LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 22** HLS 182ES 47
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 25, 2018 9:31 AM
Author: JOHNSON
Dept./Agy.: Revenue
Subject: Decouples State Depreciation/Expensing From Federal Law
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TAX/INCOME TAX OR SEE FISC NOTE GF RV

Provides for the decoupling of state law from federal law as it relates to the depreciation and expensing of certain property (Item #29)

The bill requires tax filers to modify reported gross income for state tax purposes by adding back any amounts allowed for federal tax purposes as bonus depreciation { I.R.C. Section 168(k) } and expensing of property in excess of $25,000 { I.R. C. Section 179 }. Applicable to tax periods beginning on and after January 1, 2018.

EXPENDITURES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Dept. of Revenue would incur information technology staff time costs to design, test, and modify the tax processing system and tax forms to implement the changes proposed by the bill. These costs are estimated at approximately $40,000.

REVENUE EXPLANATION

Recent federal tax law changes made changes to bonus depreciation and expensing provisions that increase the amount of these deductions from gross income to arrive a taxable income at the federal level. Since state tax law relies on federal provisions in many cases, these federal law changes could result in a significant reduction in state taxable income and tax receipts in the future. This bill attempts to pre-empt such an effect by requiring tax filers to add back to state tax computations those expanded depreciation and expensing amounts, such that state tax receipts are not affected by these federal tax changes. Given the highly uncertain effects that may result from these federal provisions, both in magnitude and timing, no changes have been made to official corporate revenue forecasts in contemplation of the federal tax law changes; neither a decrease due to the depreciation/expensing provisions or an increase due to lower overall federal income tax deductions. Thus, estimates associated with this bill can not be added to the current official forecast.

To obtain an estimate of the possible state tax revenue affected by the federal provisions and this bill, the Dept. of Revenue carried out an extensive set of re-computations of 2016 state corporate income tax returns for corporations, partnerships, and individuals with business income. State tax return data had to be combined with federal data for industries as a whole (2013 data) to construct the estimates. Various assumptions had to be made, as well as certain omissions acknowledged. The result of these computations was an estimate $197.3 million of potential state tax revenue affected.

Caveats are warranted for estimates of changes in corporate tax liabilities. Corporate tax returns are highly volatile from year to year, making any estimates based on single year recalculations of returns unreliable. In addition, corporate tax filers have a wide variety of tax strategies available to them that can materially change tax liabilities in any particular year. Were the Department's re-computations performed on a different tax year's returns, significantly different estimates could result. Thus, while the bill likely protects and existing base of collections, the magnitude and timing of the affected collections is highly uncertain.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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