

**Summary of Tax Bill  
November 16, 2021**

**1. Long Term Reserve Fund**

- The fund's name would change to "Catastrophic Reserve Fund." **[Bill §§ 1–4]**
- Some fiscal measures would be established to ensure the fund stays at 20% of net general revenues disbursed. Specifically, the distribution of the first \$200 million available after the Treasurer of State makes the maximum annual allocations called for under Revenue Stabilization under § 19-5-402 is changed. **[Bill § 1]**
  - Seventy-five percent of the first \$200 million and any remaining funds above the \$200 million would be used to, first, top off the Catastrophic Reserve Fund up to 20% of the general revenues disbursed, at which the Fund would be capped. Any remaining funds would go to the General Revenue Allotment Reserve Fund to be used as otherwise provided by law.
  - The other twenty-five percent of the first \$200 million and any remaining funds above the \$200 million, not to exceed \$50M, would be transferred on the last business day in each calendar month to the State Highway and Transportation Department.

**2. Individual income tax brackets and rates. [Bill § 5]**

- Reduce the tax tables from three to two by combining the lower and middle tables. Effective January 1, 2022, the new brackets would be as follows:

Low/Medium Income Combined Table: net income ≤ \$84,500		
From	To	Rate of Tax
\$0	\$4,999	0%
\$5,000	\$9,999	2%
\$10,000	\$14,299	3%
\$14,300	\$23,599	3.4%
\$23,600	\$39,699	5%
\$39,700	\$84,500	5.5%

High Income Table: rates for net income > \$84,500		
From	To	Rate of Tax
\$0	\$4,300	2%
\$4,301	\$8,500	4%
\$8,501 and up		5.5%

- On January 1, 2023, the top rate in both tables will drop to 5.3%.
- On January 1, 2024 and January 1, 2025, the top rate in both tables will drop to 5.1% and 4.9%, respectively, **only if** no funds are transferred from the Catastrophic Reserve Fund.
  - If such a transfer is made between January 1, 2022 and December 31, 2023 inclusive, then the 5.1% and 4.9% rate cuts wouldn't just be paused, they'd never occur.
  - If such a transfer is made between January 1, 2024 and December 31, 2024 inclusive, then the 5.1% rate would remain and the 4.9% rate cut wouldn't just be paused but would never occur.
- The rate of the pass-through entity tax is amended to ensure it aligns with the top individual marginal income-tax rates each year as they are reduced. **[Bill § 11]**
- Cliff adjustments **[Bill § 5]**: The bill contains provisions to smooth the cliff for those taxpayers whose net income is barely above the income threshold that bumps them into the

higher table (i.e. > \$84,500). The cliff smoothing is done in the form of bracket adjustments, which diminish year-by-year as the top tax rate itself diminishes.

- Under the credit, taxpayers whose taxable income is between \$84,501 and \$84,600 receive the full amount of the nonrefundable tax credit, which is detailed below.
- The full credit phases out in \$10 increments for every additional \$100 in taxable income over the \$84,501 threshold.
- As the top tax rate drops each year, the cliff becomes smoother on its own, and the amount of the full credit is reduced but continues to phase out as noted above:
  - 2022: \$610
  - 2023: \$548
  - 2024: \$485
  - 2025: \$439
- The amount of the 2024 and 2025 adjustments are dependent on whether the individual income tax rates themselves reduce to the amounts noted above. Therefore, the 2024 and 2025 bracket adjustments will reduce **only if** no funds are transferred from the Catastrophic Reserve Fund.

### **3. Corporate income tax rates for both domestic and foreign corporations. [Bill §§ 6 & 7]**

- On January 1, 2023, the top corporate income tax rate will drop from 5.9% to 5.7%.
- On January 1, 2024 and January 1, 2025, the top rate will drop to 5.5% and 5.3%, respectively, **only if** no funds are transferred from the Catastrophic Reserve Fund.
  - If such a transfer is made between January 1, 2022 and December 31, 2023 inclusive, then the 5.5% and 5.3% rate cuts wouldn't just be paused, they'd never occur.
  - If such a transfer is made between January 1, 2024 and December 31, 2024 inclusive, then the 5.5% rate would remain and the 5.3% rate cut wouldn't just be paused, they'd never occur.

### **4. Coronavirus Food Assistance Program (CFAP). [Bill § 8]**

Update the existing income tax exemption for the Coronavirus Food Assistance Program to provide that payments received under the Coronavirus Food Assistance Program 1, the Coronavirus Food Assistance Program 2, or any successor program or programs is excluded from gross income for purposes of income tax.

### **5. Standard deduction. Index the standard deduction to the Consumer Price Index. [Bill § 9]**

### **6. Lower Income Nonrefundable Income Tax Credit. [Bill § 10]**

- Taxpayers whose taxable income is at or below \$23,600 and who timely file a tax return receive a \$60 nonrefundable tax credit.
- The \$60 credit phases out in \$5 increments for every additional \$100 in taxable income over the \$23,600 threshold. For example, taxpayers with a taxable income up to \$23,650 receive a \$55 nonrefundable credit; taxpayers with income up to \$23,750 receive a \$50 nonrefundable credit. The credit continues being reduced by \$5 increments per each additional \$100 until the credit is exhausted at \$24,700.
- The income thresholds that determine the amount of the credit for which a taxpayer qualifies are indexed to inflation.

**7. "Do Not Codify" Section [Bill § 12]**

- This section requires the Secretary of DFA to notify the public and BLR about whether or not the triggers in 2024 and 2025 have taken effect.
- This section also makes clear that the Section 4 of the bill (re. individual income tax) does not affect any taxpayer's obligations under individual income tax law that were incurred before January 1, 2022.

**8. Effective Date [Bill § 13]**

This section clarifies that sections 5, 6, 7, 9, 10, and 11 are effective for tax years beginning on or after January 1, 2022.

**9. Emergency Clause [Bill § 14]**

The bill contains an emergency clause that renders the bill effective immediately.