LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 126** HLS 23RS 421
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 17, 2023 4:46 PM
Author: FIRMENT
Dept./Agy.: Revenue
Subject: Income Tax: Catastrophe Savings Account Deduction
Analyst: Benjamin Vincent

TAX/INCOME TAX OR DECREASE GF RV See Note

Authorizes individual income tax deductions for contributions to catastrophe savings accounts

Proposed law authorizes an individual income tax deduction for contributions to a savings or money market account made for qualified catastrophe expenses for a primary residence. Proposed law defines qualified expenses as expenses related to events declared a disaster or emergency by the governor, including qualified insurance deductibles paid and distributions for these expenses are not taxable as income. Proposed law specifies limits on the amount individuals may contribute to the accounts at the lesser of $25,000 or double the amount of the deductible for policyholders, and at the lesser of $250,000 or the value of the residence for self-insured taxpayers. Proposed law limits each taxpayer to a single account, and requires taxpayers to specify the purpose of the account to the Department of Revenue. Proposed law provides for a penalty of 2.5% to non-eligible distributions from accounts that are designated as Catastrophe Savings Accounts, and specifies certain exceptions to the 2.5% penalty. Proposed law specifies that if a taxpayer receives an eligible distribution from the account, no further contributions to the account may be made. Proposed law provides that distributions above deposit limits or for purposes other than designated are taxable as income but all interest accrues tax free.
Applicable to taxable periods beginning on or after January 1, 2023.

EXPENDITURES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

REVENUES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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

LDR reports that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. These costs are typically expressed as hours of staff time. Additionally, costs to administer the deduction, including continually confirming compliance with the possibility of adjuster services and administering penalties, may be material. LDR estimates two new required positions related to these efforts.

REVENUE EXPLANATION

Proposed law allows a deduction for contributions to savings accounts made for residential expenses related to damages from weather events. The eligible contributions are generally limited to approximately double the deductible for insurance policyholders, and to the value of the property up to $250,000 for self-insured taxpayers. Only contributions for primary residences are eligible. The account is excluded from attachment, levy, garnishment or legal process in the state, which may provide an unintended safe harbor against delinquent tax or other collections.

The account must be designated as set aside for the purposes required by the bill. It is unclear whether account designation is required to occur prior to any eligible declared disasters, or if designation will be allowed when the expenses are incurred. The bill does not specify the documentation or other proof that can connect damage to certain weather events. Presumably LDR would specify required sufficient documentation during the rulemaking process.

LFO has no information or method that can reliably estimate the exposure to state general fund revenues due to proposed law. Applying a rate of 4.25%, a taxpayer making a maximum contribution of $1,000, $2,000, or $250,000 would see an income tax reduction of $43, $85, or $10,625, respectively. Aggregate eligible participation is indeterminable, as is participation for any given fiscal year. To the extent that homeowners contribute to the accounts, state general fund revenues will be reduced in all fiscal years by an indeterminable, but possibly quite significant, amount.

For informational purposes, in a scenario where 1.0 million of the approximately 1.18 million homestead residential properties in the state contributed to accounts, and 4% of the homeowners self-insured to $250,000, 48% utilized the maximum option for the $2,000 contribution, and 48% utilized the $1,000 option, spread evenly over three years at a PIT rate of 4.25%, would result in a state general fund exposure of approximately $160 million each year, or approximately $480 million total. LFO has no information on the likelihood of this scenario; it is provided as an illustration only. Any add-backs to tax table income or penalties due to ineligible distributions would serve to offset reductions to tax table liability either in the same year, or in some future year after the deduction is allowed. To the extent these occur, they would offset prior reductions in general fund collections to an indeterminable extent.

Senate Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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