

GOVERNOR'S TAX PLAN

The Governor's tax plan achieves his campaign promise of providing tax relief to middle income taxpayers making between \$21,000¹ and \$75,000 annually by reducing the rate from 7% to 6% for those making \$35,100 and above and from 6% to 5% for those making between \$21,000 and \$35,099. The governor's tax plan will go into effect 2016 as promised.

In addition, beginning tax year 2015, taxpayers having taxable income of less than \$21,000 will have tax rates reduced by one-tenth of 1% on all income between \$4,300 and \$20,999. The plan thus retains the reduced tax rates previously enacted by Act 1459 of 2013 for those low-income taxpayers making less than \$21,000.

Beginning tax year 2016, taxpayers having taxable income in excess of \$75,000 will pay tax on that portion of their income of \$35,100 and above at the rate of 6.9%. The Governor's plan incorporates portions of the tax relief previously provided by Act 1459 for those taxpayers making more than \$75,000 by retaining the top tax rate of 6.9%.

For taxpayers having incomes of more than \$75,000 but not more than \$80,000, the Governor's plan provides a bracket adjustment of between \$40 and \$440. This bracket adjustment prevents a small amount of income above \$75,000 from resulting in a significantly higher income tax liability. (This is to avoid what is called the Cliff Effect.)

The tax reductions in the Governor's plan reduce state general revenues by \$2M in FY15. For FY16 the original tax reduction from the Governor's Plan is approximately \$50M. This reduction is partly offset by a delay of portions of Act 1459 of 2013, resulting in a net cost of \$33.7M for FY16. In summary, the tax plan will reduce state general revenues by \$2M in FY15, \$33.7M in FY16 and \$102.1M in FY17.

2016 Tax Savings Compared to 2014

<u>Net Taxable Income</u>	<u>Tax Savings</u>
\$10,000	\$5
\$20,000	\$15
\$35,000	\$140
\$50,000	\$290
\$75,000	\$540
\$100,000	\$65

<u>Income Brackets</u>	<u>Taxable Income</u> <u>\$0 to \$20,999</u>		<u>Taxable Income</u> <u>\$21,000 to \$75,000</u>		<u>Taxable Income</u> <u>\$75,001 and up</u>	
	<u>2014</u>	<u>2015 and after</u>	<u>2014 & 2015</u>	<u>2016</u>	<u>2014 & 2015</u>	<u>2016</u>
\$0 - \$4,299	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
\$4,300 - \$8,399	2.5%	2.4%	2.5%	2.5%	2.5%	2.5%
\$8,400 - \$12,599	3.5%	3.4%	3.5%	3.5%	3.5%	3.5%
\$12,600 - \$20,999	4.5%	4.4%	4.5%	4.5%	4.5%	4.5%
\$21,000 - \$35,099	N/A	N/A	6.0%	5.0%	6.0%	6.0%
\$35,100 and up	N/A	N/A	7.0%	6.0%	7.0%	6.9%

¹ Although the Governor originally announced his intention to provide tax relief for persons making between \$20,000 and \$75,000, that information was based on the 2012 tax brackets. The \$20,000 tax bracket has now been increased to \$21,000 as a result of annual inflation adjustments required by state law.