

REVENUE: Revenue Impact Issued

FISCAL: Minimal Fiscal Impact, no statement issued

Action: Do Pass as Amended and be Printed A-Engrossed, and be referred to Ways and Means

Vote: 6-4-0

Yeas: Bailey, Gelser, Kahl, Read, Riley, Barnhart

Nays: Bentz, Berger, Bruun, Sprenger

Exc.: 0

Prepared By: Chris Allanach, Economist

Meeting Dates: 2/27, 5/27, 5/28, 6/2, 6/4

WHAT THE BILL DOES: Creates a 10.8% tax bracket for joint filers with taxable income between \$250,000 and \$500,000 (between \$125,000 and \$250,000 if single) and creates an 11% tax bracket for joint filers with income above \$500,000 (above \$250,000 if single); applies to tax years 2009 through 2011. Reduces top rate to 9.9% for joint filers with income above \$250,000 (above \$125,000 if single) for tax years 2012 and later. Phases out the federal tax subtraction for joint filers with adjusted gross income above \$250,000 (above \$125,000 if single). Excludes up to \$2,400 of unemployment compensation for tax year 2009. Becomes effective 91 days following sine die.

ISSUES DISCUSSED:

- Increasing the progressivity of the tax system
- Business taxes paid through the personal income tax
- Behavioral responses to tax change
- Structural change to the tax system
- Balanced approach including budget reductions
- Fairness of tax system
- Volatility of tax system

EFFECT OF COMMITTEE AMENDMENTS: Replaces bill

BACKGROUND: The personal income tax was created in 1929 for the primary purpose of property tax relief. The tax rates ranged from 1% to 5%. The top rate was applied to income above \$8,000 for joint filers and \$4,000 for single filers. The highest rate of 11.6% was in place for 1955 and 1956 and applied to income above \$10,000 (joint) or \$5,000 (single); from 1982 to 1984 the top rate was 10.8%, and for 1985 and 1986 the top rate was 10% - all applicable at \$10,000 (joint) or \$5,000 (single). The current 5%-7%-9% structure has existed since 1987 and was adopted in response to a significant change in federal taxes that occurred in 1986 that essentially broadened that tax base so that rates could be reduced.