LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 382** HLS 23RS 632
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 24, 2023 6:33 PM
Author: GAROFALO
Dept./Agy.: Revenue
Subject: Income Tax: Catastrophe Savings Account Deduction
Analyst: Benjamin Vincent

TAX/INCOME TAX OR DECREASE GF RV See Note

Authorizes establishment of tax-advantaged catastrophe savings accounts to cover losses from damage to taxpayers' primary residences and commercial property

Authorizes an income tax deduction for contributions to a savings or money market account, provided the account is designated to the Department of Revenue as set aside for qualified catastrophe expenses, for a primary residence or commercial immovable property. Defines qualified expenses as expenses related to certain declared disasters or emergencies, including qualified insurance deductibles paid and distributions for these expenses. Proposed law specifies limits on eligible contributions at the lesser of $25,000 or double the amount of a residential deductible, and the lesser of $250,000 or the value of a self-insured residence. For commercial property, contributions up to $10,000 or double the deductible for a covered property, and up to $500,000 for self-insured property, are eligible. Proposed law limits taxpayers to one residential and one commercial account. Proposed law provides for a penalty of 2.5% to non-eligible distributions, and specifies certain exceptions to the 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.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$483,000	$346,000	$346,000	$346,000	$346,000	**$1,867,000**
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	**$483,000**	**$346,000**	**$346,000**	**$346,000**	**$346,000**	**$1,867,000**

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, tax form and scanning equipment modification ($137,000). Additionally, costs to administer the deduction, including continually confirming compliance with the possibility of adjuster services and administering penalties, may be material. LDR estimates four new required positions related to these efforts ($346,000 in total new personnel costs).

REVENUE EXPLANATION

Proposed law allows a deduction for savings account contributions made for expenses related to damages to primary residences and commercial properties from weather events. The bill authorizes a deduction for taxpayers subject to either corporate (CIT) or personal income tax (PIT). Eligible contributions are generally limited to approximately double the deductible for policyholders, and to the value of the property up to $250,000 for self-insured residences, and up to $500,000 for self-insured commercial properties. 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 PIT rate of 4.25%, such a taxpayer making a maximum commercial contribution of $10,000, $200,000, or $500,000 would see an income tax reduction of $425, $8,500, or $21,250, respectively. For taxpayers subject to CIT, the reductions would be $750, $15,000, and $ 37,500, respectively.

Aggregate eligible participation is indeterminable, as is participation for any given fiscal year. To the extent that eligible contributions are made, state general fund revenues will be reduced in all fiscal years by an indeterminable, but potentially significant, amount. 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.

For informational purposes, Page 2 considers potential revenue impacts based on a possible scenario.

Senate	Dual Referral Rules	House
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x]	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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CONTINUED EXPLANATION from page one:

Residential Accounts Scenario
For informational purposes, in a scenario where 0.5 million of the approximately 1.18 million homestead residential properties in the state contributed to accounts, and 4% of the contributing 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 $80 million each year, or approximately $240 million total from the residential provisions of the bill alone.

Commercial Accounts Scenario
In a similar scenario where Louisiana firms having greater than 5 employees (36,500 firms) held commercial property, where 50% such firms made eligible contributions, with 48% of the contributing firms contributing $20,000, 48% contributing $200,000, and 4% contributing $500,000, an additional annual reduction of $106 million would result, at a 7.5% corporate income tax rate.

LFO has no information on the likelihood of either scenario; they are provided as an illustration only.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 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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