



Legislative Fiscal Bureau

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TO: Representative Robin Vos
Room 217 West, State Capitol

FROM: Sean Moran and Dave Loppnow

SUBJECT: Vetoed Individual Income Tax Proposal and the Projected Ending Balance after
Consideration of the 2023-24 Annual Fiscal Report

At your request, this memorandum provides a summary of three individual income tax proposals that were passed by the Legislature, but vetoed by the Governor. In addition, the effect on the State's general fund projected 2023-25 balance is provided had those proposals been signed into law, after consideration of the actual ending balance shown in the 2023-24 Annual Fiscal Report and its effect on the projected ending balance for 2024-25.

In February, 2024, the Legislature passed four bills related to the individual income tax. A description of the four bills follows. One of them (2023 AB 1023) was signed into law by the Governor. The other three were vetoed.

2023 AB 1020. Under current law, taxable income is subject to a marginal tax rate and bracket schedule with four separate rates. AB 1020 would have expanded the second bracket such that the tax rate would have been reduced from 5.30% to 4.40% beginning in tax year 2024 on taxable income of: (a) \$28,640 to \$112,500 for single and head-of-household filers; (b) \$38,190 to \$150,000 for married-joint filers; and (c) \$19,090 to \$75,000 for married-separate filers. The bill would have reduced individual income tax revenues by \$1,233.9 million in 2024-25 and \$751.9 million annually thereafter.

2023 AB 1021. Under current law, retirement income is subject to tax unless a specific exclusion is provided. AB 1021 would have excluded the first \$75,000 of taxable retirement income (up to \$150,000 if married-joint) received by each individual who is at least 65 years of age beginning in tax year 2024, provided the individual did not claim any state income tax credits in that year. The bill would have reduced individual income tax revenues by \$658.2 million in 2024-25 and \$472.4 million annually thereafter.

2023 AB 1022. Under current law, the married couple credit is available to married-joint filers

equal to 3% of the earned income of the secondary wage earner, up to a maximum credit of \$480 (maximum allowable earned income of \$16,000 to compute the credit). The maximum credit amount of \$480 has applied since tax year 2001. AB 1022 would have increased the maximum married couple credit amount to \$870 (maximum allowable earned income of \$29,000 to compute the credit) beginning in tax year 2024 to account for inflation that has occurred since 2001. The bill would have reduced individual income tax revenues by \$169.0 million in 2024-25 and \$160.9 million annually thereafter.

2023 AB 1023/2023 Act 101. Beginning in tax year 2024, Act 101 expanded the nonrefundable state child and dependent care expenses credit to: (a) equal 100% (rather than 50%) of the corresponding federal credit amount; and (b) be computed on expenses of up to \$10,000 for one qualifying child/dependent (instead of \$3,000) and \$20,000 for two or more qualifying children/dependents (instead of \$6,000). Act 101 will reduce individual income tax revenues by \$72.9 million annually, beginning in 2024-25.

Interactive Effect. Together, if these three bills had not been vetoed and all four bills had been enacted in their enrolled forms, estimated individual income tax revenues would have been further reduced by \$1,989.5 million in 2024-25 and \$1,333.9 million annually thereafter. This estimate includes an interactive effect, which would have reduced the combined revenue decrease under these bills by \$71.6 million in 2024-25 and \$51.3 million annually thereafter. Given the magnitude of the proposed tax reductions, it was estimated that interest earnings on the balance in the general fund would have been reduced by \$47 million in 2024-25. The table below shows the estimated fiscal effect to the ending balance in the general fund in 2024-25 if ABs 1020, 1021, and 1022 had been enacted in conjunction with Act 101.

**Estimated Effect to Ending Gross Balance in the General Fund if
Certain Vetoed Bills had been Enacted (Millions)**

	<u>2024-25</u>
Ending Balance (Current Estimate)	\$3,535.1
<i>Estimated Fiscal Effect of Vetoed Bills</i>	
AB 1020	-\$1,233.9
AB 1021	-658.2
AB 1022	-169.0
Interactive Effect	71.6
Interest Earnings	<u>-47.0</u>
Total	-\$2,036.5
Ending Balance (if Enacted)	\$1,498.6

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