | \$2,104 | \$1,885 | (\$219) | -10.4% | 2.9% | (\$3,032,320) |
| 95.0% | \$70,000 | \$80,000 | 8,983 | \$74,517 | 3.5% | \$2,576 | \$2,280 | (\$296) | -11.5% | 3.1% | (\$2,657,822) |
| 96.5% | \$80,000 | \$90,000 | 5,739 | \$84,630 | 3.6% | \$3,028 | \$2,692 | (\$336) | -11.1% | 3.2% | (\$1,926,478) |
| 97.6% | \$90,000 | \$100,000 | 3,768 | \$94,604 | 3.7% | \$3,471 | \$3,100 | (\$371) | -10.7% | 3.3% | (\$1,399,033) |
| 98.7% | \$100,000 | \$120,000 | 4,271 | \$108,763 | 3.8% | \$4,107 | \$3,685 | (\$422) | -10.3% | 3.4% | (\$1,803,159) |
| 99.3% | \$120,000 | \$140,000 | 2,128 | \$128,859 | 3.9% | \$5,050 | \$4,552 | (\$498) | -9.9% | 3.5% | (\$1,060,301) |
| 99.6% | \$140,000 | \$160,000 | 1,081 | \$148,578 | 4.0% | \$5,887 | \$5,348 | (\$539) | -9.2% | 3.6% | (\$583,031) |
| 99.7% | \$160,000 | \$180,000 | 523 | \$169,127 | 4.0% | \$6,841 | \$6,216 | (\$625) | -9.1% | 3.7% | (\$326,812) |
| 99.8% | \$180,000 | \$200,000 | 292 | \$188,687 | 4.0% | \$7,532 | \$6,907 | (\$625) | -8.3% | 3.7% | (\$182,635) |
| 99.9% | \$200,000 | \$250,000 | 320 | \$219,791 | 4.0% | \$8,887 | \$8,296 | (\$591) | -6.7% | 3.8% | (\$189,205) |
| 99.9% | \$250,000 | \$300,000 | 134 | \$270,874 | 4.0% | \$10,870 | \$10,371 | (\$499) | -4.6% | 3.8% | (\$66,872) |
| 99.9% | \$300,000 | \$350,000 | 82 | \$324,708 | 4.0% | \$12,899 | \$12,656 | (\$243) | -1.9% | 3.9% | (\$19,915) |
| 100.0% | \$350,000 | \$400,000 | 34 | \$369,558 | 4.1% | \$15,026 | \$14,717 | (\$310) | -2.1% | 4.0% | (\$10,527) |
| 100.0% | \$400,000 | \$450,000 | 38 | \$418,210 | 4.0% | \$16,540 | \$16,325 | (\$214) | -1.3% | 3.9% | (\$8,144) |
| 100.0% | \$450,000 | \$500,000 | 31 | \$470,675 | 4.2% | \$19,601 | \$19,169 | (\$431) | -2.2% | 4.1% | (\$13,373) |
| 100.0% | \$500,000 | \$600,000 | 20 | \$550,459 | 4.1% | \$22,767 | \$22,560 | (\$207) | -0.9% | 4.1% | (\$4,138) |
| 100.0% | \$600,000 | \$700,000 | 16 | \$649,465 | 4.0% | \$26,034 | \$26,254 | \$220 | 0.8% | 4.0% | \$3,523 |
| 100.0% | \$700,000 | \$800,000 | 9 | \$729,502 | 4.1% | \$29,693 | \$30,261 | \$568 | 1.9% | 4.1% | \$5,112 |
| 100.0% | \$800,000 | \$900,000 | 10 | \$845,784 | 4.1% | \$35,007 | \$35,125 | \$117 | 0.3% | 4.2% | \$1,171 |
| 100.0% | \$900,000 | \$1,000,000 | 4 | \$932,802 | 3.9% | \$36,714 | \$35,887 | (\$826) | -2.3% | 3.8% | (\$3,305) |
| 100.0% | \$1,000,000 plus | | 34 | \$3,739,907 | 4.1% | \$154,082 | \$156,078 | \$1,995 | 1.3% | 4.2% | \$67,839 |
| | | | 369,617 | | | | | | | | (\$32,241,887) |

Current Law Scenario (Single / Joint)

| | |
|--------------------------------------------|----|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% |
| \$50,000 + / \$100,000 + | 6% |

100% Federal Income Tax Deduction
100% Excess Federal Itemized Deduction
\$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions

Rates

Proposed Law Scenario (Single/Joint)

| | |
|--------------------------------------------|-------|
| \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 4.25% |

0% Federal Income Tax Deduction
0% Excess Federal Itemized Deduction
\$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Appendix C: Itemizer Tax filers

The tables below summarize the estimated effects of the individual income tax proposal on average itemizer tax filers in various federal adjusted gross income cohorts. The first table summarizes all filers combined. The subsequent three tables summarize the results for three filing status sub-groups: single and married filing separate filers, joint and qualifying widower filers, and head of household filers. The peculiarities of actual tax returns become more evident in the filer sub-groups.

| DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT ITEMIZER FILERS ONLY ALL RESIDENT FILING STATUS' COMBINED* TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS | | | | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|-------------------------|--------------------------|--|
| Cumu. Return % | Federal Gross Income | Adjusted Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Inc Tax Rate | Aggregate Inc Tax Change | |
| 0.3% | \$0 | \$5,000 | 383 | \$2,378 | 0.7% | \$17 | \$22 | \$4 | 25.3% | 0.9% | \$1,689 | |
| 0.8% | \$5,000 | \$10,000 | 579 | \$7,823 | 0.2% | \$12 | \$35 | \$23 | 188.7% | 0.4% | \$13,294 | |
| 1.5% | \$10,000 | \$15,000 | 940 | \$12,768 | 0.6% | \$72 | \$152 | \$80 | 111.5% | 1.2% | \$75,424 | |
| 2.8% | \$15,000 | \$20,000 | 1,537 | \$17,620 | 0.5% | \$89 | \$225 | \$136 | 153.4% | 1.3% | \$209,149 | |
| 4.3% | \$20,000 | \$25,000 | 1,975 | \$22,560 | 0.8% | \$177 | \$407 | \$229 | 129.5% | 1.8% | \$453,047 | |
| 6.3% | \$25,000 | \$30,000 | 2,416 | \$27,580 | 1.0% | \$288 | \$539 | \$252 | 87.3% | 2.0% | \$607,686 | |
| 11.3% | \$30,000 | \$40,000 | 6,237 | \$35,138 | 1.4% | \$475 | \$789 | \$314 | 66.1% | 2.2% | \$1,958,310 | |
| 17.1% | \$40,000 | \$50,000 | 7,255 | \$45,045 | 1.7% | \$764 | \$1,137 | \$373 | 48.9% | 2.5% | \$2,706,510 | |
| 23.1% | \$50,000 | \$60,000 | 7,570 | \$55,033 | 1.9% | \$1,051 | \$1,457 | \$406 | 38.6% | 2.6% | \$3,073,698 | |
| 29.0% | \$60,000 | \$70,000 | 7,378 | \$64,926 | 2.1% | \$1,354 | \$1,799 | \$445 | 32.9% | 2.8% | \$3,282,822 | |
| 34.6% | \$70,000 | \$80,000 | 7,003 | \$74,894 | 2.3% | \$1,703 | \$2,143 | \$440 | 25.8% | 2.9% | \$3,081,921 | |
| 39.7% | \$80,000 | \$90,000 | 6,306 | \$84,887 | 2.5% | \$2,124 | \$2,526 | \$402 | 19.0% | 3.0% | \$2,537,736 | |
| 44.3% | \$90,000 | \$100,000 | 5,791 | \$94,917 | 2.6% | \$2,423 | \$2,855 | \$432 | 17.8% | 3.0% | \$2,504,061 | |
| 52.5% | \$100,000 | \$120,000 | 10,261 | \$109,704 | 2.7% | \$2,995 | \$3,382 | \$387 | 12.9% | 3.1% | \$3,969,939 | |
| 59.5% | \$120,000 | \$140,000 | 8,717 | \$129,856 | 2.9% | \$3,770 | \$4,145 | \$375 | 10.0% | 3.2% | \$3,271,209 | |
| 65.4% | \$140,000 | \$160,000 | 7,322 | \$149,771 | 3.1% | \$4,569 | \$4,949 | \$380 | 8.3% | 3.3% | \$2,778,755 | |
| 70.4% | \$160,000 | \$180,000 | 6,248 | \$169,653 | 3.2% | \$5,386 | \$5,695 | \$308 | 5.7% | 3.4% | \$1,927,071 | |
| 74.5% | \$180,000 | \$200,000 | 5,066 | \$189,712 | 3.3% | \$6,266 | \$6,503 | \$237 | 3.8% | 3.4% | \$1,199,908 | |
| 81.6% | \$200,000 | \$250,000 | 8,918 | \$222,598 | 3.4% | \$7,595 | \$7,841 | \$246 | 3.2% | 3.5% | \$2,197,244 | |
| 86.0% | \$250,000 | \$300,000 | 5,477 | \$273,476 | 3.6% | \$9,750 | \$9,961 | \$211 | 2.2% | 3.6% | \$1,155,505 | |
| 88.8% | \$300,000 | \$350,000 | 3,494 | \$323,552 | 3.7% | \$11,871 | \$12,025 | \$154 | 1.3% | 3.7% | \$537,920 | |
| 90.8% | \$350,000 | \$400,000 | 2,586 | \$373,473 | 3.7% | \$13,961 | \$14,177 | \$216 | 1.5% | 3.8% | \$558,428 | |
| 92.4% | \$400,000 | \$450,000 | 1,925 | \$423,835 | 3.8% | \$16,003 | \$16,339 | \$336 | 2.1% | 3.9% | \$646,164 | |
| 93.5% | \$450,000 | \$500,000 | 1,418 | \$473,589 | 3.8% | \$17,879 | \$18,416 | \$537 | 3.0% | 3.9% | \$760,864 | |
| 95.2% | \$500,000 | \$600,000 | 2,100 | \$545,976 | 3.8% | \$20,603 | \$21,507 | \$904 | 4.4% | 3.9% | \$1,899,200 | |
| 96.3% | \$600,000 | \$700,000 | 1,376 | \$646,371 | 3.8% | \$24,557 | \$25,785 | \$1,228 | 5.0% | 4.0% | \$1,689,722 | |
| 97.1% | \$700,000 | \$800,000 | 949 | \$747,551 | 3.7% | \$28,007 | \$29,941 | \$1,934 | 6.9% | 4.0% | \$1,835,009 | |
| 97.6% | \$800,000 | \$900,000 | 698 | \$847,267 | 3.7% | \$31,762 | \$34,055 | \$2,293 | 7.2% | 4.0% | \$1,600,363 | |
| 98.0% | \$900,000 | \$1,000,000 | 480 | \$948,342 | 3.8% | \$35,711 | \$38,172 | \$2,462 | 6.9% | 4.0% | \$1,181,540 | |
| 100.0% | \$1,000,000 plus | | 2,488 | \$2,171,301 | 3.7% | \$79,911 | \$87,912 | \$8,001 | 10.0% | 4.0% | \$19,906,450 | |
| | | | 124,893 | | | | | | | | \$67,620,639 | |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|--------------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

* Includes all resident filing status'; single, married filing separately, joint, qualifying surviving spouses, and head-of-household filers.
** Tax table liability is prior to any credits (nonrefundable or refundable) that determine final liability. Final liability incorporates all such tax credits, but credits are largely unique to each taxpayer and not generally applicable or utilized.
1 FAGI stands for federal adjusted gross income; the starting point for the state income tax return.
2 Effective tax rate is tax liability divided by federal adjusted gross income. It reflects the overall tax imposed, inclusive of the actual taxable income base and the marginal tax rate structure.

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT ITEMIZER FILERS ONLY SINGLE / MARRIED SEPARATE FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 0.5% | \$0 | \$5,000 | 290 | \$2,343 | 0.0% | \$0 | \$0 | \$0 | 0.0% | 0.0% | \$19 |
| 1.4% | \$5,000 | \$10,000 | 442 | \$7,686 | 0.1% | \$8 | \$35 | \$27 | 346.4% | 0.5% | \$12,141 |
| 2.8% | \$10,000 | \$15,000 | 735 | \$12,869 | 0.5% | \$64 | \$154 | \$90 | 138.9% | 1.2% | \$65,856 |
| 5.0% | \$15,000 | \$20,000 | 1,217 | \$17,597 | 0.6% | \$98 | \$240 | \$142 | 144.3% | 1.4% | \$172,264 |
| 8.0% | \$20,000 | \$25,000 | 1,570 | \$22,544 | 0.8% | \$189 | \$423 | \$234 | 124.2% | 1.9% | \$367,632 |
| 11.3% | \$25,000 | \$30,000 | 1,780 | \$27,553 | 1.1% | \$294 | \$559 | \$265 | 90.2% | 2.0% | \$472,286 |
| 19.2% | \$30,000 | \$40,000 | 4,173 | \$35,051 | 1.4% | \$483 | \$820 | \$336 | 69.6% | 2.3% | \$1,403,993 |
| 28.0% | \$40,000 | \$50,000 | 4,712 | \$45,030 | 1.7% | \$776 | \$1,176 | \$400 | 51.5% | 2.6% | \$1,883,081 |
| 37.4% | \$50,000 | \$60,000 | 4,996 | \$55,049 | 2.0% | \$1,096 | \$1,514 | \$418 | 38.2% | 2.8% | \$2,089,606 |
| 46.2% | \$60,000 | \$70,000 | 4,699 | \$64,913 | 2.2% | \$1,399 | \$1,869 | \$470 | 33.6% | 2.9% | \$2,210,530 |
| 54.1% | \$70,000 | \$80,000 | 4,194 | \$74,824 | 2.4% | \$1,771 | \$2,242 | \$471 | 26.6% | 3.0% | \$1,975,344 |
| 60.9% | \$80,000 | \$90,000 | 3,589 | \$84,836 | 2.6% | \$2,237 | \$2,694 | \$457 | 20.4% | 3.2% | \$1,639,534 |
| 66.7% | \$90,000 | \$100,000 | 3,114 | \$94,855 | 2.7% | \$2,604 | \$3,087 | \$483 | 18.6% | 3.3% | \$1,504,206 |
| 75.8% | \$100,000 | \$120,000 | 4,864 | \$109,444 | 3.0% | \$3,263 | \$3,724 | \$461 | 14.1% | 3.4% | \$2,243,040 |
| 81.8% | \$120,000 | \$140,000 | 3,201 | \$129,308 | 3.2% | \$4,105 | \$4,513 | \$408 | 9.9% | 3.5% | \$1,306,403 |
| 85.9% | \$140,000 | \$160,000 | 2,158 | \$149,450 | 3.3% | \$4,945 | \$5,335 | \$390 | 7.9% | 3.6% | \$840,578 |
| 88.6% | \$160,000 | \$180,000 | 1,430 | \$169,434 | 3.5% | \$5,868 | \$6,193 | \$325 | 5.5% | 3.7% | \$464,098 |
| 90.5% | \$180,000 | \$200,000 | 1,014 | \$189,517 | 3.5% | \$6,626 | \$6,994 | \$369 | 5.6% | 3.7% | \$373,974 |
| 93.5% | \$200,000 | \$250,000 | 1,606 | \$221,797 | 3.5% | \$7,840 | \$8,345 | \$505 | 6.4% | 3.8% | \$810,377 |
| 95.2% | \$250,000 | \$300,000 | 897 | \$273,760 | 3.6% | \$9,755 | \$10,539 | \$785 | 8.0% | 3.8% | \$703,987 |
| 96.3% | \$300,000 | \$350,000 | 568 | \$323,640 | 3.6% | \$11,632 | \$12,609 | \$977 | 8.4% | 3.9% | \$554,896 |
| 97.0% | \$350,000 | \$400,000 | 406 | \$373,790 | 3.6% | \$13,417 | \$14,710 | \$1,293 | 9.6% | 3.9% | \$524,820 |
| 97.6% | \$400,000 | \$450,000 | 298 | \$424,561 | 3.6% | \$15,354 | \$17,114 | \$1,761 | 11.5% | 4.0% | \$524,685 |
| 98.0% | \$450,000 | \$500,000 | 211 | \$473,724 | 3.7% | \$17,566 | \$18,883 | \$1,317 | 7.5% | 4.0% | \$277,960 |
| 98.5% | \$500,000 | \$600,000 | 272 | \$546,007 | 3.7% | \$20,085 | \$21,964 | \$1,879 | 9.4% | 4.0% | \$511,209 |
| 98.8% | \$600,000 | \$700,000 | 187 | \$648,337 | 3.7% | \$24,015 | \$26,506 | \$2,491 | 10.4% | 4.1% | \$465,741 |
| 99.1% | \$700,000 | \$800,000 | 131 | \$746,777 | 3.7% | \$27,963 | \$30,436 | \$2,473 | 8.8% | 4.1% | \$323,983 |
| 99.2% | \$800,000 | \$900,000 | 79 | \$843,100 | 3.5% | \$29,716 | \$34,195 | \$4,479 | 15.1% | 4.1% | \$353,808 |
| 99.3% | \$900,000 | \$1,000,000 | 58 | \$952,153 | 3.6% | \$33,907 | \$38,785 | \$4,878 | 14.4% | 4.1% | \$282,914 |
| 100.0% | \$1,000,000 plus | | 349 | \$2,180,053 | 3.6% | \$78,531 | \$86,742 | \$8,211 | 10.5% | 4.0% | \$2,865,477 |
| | | | 53,240 | | | | | | | | \$27,224,440 |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|--------------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT ITEMIZER FILERS ONLY JOINT / WIDOWER FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 0.1% | \$0 | \$5,000 | 74 | \$2,439 | 3.7% | \$90 | \$113 | \$23 | 25.0% | 4.6% | \$1,670 |
| 0.3% | \$5,000 | \$10,000 | 102 | \$8,456 | 0.4% | \$35 | \$46 | \$11 | 32.5% | 0.5% | \$1,147 |
| 0.5% | \$10,000 | \$15,000 | 118 | \$12,440 | 1.3% | \$166 | \$221 | \$55 | 33.0% | 1.8% | \$6,469 |
| 0.8% | \$15,000 | \$20,000 | 148 | \$17,603 | 0.2% | \$31 | \$87 | \$57 | 185.1% | 0.5% | \$8,373 |
| 1.1% | \$20,000 | \$25,000 | 179 | \$22,611 | 0.4% | \$81 | \$194 | \$114 | 141.0% | 0.9% | \$20,348 |
| 1.5% | \$25,000 | \$30,000 | 239 | \$27,624 | 0.4% | \$124 | \$273 | \$149 | 120.5% | 1.0% | \$35,677 |
| 2.7% | \$30,000 | \$40,000 | 719 | \$35,282 | 0.7% | \$245 | \$485 | \$240 | 98.0% | 1.4% | \$172,666 |
| 4.3% | \$40,000 | \$50,000 | 879 | \$45,162 | 1.1% | \$495 | \$877 | \$382 | 77.2% | 1.9% | \$335,641 |
| 6.1% | \$50,000 | \$60,000 | 1,085 | \$55,253 | 1.3% | \$704 | \$1,153 | \$449 | 63.7% | 2.1% | \$486,827 |
| 8.4% | \$60,000 | \$70,000 | 1,324 | \$65,019 | 1.5% | \$963 | \$1,400 | \$437 | 45.3% | 2.2% | \$578,260 |
| 11.2% | \$70,000 | \$80,000 | 1,594 | \$75,116 | 1.7% | \$1,263 | \$1,705 | \$443 | 35.1% | 2.3% | \$705,739 |
| 14.1% | \$80,000 | \$90,000 | 1,700 | \$85,068 | 1.9% | \$1,650 | \$2,046 | \$396 | 24.0% | 2.4% | \$673,512 |
| 17.4% | \$90,000 | \$100,000 | 1,889 | \$95,056 | 2.0% | \$1,926 | \$2,338 | \$411 | 21.3% | 2.5% | \$776,784 |
| 24.8% | \$100,000 | \$120,000 | 4,236 | \$110,157 | 2.3% | \$2,524 | \$2,895 | \$371 | 14.7% | 2.6% | \$1,571,794 |
| 32.8% | \$120,000 | \$140,000 | 4,649 | \$130,248 | 2.6% | \$3,390 | \$3,803 | \$414 | 12.2% | 2.9% | \$1,923,825 |
| 40.9% | \$140,000 | \$160,000 | 4,662 | \$149,955 | 2.9% | \$4,286 | \$4,714 | \$429 | 10.0% | 3.1% | \$1,997,750 |
| 48.7% | \$160,000 | \$180,000 | 4,495 | \$169,753 | 3.0% | \$5,165 | \$5,497 | \$333 | 6.4% | 3.2% | \$1,496,186 |
| 55.3% | \$180,000 | \$200,000 | 3,799 | \$189,765 | 3.2% | \$6,106 | \$6,333 | \$228 | 3.7% | 3.3% | \$864,492 |
| 67.3% | \$200,000 | \$250,000 | 6,955 | \$222,844 | 3.4% | \$7,495 | \$7,695 | \$200 | 2.7% | 3.5% | \$1,390,406 |
| 74.9% | \$250,000 | \$300,000 | 4,384 | \$273,476 | 3.6% | \$9,735 | \$9,816 | \$81 | 0.8% | 3.6% | \$356,971 |
| 79.8% | \$300,000 | \$350,000 | 2,808 | \$323,534 | 3.7% | \$11,905 | \$11,875 | (\$29) | -0.2% | 3.7% | (\$82,725) |
| 83.4% | \$350,000 | \$400,000 | 2,098 | \$373,392 | 3.8% | \$14,061 | \$14,043 | (\$18) | -0.1% | 3.8% | (\$37,587) |
| 86.2% | \$400,000 | \$450,000 | 1,578 | \$423,511 | 3.8% | \$16,114 | \$16,162 | \$48 | 0.3% | 3.8% | \$75,750 |
| 88.2% | \$450,000 | \$500,000 | 1,167 | \$473,697 | 3.8% | \$19,115 | \$18,308 | \$393 | 2.2% | 3.9% | \$458,819 |
| 91.3% | \$500,000 | \$600,000 | 1,773 | \$546,062 | 3.8% | \$20,695 | \$21,425 | \$730 | 3.5% | 3.9% | \$1,294,024 |
| 93.3% | \$600,000 | \$700,000 | 1,148 | \$646,116 | 3.8% | \$24,625 | \$25,640 | \$1,016 | 4.1% | 4.0% | \$1,165,848 |
| 94.6% | \$700,000 | \$800,000 | 803 | \$747,517 | 3.7% | \$27,999 | \$29,840 | \$1,842 | 6.6% | 4.0% | \$1,478,752 |
| 95.7% | \$800,000 | \$900,000 | 601 | \$847,914 | 3.8% | \$32,042 | \$34,005 | \$1,963 | 6.1% | 4.0% | \$1,179,815 |
| 96.4% | \$900,000 | \$1,000,000 | 411 | \$947,950 | 3.8% | \$35,910 | \$38,076 | \$2,166 | 6.0% | 4.0% | \$890,406 |
| 100.0% | \$1,000,000 plus | | 2,077 | \$2,169,951 | 3.7% | \$80,040 | \$88,028 | \$7,988 | 10.0% | 4.1% | \$16,590,458 |
| | | | 57,694 | | | | | | | | \$36,418,098 |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|--------------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

DISTRIBUTION OF STATE PERSONAL INCOME TAX LIABILITY RESIDENT ITEMIZER FILERS ONLY HEAD OF HOUSEHOLD FILERS TAX TABLE LIABILITY BASIS** TAX YEAR 2019 TAX RETURNS

| Cumu. Return % | Federal Gross Income | Adjusted Gross Income | Number Returns | Average FAGI ¹ | Curr Effec Tax Rate ² | Curr Law Tax Liability | Prop Law Tax Liability | Income Tax \$ Change | Income Tax % Change | Prop Effec Tax Rate | Aggregate Tax Change |
|----------------|----------------------|-----------------------|----------------|---------------------------|----------------------------------|------------------------|------------------------|----------------------|---------------------|---------------------|----------------------|
| 0.1% | \$0 | \$5,000 | 19 | \$2,680 | 0.0% | \$0 | \$0 | \$0 | 0.0% | 0.0% | \$0 |
| 0.4% | \$5,000 | \$10,000 | 35 | \$7,714 | 0.0% | \$0 | \$0 | \$0 | 76.8% | 0.0% | \$6 |
| 1.0% | \$10,000 | \$15,000 | 87 | \$12,367 | 0.1% | \$8 | \$43 | \$36 | 463.9% | 0.4% | \$3,099 |
| 2.2% | \$15,000 | \$20,000 | 172 | \$17,796 | 0.4% | \$72 | \$238 | \$166 | 230.0% | 1.3% | \$28,512 |
| 3.9% | \$20,000 | \$25,000 | 226 | \$22,633 | 0.8% | \$174 | \$462 | \$288 | 165.3% | 2.0% | \$65,067 |
| 6.7% | \$25,000 | \$30,000 | 397 | \$27,676 | 1.3% | \$359 | \$610 | \$251 | 70.0% | 2.2% | \$99,724 |
| 16.3% | \$30,000 | \$40,000 | 1,345 | \$35,334 | 1.6% | \$571 | \$855 | \$284 | 49.7% | 2.4% | \$381,651 |
| 28.3% | \$40,000 | \$50,000 | 1,664 | \$45,024 | 1.9% | \$869 | \$1,162 | \$293 | 33.7% | 2.6% | \$487,787 |
| 38.9% | \$50,000 | \$60,000 | 1,489 | \$54,817 | 2.1% | \$1,153 | \$1,487 | \$334 | 29.0% | 2.7% | \$497,264 |
| 48.6% | \$60,000 | \$70,000 | 1,355 | \$64,878 | 2.4% | \$1,580 | \$1,945 | \$365 | 23.1% | 3.0% | \$494,032 |
| 57.3% | \$70,000 | \$80,000 | 1,215 | \$74,847 | 2.7% | \$2,048 | \$2,378 | \$330 | 16.1% | 3.2% | \$400,839 |
| 64.6% | \$80,000 | \$90,000 | 1,017 | \$84,764 | 3.0% | \$2,514 | \$2,735 | \$221 | 8.8% | 3.2% | \$224,690 |
| 70.3% | \$90,000 | \$100,000 | 788 | \$94,829 | 3.1% | \$2,901 | \$3,184 | \$283 | 9.8% | 3.4% | \$223,071 |
| 78.6% | \$100,000 | \$120,000 | 1,161 | \$109,134 | 3.3% | \$3,591 | \$3,725 | \$134 | 3.7% | 3.4% | \$155,105 |
| 84.8% | \$120,000 | \$140,000 | 867 | \$129,777 | 3.5% | \$4,572 | \$4,620 | \$47 | 1.0% | 3.6% | \$40,981 |
| 88.4% | \$140,000 | \$160,000 | 502 | \$149,438 | 3.7% | \$5,589 | \$5,470 | (\$119) | -2.1% | 3.7% | (\$59,573) |
| 90.7% | \$160,000 | \$180,000 | 323 | \$169,227 | 3.7% | \$6,341 | \$6,238 | (\$103) | -1.6% | 3.7% | (\$33,213) |
| 92.5% | \$180,000 | \$200,000 | 253 | \$189,701 | 3.8% | \$7,243 | \$7,090 | (\$152) | -2.1% | 3.7% | (\$38,558) |
| 95.1% | \$200,000 | \$250,000 | 357 | \$221,413 | 3.8% | \$8,440 | \$8,430 | (\$10) | -0.1% | 3.8% | (\$3,538) |
| 96.5% | \$250,000 | \$300,000 | 196 | \$272,160 | 3.7% | \$10,088 | \$10,570 | \$482 | 4.8% | 3.9% | \$94,546 |
| 97.3% | \$300,000 | \$350,000 | 118 | \$323,549 | 3.8% | \$12,226 | \$12,783 | \$557 | 4.6% | 4.0% | \$65,750 |
| 97.9% | \$350,000 | \$400,000 | 82 | \$373,958 | 3.8% | \$14,096 | \$14,964 | \$868 | 6.2% | 4.0% | \$71,195 |
| 98.3% | \$400,000 | \$450,000 | 49 | \$429,863 | 3.8% | \$16,387 | \$17,320 | \$933 | 5.7% | 4.0% | \$45,729 |
| 98.6% | \$450,000 | \$500,000 | 40 | \$469,718 | 3.9% | \$18,493 | \$19,095 | \$602 | 3.3% | 4.1% | \$24,086 |
| 98.9% | \$500,000 | \$600,000 | 55 | \$543,062 | 3.7% | \$20,193 | \$21,902 | \$1,708 | 8.5% | 4.0% | \$93,967 |
| 99.2% | \$600,000 | \$700,000 | 41 | \$644,521 | 3.9% | \$25,130 | \$26,548 | \$1,418 | 5.6% | 4.1% | \$58,134 |
| 99.3% | \$700,000 | \$800,000 | 15 | \$756,134 | 3.8% | \$28,868 | \$31,020 | \$2,152 | 7.5% | 4.1% | \$32,274 |
| 99.5% | \$800,000 | \$900,000 | 18 | \$843,955 | 3.7% | \$31,384 | \$35,092 | \$3,708 | 11.8% | 4.2% | \$66,740 |
| 99.6% | \$900,000 | \$1,000,000 | 11 | \$942,900 | 4.0% | \$37,770 | \$38,517 | \$747 | 2.0% | 4.1% | \$8,219 |
| 100.0% | \$1,000,000 plus | | 62 | \$2,167,288 | 3.8% | \$83,354 | \$90,620 | \$7,266 | 8.7% | 4.2% | \$450,515 |
| | | | 13,959 | | | | | | | | \$3,978,101 |

| Current Law Scenario (Single / Joint) | Rates | Proposed Law Scenario (Single/Joint) | Rates |
|-------------------------------------------------------------|-------|-------------------------------------------------------------|-------|
| \$0 - \$12,500 / \$0 - \$25,000 | 2% | \$0 - \$12,500 / \$0 - \$25,000 | 1.85% |
| \$12,500 - \$50,000 / \$50,000 - \$100,000 | 4% | \$12,500 - \$50,000 / \$50,000 - \$100,000 | 3.50% |
| \$50,000 + / \$100,000 + | 6% | \$50,000 + / \$100,000 + | 4.25% |
| 100% Federal Income Tax Deduction | | 0% Federal Income Tax Deduction | |
| 100% Excess Federal Itemized Deduction | | 0% Excess Federal Itemized Deduction | |
| \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | | \$4,500 / \$9,000 / \$1,000 Standard & Dependent Deductions | |

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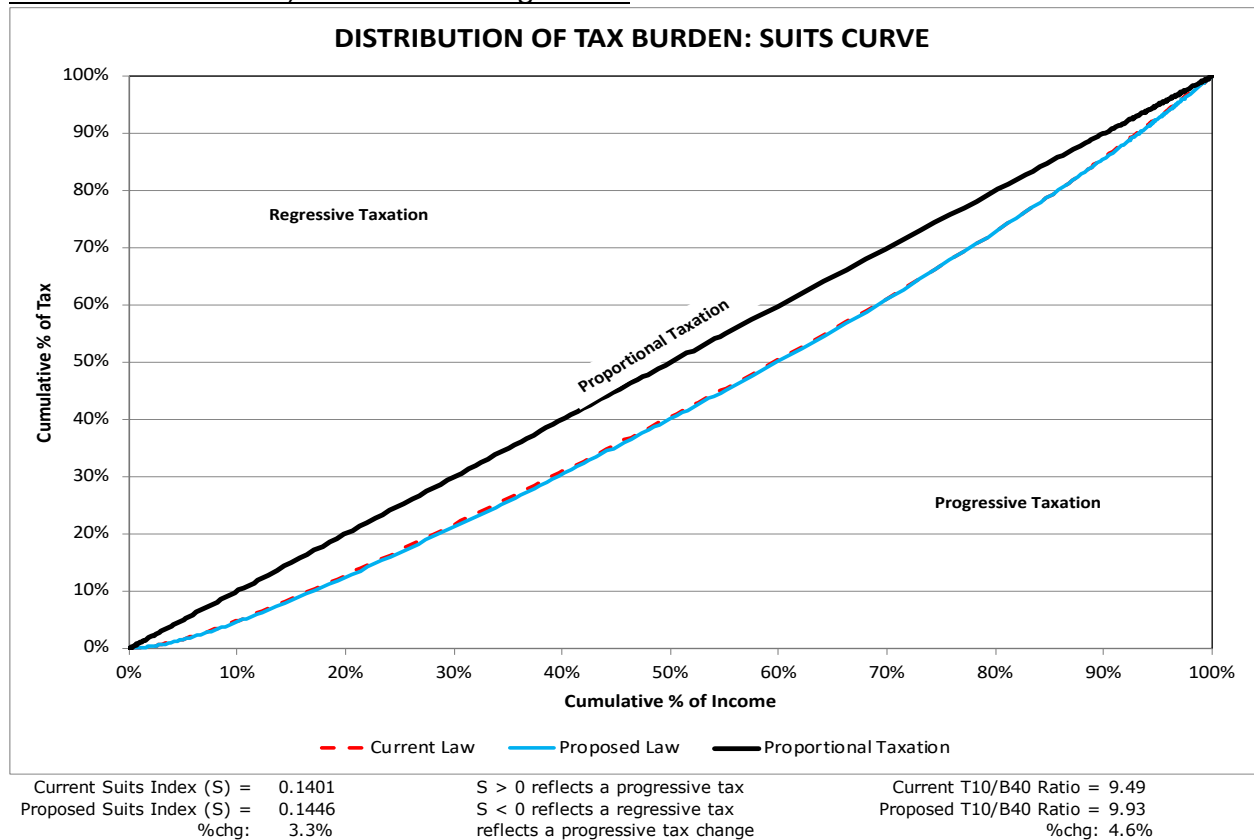
Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Appendix D: Progressiveness of the Individual Income Tax

Under current law, the state’s individual income tax exhibits only modest progressiveness⁴⁰, as a result of the three-rate and wide-bracket structure, as well as deductions for federal income taxes paid and excess federal itemized deductions. The three-rate and wide-bracket structure is retained in the proposed change; albeit, at lower marginal rate levels, while the two major deductions are largely eliminated. Thus, it may be of interest to examine the effect of the proposed changes on the progressiveness of the tax. This section attempts this examination with the use of two metrics that reflect the distribution of the tax liability across income cohorts, under the current law and the proposed law.

The graphic below, for non-itemizer returns, is based on the incremental total amount and percent share of federal adjusted gross income (FAGI) and tax liability for each income cohort as a group, as well as the accumulation of these incremental amounts and shares through the income cohorts, for the summary tables above that incorporate all filing status. These cumulative values are the basis of the metric and graphic below that summarizes the distribution of tax burden across income cohorts, known as the Suits index and a curve labeled here as the Suits Curve.

Non-itemizer Returns, All Resident Filing Status⁴



⁴⁰ An examination of the progressiveness of the state individual income tax under the current tax law can be found at http://lfo.louisiana.gov/files/revenue/PIT_SAL_DIST_2019.pdf. The distribution of the state general sales tax is also included in that report.

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Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

The graph above depicts the cumulative percentage of tax liability associated with the cumulative percentage of FAGI, from the lowest FAGI to the highest FAGI, for both the current law case and the proposed law case. Along the diagonal line, each cumulative percentage of tax is associated with the identical cumulative percentage of FAGI. For example, the bottom 10% of income pays 10% of the tax, the bottom 20% pays 20%, the bottom 30% pays 30% and so on, and the diagonal represents a distribution of tax burden that would be proportional to income. The actual personal income tax data plots out the current law and proposed law lines of observed tax burden distribution. A progressive tax distribution plots a line below the diagonal where, for example, the bottom 10% of income pays less than 10% of the tax, the bottom 20% pays less than 20%, the bottom 30% pays less than 30% and so on. As depicted above, both the current law and proposed law cases reflect a modestly progressive income tax.

The Suits⁴¹ index is a metric that summarizes the entire distribution of tax burden depicted in the graph above. The current law Suits Index (S) = 0.1401 (14.01%) and the proposed law index is (S) = 0.1446 (14.46%), and are the shares of area of the bottom-right triangle that lie between the diagonal and the respective observed lines of cumulative tax burden. The farther the observed line lies into the bottom-right triangle the more progressive the tax, and the larger positive the Suits Index measure of the degree of progressivity.⁴²

While the proposed law does make the tax more progressive overall for non-itemizer filers, as reflected in the proposed law Suits Index value being greater than the current law value, the notable aspect of the proposed law changes is the very modest degree of greater progressiveness resulting from the proposed law. The Suits Index value is only increased by 3.3%, and the two Suits Curves in the graphic are practically indistinguishable visually.

A supplement to the Suits Index, is a metric that this report will refer to as the Palma-Suits Ratio⁴³, the ratio of the tax liability share of the top 10% of filers to that of the bottom 40% of filers. Whereas the Suits index reflects the entire distribution of the tax liability and is sensitive to the middle of the distribution, the Palma-Suits Ratio reflects the top and bottom ends of the distribution and ignores the middle. In a progressive tax system, it reflects the positive multiple of liability of the top 10% of filers relative to bottom 40% of filers. With respect to non-itemizer filers, the current law Palma-Suits Ratio = 9.49, indicating that the top 10% of filers have an aggregate income tax liability that is just under nine and a half times the aggregate liability of the bottom 40% of filers.

⁴¹ The Suits Index is credited to American economist Daniel B. Suits, who applied the common summary metric and graphic depiction of income distribution of the Gini coefficient and Lorenz Curve to the analysis of tax burden distributions.

⁴² The index is defined as 1 minus the ratio of the area below the observed line to the area of the entire bottom-right triangle of the graph. The more progressive the tax burden, the smaller that ratio becomes (the larger the area between the diagonal and the observed line), and the closer the index value gets to $S = 1$. At a value of $S = 1$, the area below the observed line is zero (the entire bottom-right triangle is within the area of progressivity), making the observed line the equivalent of the right-angle segments of the bottom-right triangle of the graph, and the single highest income filer is paying the entire income tax. An observed distribution of tax burden that lies along the diagonal would have an index value of $S = 0$; the area below the observed line equals the area of the bottom-right triangle, with no area of progressive taxation beneath the diagonal, and the tax burden would be perfectly proportional to income.

⁴³ Similar to Suits index being an application of the Gini coefficient from income distribution analysis to the analysis of tax liability distribution, the Palma-Suits Ratio of this report is an application of the Palma Ratio, also from income distribution analysis, to the analysis of tax liability distribution. The Palma Ratio (top 10% / bottom 40%: T10/B40) is named for the Chilean economist Jose Gabriel Palma, and has been popularized in income distribution analysis by the British economists Alex Cobham and Andy Sumner.

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Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

As with the Suits Index, the Palma-Suits Ratio results indicate that the proposed law does make the tax more progressive for non-itemizer filers, as reflected in the proposed law Palma-Suits Ratio of 9.93 being greater than the current law value. The ratio change also indicates that the increase in progressiveness is modest, with only a 4.6% increase in the ratio value.

The modest amount of increased progressiveness may be counter-intuitive given the elimination of the deduction for federal income taxes, since the federal income tax is much more progressive than the state tax, and rises continually as incomes rise in the state individual income tax system. However, the elimination of the deduction is combined with marginal tax rate reductions that are proportionately larger for the higher rates; a 29.2% reduction for the top rate, a 12.5% reduction for the middle rate, and 7.5% reduction for the bottom rate.⁴⁴

The Suits Index values and Palma-Suits Ratio values discussed above are for the summary group of average filers that combines all filing status groups. The values for each of the separate filing status groups are included below. The Palma-Suits Ratio changes for all three separate filing status groups are modestly positive, indicating small increases in progressiveness, as are the Suits Index value changes for two of the three separate groups and the combined group. As is possible with actual tax return data, one of the filing status groups, tax filers filing joint or as qualifying widowers, actually exhibit a negative change in the Suits Index and very small positive change in the Palma-Suits Ratio. For this group overall, the proposed tax change is essentially neutral with respect to progressiveness; meaning the distribution of the tax burden across incomes for this group is largely unchanged by proposed law.

NON-ITEMIZER RETURNS

| <u>Suits Index Summary</u> | | | <u>Palma-Suits Ratio (T10 / B40) Summary</u> | | |
|----------------------------|--------|--------------------|----------------------------------------------|------|--------------------|
| Current Suits Index (S) = | 0.1485 | Single/MFS | Current T10/B40 Ratio = | 8.37 | Single/MFS |
| Current Suits Index (S) = | 0.1446 | Joint/QW | Current T10/B40 Ratio = | 4.39 | Joint/QW |
| Current Suits Index (S) = | 0.2046 | HH | Current T10/B40 Ratio = | 6.35 | HH |
| Current Suits Index (S) = | | | Current T10/B40 Ratio = | | |
| 0.1401 | | All Filing Status' | 9.49 | | All Filing Status' |
| Proposed Suits Index (S) = | | | Proposed T10/B40 Ratio = | | |
| 0.1535 | | Single/MFS | 8.83 | | Single/MFS |
| Proposed Suits Index (S) = | 0.1443 | Joint/QW | Proposed T10/B40 Ratio = | 4.42 | Joint/QW |
| Proposed Suits Index (S) = | 0.2103 | HH | Proposed T10/B40 Ratio = | 6.46 | HH |
| Proposed Suits Index (S) = | | | Proposed T10/B40 Ratio = | | |
| 0.1446 | | All Filing Status' | 9.93 | | All Filing Status' |
| % Change: | | | % Change: | | |
| 3.4% | | Single/MFS | 5.5% | | Single/MFS |
| -0.2% | | Joint/QW | 0.7% | | Joint/QW |
| 2.8% | | HH | 1.7% | | HH |
| 3.3% | | | 4.6% | | |
| | | All Filing Status' | | | All Filing Status' |

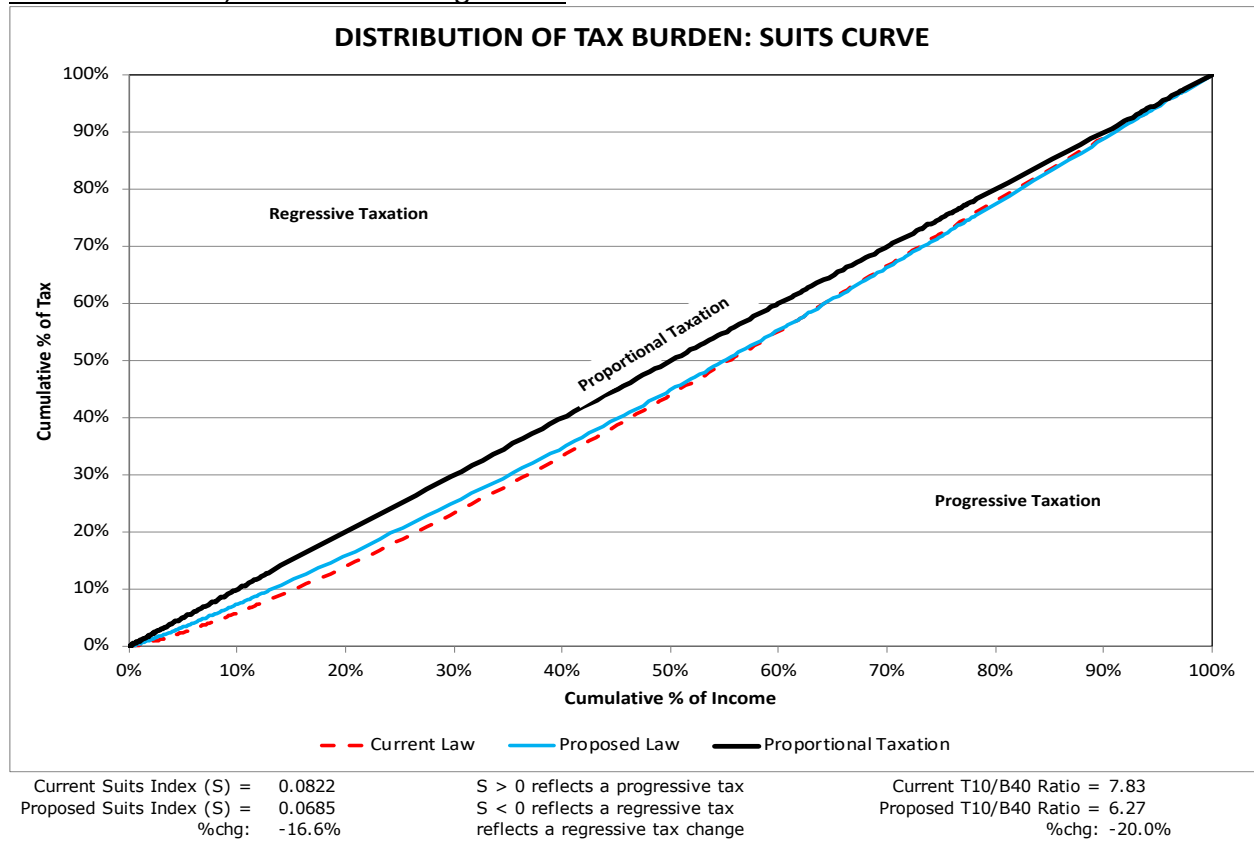
Positive changes reflect progressive changes to the Suits Index and/or the Palma T10/B40 Ratio.
 Negative changes reflect regressive changes to the Suits Index and/or the Palma T10/B40 Ratio.

⁴⁴ If only the deduction for federal income taxes paid were eliminated, with no marginal tax rate reductions, for non-itemizers the Suits Index would increase by 28.7%, and the Palma-Suits Ratio would increase by 21.7%.

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Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Itemizer Returns, All Resident Filing Status'



The summary graph and table above, for itemizer returns, are the same concepts as discussed for non-itemizers, but depict distinctly different results than for non-itemizers. The proposed law actually makes the tax less progressive for itemizers as a group, as reflected in the reduction of both the Suits Index and Palma-Suits Ratio for that group of filers. Also notable is the degree of decline of progressiveness, with the Suits Index declining by 16.6% and the Palma-Suits Ratio declining by 20%; both declines being significantly larger in absolute terms than the increase in progressiveness exhibited by the non-itemizer group. This result occurs because this group loses both the deduction for federal taxes paid as well as the deduction for excess federal itemized deductions, with excess itemized deductions more significant for itemizers reporting lower incomes than is the federal income tax. In general, itemizers reporting lower incomes experience significantly larger percentage increases in their state income tax base from the loss of the deduction for excess federal itemized deductions, than they do from the loss of the deduction for federal taxes paid⁴⁵.

The Suits Index values and Palma-Suits Ratio values discussed above are for the summary group of average filers that combines all filing status groups. The values for each of the separate filing

⁴⁵ While federal income tax is much more progressive than the state income tax, levying much higher marginal tax rates, that progressiveness is not very evident until fairly high income levels.

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Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

status groups are included below. The Palma-Suits Ratio changes for all three separate filing status groups are negative, indicating decreases in progressiveness; significantly for the single & married filing separate group and the head-of-household group, and materially less so for the joint & widower group. The Suits Index value changes are also significantly negative for the single & married filing separate and the head-of-household groups, but actually modestly positive for the joint & widower group. For just over half of the itemizers, the proposed tax change is significantly less progressive than under current law, and for just under half of the itemizers the proposed tax change is modestly more progressive in the middle of the income spectrum (Suits Index result) and modestly less progressive at the top and bottom of the income spectrum (Palma-Suits Ratio result).

ITEMIZER RETURNS

| <u>Suits Index Summary</u> | | | <u>Palma-Suits Ratio (T10 / B40) Summary</u> | | |
|----------------------------|--------|--------------------|----------------------------------------------|--------|--------------------|
| Current Suits Index (S) = | 0.1211 | Single/MFS | Current T10/B40 Ratio = | 6.74 | Single/MFS |
| Current Suits Index (S) = | 0.0629 | Joint/QW | Current T10/B40 Ratio = | 5.14 | Joint/QW |
| Current Suits Index (S) = | 0.1209 | HH | Current T10/B40 Ratio = | 5.00 | HH |
| Current Suits Index (S) = | 0.0822 | All Filing Status' | Current T10/B40 Ratio = | 7.83 | All Filing Status' |
| Proposed Suits Index (S) = | 0.0806 | Single/MFS | Proposed T10/B40 Ratio = | 4.86 | Single/MFS |
| Proposed Suits Index (S) = | 0.0655 | Joint/QW | Proposed T10/B40 Ratio = | 4.76 | Joint/QW |
| Proposed Suits Index (S) = | 0.0859 | HH | Proposed T10/B40 Ratio = | 3.79 | HH |
| Proposed Suits Index (S) = | 0.0685 | All Filing Status' | Proposed T10/B40 Ratio = | 6.27 | All Filing Status' |
| % Change: | -33.4% | Single/MFS | % Change: | -27.9% | Single/MFS |
| | 4.1% | Joint/QW | | -7.4% | Joint/QW |
| | -29.0% | HH | | -24.2% | HH |
| | -16.6% | All Filing Status' | | -20.0% | All Filing Status' |

Positive changes reflect progressive changes to the Suits Index and/or the Palma T10/B40 Ratio.
 Negative changes reflect regressive changes to the Suits Index and/or the Palma T10/B40 Ratio.

While elimination of the deduction for excess federal itemized deductions expands the state income tax base of itemizers more than non-itemizers, regardless of the peculiarities of actual taxpayer circumstances, the federal tax law changes effective in 2018 dramatically reduced the number of itemizers⁴⁶. Tax filers that itemize under the current federal law may be those more likely to have tax circumstances that generate counter-intuitive results when comparing the current state tax law structure to the proposed state law structure.

⁴⁶ The federal Tax Cuts and Jobs Act of 2017 (TCJA) was first effective for personal income taxes with the 2018 tax year, and reduced the number of resident filer itemizer returns by some 72%, from 444,065 to 126,412. The state deduction for resident filer excess federal itemized deductions was reduced by some 69%, between 2017 and 2019. In contrast, the deduction for resident filer federal income taxes paid declined by only about 13% between 2017 returns and 2019 returns.

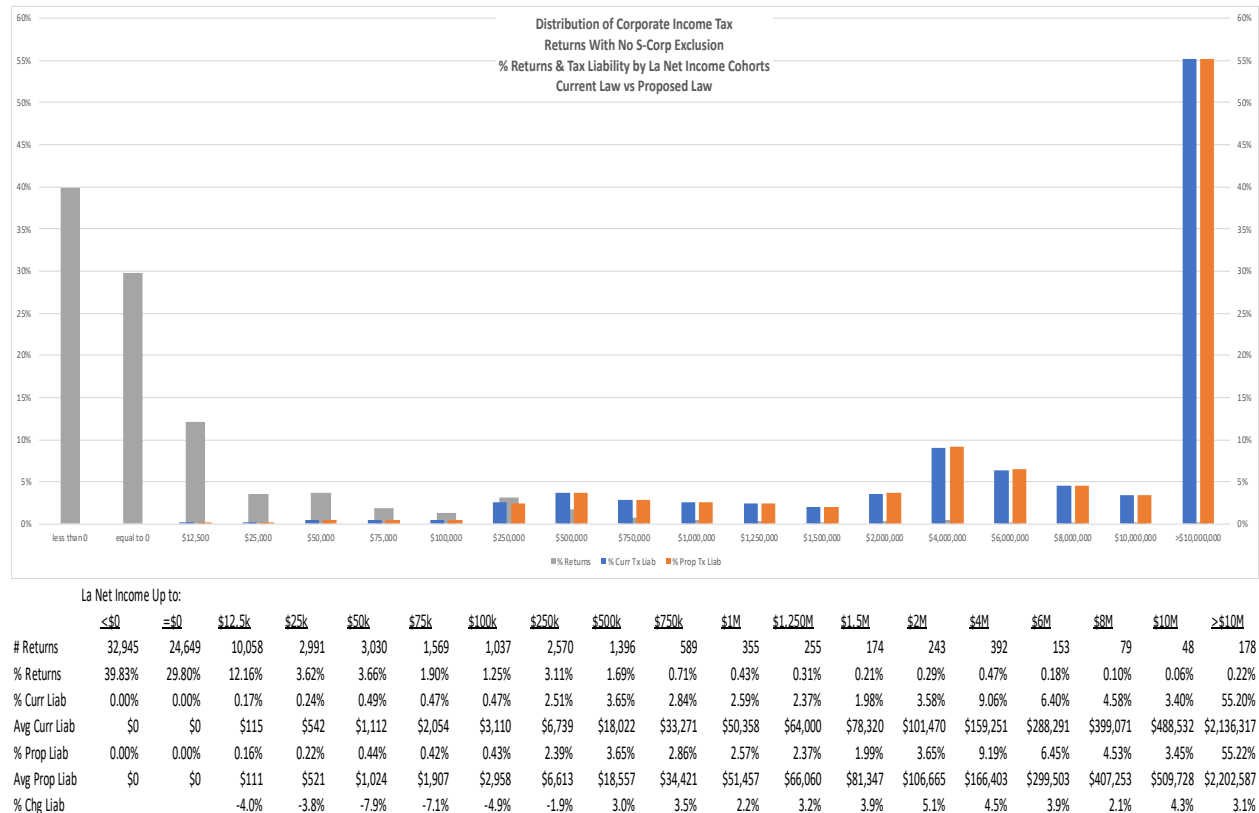
State Tax Reform, 2021

Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

Appendix E: Progressiveness of the Corporate Income and Franchise Tax

The concepts of progressiveness and regressiveness are not typically applied to corporate taxation, and the application of a Suits and Palma approach to corporate taxation is complicated by the existence of large numbers of corporate tax filers with zero and negative La net income. Thus, a discussion will be offered here that primarily points out a few interesting aspects of La corporate taxation in general, as well as some distributional aspects of the proposed changes.

The chart and table below illustrate the high concentration of the corporate income tax onto a relatively small number of large tax filers. Essentially 70% of filers have no tax liability at all, before or after the proposed tax law changes, simply because they report zero or negative La net income. Reported La net income has to be in excess of \$250,000, before average liabilities are likely to exceed a few thousand dollars, and 95% of tax filers report net income below that amount. Even as net incomes exceed that threshold, the share of total tax liability attributable to each cohort is relatively small until the highest net income cohort is reached, where over 55% of the entire corporate income tax liability is concentrated and paid by only 0.2% of all filers and 0.7% of filers with positive net income⁴⁷; again, before or after the proposed tax law changes.



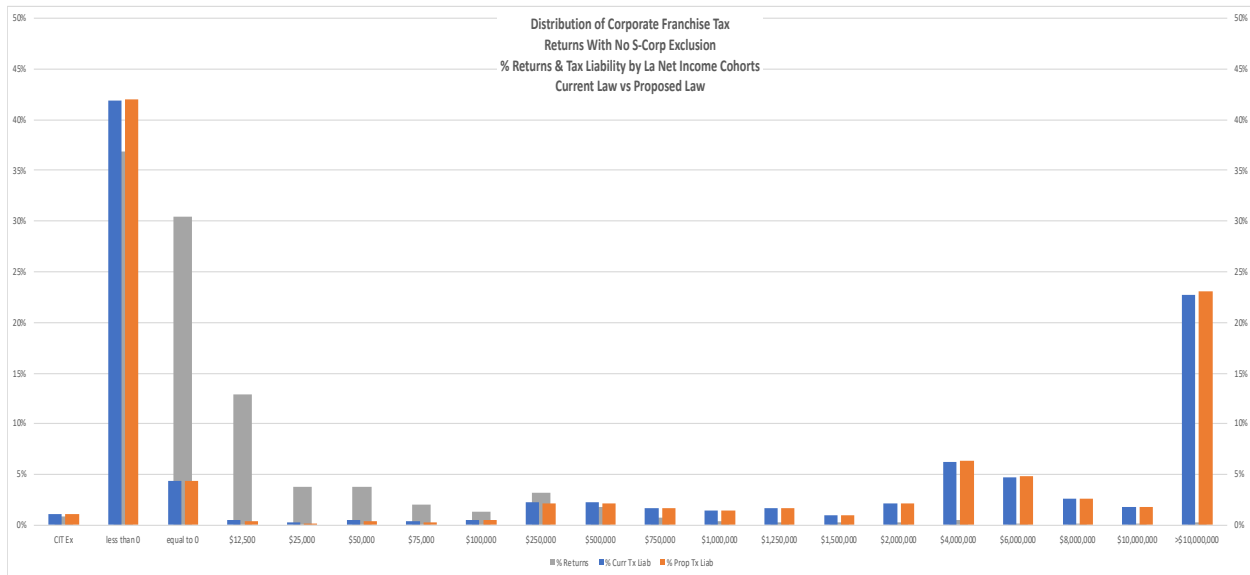
⁴⁷ Concentration of the tax is also evidenced by tax returns filed during a given fiscal year (encompassing various tax years), where nearly 90% of total corporate taxable income is taxed at the current law 8% top marginal tax rate, and paid by only 21% of the filers with positive La net income, and only 4% of all corporate income tax filers.

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Individual Income Tax, Corporate Income Tax, and Corporate Franchise Tax

The distributional effects of the proposed tax law changes on corporate income tax liabilities are evident in the table above, as well. Even though the top marginal rate is reduced from 8% to 7.5%, and the five-rate/bracket structure is modified to a three-rate/bracket structure, the distribution of tax liability across net income cohorts is only very modestly changed, and made modestly more progressive. Under the proposed law, net income cohorts below \$750,000 are attributable for slightly smaller shares of the total liability, while cohorts above that are attributable for slightly larger shares of the total liability⁴⁸. The overall effect of the proposed tax law changes on the corporate income tax is to increase the aggregate liability, with a slightly greater share of it levied on larger corporations and a slightly lesser share of it levied on smaller corporations⁴⁹.

The chart and table below illustrate the distribution of the corporate franchise tax across La net income cohorts. The concentration of the corporate franchise tax is not as obvious as that of the corporate income tax when depicted across net income cohorts⁵⁰. Across net income cohorts, over 47% of the total franchise tax liability is levied on filers who report zero or negative net income or are exempt from the income tax entirely.



| | CIT Ex | <=0 | =0 | \$12.5k | \$25k | \$50k | \$75k | \$100k | \$250k | \$500k | \$750k | \$1M | \$1.250M | \$1.5M | \$2M | \$4M | \$6M | \$8M | \$10M | >\$10M |
|---------------|---------|---------|--------|---------|--------|--------|---------|---------|---------|---------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| # Returns | 652 | 27,442 | 22,632 | 9,573 | 2,822 | 2,845 | 1,479 | 989 | 2,383 | 1,319 | 552 | 332 | 244 | 169 | 229 | 371 | 144 | 78 | 45 | 169 |
| % Returns | 0.88% | 36.85% | 30.39% | 12.86% | 3.79% | 3.82% | 1.99% | 1.33% | 3.20% | 1.77% | 0.74% | 0.45% | 0.33% | 0.23% | 0.31% | 0.50% | 0.19% | 0.10% | 0.06% | 0.23% |
| % Curr Liab | 1.15% | 41.93% | 4.35% | 0.53% | 0.24% | 0.45% | 0.37% | 0.56% | 2.23% | 2.23% | 1.71% | 1.41% | 1.66% | 0.98% | 2.11% | 6.26% | 4.76% | 2.63% | 1.75% | 22.69% |
| Avg Curr Liab | \$7,793 | \$6,773 | \$852 | \$246 | \$377 | \$700 | \$1,112 | \$2,521 | \$4,153 | \$7,487 | \$13,736 | \$18,847 | \$30,234 | \$25,657 | \$40,792 | \$74,807 | \$146,567 | \$149,386 | \$172,493 | \$595,147 |
| % Prop Liab | 1.14% | 41.97% | 4.32% | 0.42% | 0.17% | 0.36% | 0.31% | 0.52% | 2.13% | 2.16% | 1.69% | 1.41% | 1.67% | 0.98% | 2.12% | 6.33% | 4.82% | 2.66% | 1.77% | 23.04% |
| Avg Prop Liab | \$6,983 | \$6,122 | \$765 | \$176 | \$248 | \$501 | \$835 | \$2,096 | \$3,573 | \$6,559 | \$12,275 | \$16,959 | \$27,380 | \$23,179 | \$37,063 | \$68,276 | \$134,048 | \$136,617 | \$157,770 | \$545,642 |
| % Chg Liab | -10.4% | -9.6% | -10.2% | -28.2% | -34.2% | -28.5% | -24.9% | -16.9% | -14.0% | -12.4% | -10.6% | -10.0% | -9.4% | -9.7% | -9.1% | -8.7% | -8.5% | -8.5% | -8.5% | -8.3% |

⁴⁸ Under current law, net income cohorts through \$750,000 are attributable for 10.84% of the total tax liability; over \$750,000 89.16%. Under Proposed law, net income cohorts through \$750,000 are attributable for 10.57% of the total tax liability; over \$750,000 89.43%.

⁴⁹ Corporation size can be reflected in various metrics such as market value, employment etc. In this discussion, it is reflected in La net income.

⁵⁰ The distribution of the corporate franchise tax is depicted here across net income cohorts in order to reflect the same firms in each cohort as in the earlier depiction of the distribution of the corporate income tax. Differences in return counts are due to small numbers of firms making a special pass-through entity election for the income tax purposes or are exempt from the franchise tax altogether.

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The share of total tax liability attributable to each cohort is then relatively small until the highest net income cohort is reached, where nearly 23% of the entire corporate franchise tax liability is concentrated and paid by only 0.2% of all filers, before or after the proposed tax law changes. However, the table does reflect that the approximate top 1% of firms by net income are attributable for 38% of the total tax liability, and the approximate top 5% for 48% of the total tax liability.

Furthermore, a closer look at the chart and table above suggests that the franchise tax is more concentrated in larger firms than a distribution by net income might indicate. Notice that average liabilities of the first three cohorts, especially the first two cohorts, are substantially larger than those of the following cohorts up to \$500,000 of net income. This suggests that many of these filers are likely to be large firms as measured by taxable capital rather than reported net income. In fact, the average amount of taxable capital for firms within the first two cohorts, those exempt from the income tax or reporting negative net income, is \$2.9 million and \$2.4 million, respectively; substantially greater by multiples than that of all the following cohorts up to the \$500,000 net income cohort. Adding the bottom two cohorts to the approximate top 5% of cohorts results in the top 43% of firms being attributable for 91% of the total tax liability. Thus, on the basis of taxable capital, the actual base of the franchise tax, the corporate franchise tax is also quite concentrated onto relatively large firms; before or after the proposed tax law changes.

All firms subject to the franchise tax receive a franchise tax reduction from the proposed law. With the current law two-rate/bracket structure modified to one with a single rate reduced from \$3/\$1,000 to \$2.75/\$1,000 of taxable capital, and an effective exemption for the first \$300,000 of taxable capital, the table above indicates that the distribution of the tax is modestly increased on the larger firms and modestly decreased on smaller firms. Under the proposed law, net income cohorts up to \$1 million are attributable for slightly smaller shares of the total liability, while cohorts above that are attributable for slightly larger shares of the total liability⁵¹. The qualification to this general result is in the negative net income cohort, with a slightly greater share of the total liability under the proposed law. However, as discussed above, this cohort is actually populated by large firms as measured by taxable capital and the average tax liability and, thus, tends to support the general conclusion rather than refute it. The overall effect of the proposed tax law changes on the corporate franchise tax is to decrease the aggregate liability, with a greater share of the smaller liability levied on larger corporations and a lesser share of it levied on smaller corporations.

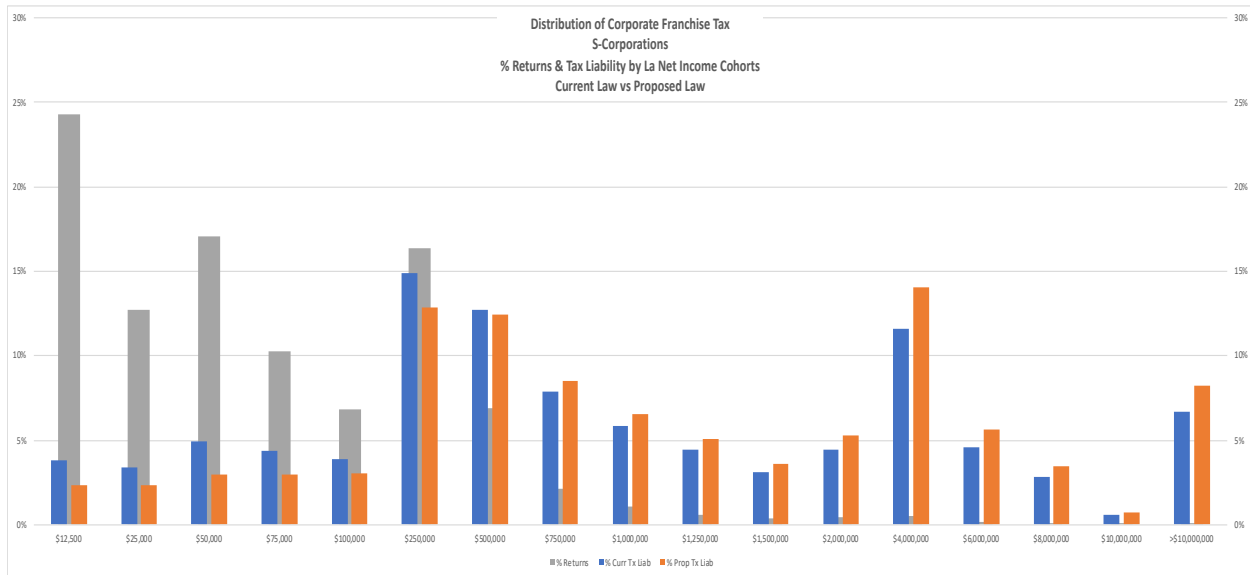
Finally, the chart and table below illustrates the distribution of the corporate franchise tax across La net income cohorts for corporations that pass-through their income to individuals for tax purposes, and are therefore not subject to the corporate income tax, but are subject to the corporate franchise tax. As with the traditional corporate filers, the proposed tax changes result in all pass-through filers subject to the franchise tax receiving a franchise tax reduction. As

⁵¹ Under current law, net income cohorts through \$1 million are attributable for 57.16% of the total tax liability; over \$1 million 42.84%. Under Proposed law, net income cohorts through \$1 million are attributable for 56.60% of the total tax liability; over \$1 million 43.40%.

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already discussed above, the concentration of the corporate franchise tax is not as obvious as that of the corporate income tax when depicted across net income cohorts. However, an examination of the table below indicates a fairly concentrated tax. Across net income cohorts for pass-through entities, over 38% of the total tax liability is levied on the top 2.3% of filers, approximately 1,450 filers reporting over \$1 million of La net income, and nearly 15% of the total liability is associated with the top 0.34% of filers, approximately 400 filers reporting over \$2 million of La net income. These measures contrast with the bottom 71% of filers that are attributable for only 20% of the total liability, approximately 17,700 filers reporting up to \$100,000 of La net income.



| La Net Income Up to: | \$12.5k | \$25k | \$50k | \$75k | \$100k | \$250k | \$500k | \$750k | \$1M | \$1.250M | \$1.5M | \$2M | \$4M | \$6M | \$8M | \$10M | >\$10M |
|----------------------|---------|--------|--------|--------|--------|--------|---------|---------|---------|----------|---------|---------|----------|----------|----------|----------|----------|
| # Returns | 9,573 | 2,822 | 2,845 | 1,479 | 989 | 2,383 | 1,319 | 552 | 332 | 244 | 169 | 229 | 371 | 144 | 78 | 45 | 169 |
| % Returns | 24.29% | 12.70% | 17.06% | 10.28% | 6.83% | 16.38% | 6.93% | 2.16% | 1.08% | 0.62% | 0.39% | 0.43% | 0.52% | 0.14% | 0.08% | 0.03% | 0.09% |
| % Curr Liab | 3.83% | 3.37% | 4.93% | 4.37% | 3.89% | 14.87% | 12.71% | 7.89% | 5.84% | 4.44% | 3.11% | 4.45% | 11.61% | 4.60% | 2.82% | 0.59% | 6.68% |
| Avg Curr Liab | \$94 | \$158 | \$172 | \$253 | \$339 | \$540 | \$1,092 | \$2,176 | \$3,227 | \$4,293 | \$4,729 | \$6,209 | \$13,208 | \$19,646 | \$21,686 | \$12,849 | \$42,781 |
| % Prop Liab | 2.36% | 2.33% | 2.99% | 3.00% | 3.07% | 12.83% | 12.41% | 8.52% | 6.53% | 5.10% | 3.57% | 5.26% | 14.02% | 5.61% | 3.45% | 0.71% | 8.23% |
| Avg Prop Liab | \$43 | \$81 | \$77 | \$129 | \$198 | \$345 | \$789 | \$1,740 | \$2,672 | \$3,649 | \$4,024 | \$5,434 | \$11,815 | \$17,724 | \$19,631 | \$11,552 | \$38,980 |
| % Chg Liab | -54.4% | -48.9% | -55.1% | -49.1% | -41.6% | -36.1% | -27.7% | -20.0% | -17.2% | -15.0% | -14.9% | -12.5% | -10.5% | -9.8% | -9.5% | -10.1% | -8.9% |

With all firms subject to the franchise tax receiving a franchise tax reduction from the proposed law, the table above indicates that the distribution of the tax is increased on the larger firms and decreased on smaller firms, as reflected in the three cohorts described above. Under the proposed law, net income cohorts over \$1 million are attributable for 46% of the total liability; a materially larger share than under current law. The cohort reporting over \$2 million of net income is attributable for 18% of total liability; a modestly higher share than under current law. The large number of smaller firms, those reporting net income less than \$100,000, are attributable for 13.7% of total liability; a materially lower share than under current law. The overall effect of the proposed tax law changes to the corporate franchise tax for pass-through entities is to decrease the aggregate liability, with a greater share of the smaller liability levied on larger entities and a lesser share of it levied on smaller entities. An additional benefit for the

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owners of these entities are the reduced individual income tax rates that the net income is subject to when passed through to the owners; subject to all of the discussion above regarding the individual income tax.