

MEMORANDUM

TO: The Honorable Adam Smith  
House Committee on Taxation

FROM: Adam Proffitt, Director of the Budget

DATE: Wednesday, March 17, 2021

SUBJECT: Testimony for SB 22 - Opponent



Chairman Smith and members of the committee,

I submit this testimony to you in opposition to SB 22, which seeks to implement a host of tax cuts, including corporate income cuts, retirement exemptions, divergence from federal conforming standards, FDIC deductions, meal expenses deductions, and others. The combined effect of all of the provisions contained within this legislation stand to have a negative impact on the state's profile, the likes of which we have not seen since 2014.

SB 22 as amended by the Senate Committee of the Whole has a fiscal note that shows state revenues reducing by a minimum of \$506.1 million in FY 2022, and nearly \$1.5 billion over the first three years of its inception. There are several components of the bill that have a fiscal effect of "unknown", which means that the final price tag for this bill will be substantially greater than what has been reported to date.

Simply put, the state cannot afford this bill. A revenue reduction of this magnitude would have a devastating impact on the state's fiscal stability, and will remove our ability to fund programs that citizens all across our state have come to rely on. In a year where most of the state agencies have sustained budget cuts just to maintain a statutorily required ending balance, moving forward with legislation that puts another \$1.5 billion hole into budget would hamper budget decisions for years to come. As the state's budget director, I am obligated to inform this body of any fiscal moves that will have a negative impact on our state's long term fiscal health, and this bill quite certainly accomplishes that.

The last time the state implemented tax cuts of this size was in 2012. At that time, Legislative Research produced estimates of what would happen to state revenues and what the state profile

would look like, and those predictions came to be true. Those cuts showed the state’s revenues reducing by upwards of \$900.0 million annually, and also showed that we would need to implement budget cuts far beyond what had already been projected in the state profile. This current legislation would place our budget in a very similar position as the 2012 tax cuts. The chart below on the left shows the state’s revenues from FY 2011 through FY 2024 (projected). There is a precipitous dip in revenues in 2014 – 2017, which led to massive increases in transfers from the State Highway Fund, just to maintain a positive ending balance in those years. The chart on the right shows the level of revenue reduction that would occur with the passage of SB 22; this happens to be at the same time that the state finally eliminated its reliance on State Highway Fund transfers as a means of budget stability. To move back to the days of subsidizing SGF dollars with State Highway Fund dollars would have a negative impact on the state’s ability to move forward with the widely supported Eisenhower Legacy Transportation Program that was recently passed by this Legislature.



Additionally, passage of SB 22 would put the state out of compliance with provisions contained within the American Rescue Plan, which restrict states from using direct state aid as a backfill for tax cuts. Specifically, the legislation states “A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase” Failure to comply with this provision will lead to the federal government recouping funds in an amount equal to the reduction in net tax revenue as a result of tax law changes.

I appreciate the committee’s attention on this matter, and I respectfully request that you vote this bill down.