

Income and Privilege Tax Rate Reduction Formula; SB 269

SB 269 provides for reduction in state income and privilege tax rates contingent upon the balance of the Budget Stabilization Fund and growth in the State General Fund (SGF) receipts from income and privilege taxes in excess of the FY 2024 amount, adjusted for inflation.

The bill requires the Director of the Budget to annually determine, in consultation with the Director of Legislative Research, whether the preceding fiscal year's total SGF income and privilege tax receipts exceed the 2024 amount, as adjusted for inflation.

The inflation adjustment is to be determined by subtracting the FY 2024 SGF income and privilege tax revenues multiplied by the 12-month average of the consumer price index for all urban consumers for the preceding fiscal year in excess of the 12-month average of the consumer price index for FY 2024. The bill requires the determination to be made by August 15 each year, beginning in 2025. If such receipts are in excess of the inflation-adjusted 2024 amount, the Director of the Budget is required to certify the excess amount to the Secretary of Revenue.

The Secretary of Revenue, upon receipt of such certification, is required to calculate and publish reductions to income and privilege tax rates as provided by the bill and is required to provide for reductions in tax rates to the nearest 0.01 percent resulting in expected reduced revenue approximately equal to the amount certified by the Director of the Budget.

Individual income tax rates are to be reduced first, with both tax rates being reduced proportionally until the lower bracket reaches 4.0 percent, at which time only upper bracket rates are to be reduced until the upper bracket rate reaches 4.0 percent.

Upon individual rates reaching 4.0 percent, rate reductions to the surtax rate for corporations and the normal tax rates for financial institutions will commence in corresponding amounts. Such reductions are to continue until the combined normal tax and surtax for corporations reaches 4.0 percent, the combined normal tax and surtax for banks reaches 2.6 percent, and the combined normal tax and surtax for trust companies and savings and loan associations reaches 2.62 percent.

The bill provides prohibits the certification by the Director of the Budget and corresponding rate reductions in years in which the amount of moneys in the Budget Stabilization Fund is less than 15 percent of the prior fiscal year's SGF tax revenues.

In all cases, the reduced rates are to remain in effect until further reduced by the provisions of the bill.