

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 48** HLS 051ES 124
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.: **REVISED**
 Proposed Amd.:

Date: November 15, 2005 9:06 AM	Author: SCHNEIDER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Personal Income Tax - Federal Disaster Relief Windfall	

TAX/INCOME TAX OR -\$119,500,000 GF RV See Note Page 1 of 1
 Provides a tax deduction for uninsured losses associated with natural disaster

Proposed law provides a state deduction for disaster-related casualty losses allowed on a taxpayer's federal tax return for the same year. Applies to losses which arose in the presidentially declared Hurricane Katrina disaster area on or after August 29, 2005 as a result of the hurricane or the Hurricane Rita disaster area on or after September 23, 2005 as a result of that hurricane.

Effective for all taxable periods beginning after December 31, 2004.

EXPENDITURES	2005-06	2006-07	2007-08	2008-09	2009-10	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0
REVENUES	2005-06	2006-07	2007-08	2008-09	2009-10	5 -YEAR TOTAL
State Gen. Fd.	(\$119,500,000)	(\$140,100,000)	\$0	\$0	\$0	(\$259,600,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total (\$119,500,000)	(\$140,100,000)	\$0	\$0	\$0	\$0	(\$259,600,000)

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Department of Revenue estimates the state revenue loss from this new deduction from estimates of the federal tax loss developed by the Congressional Joint Committee on Taxation with regard to the Katrina Emergency Tax Relief Act of 2005. The federal tax loss from casualty losses is \$1.089 billion in 2006 and \$1.259 billion in 2007. These tax loss estimates were grossed up to a casualty loss estimate by assuming a 15% effective average federal tax rate, resulting in \$7.260 billion of loss in 2006 and \$8.390 billion of loss in 2007. Louisiana's share of these losses is estimated as 66% of the total (Hurricane Insurance Information Center), resulting in estimates of Louisiana casualty loss claims of \$4.7 billion in 2006 and \$5.5 billion in 2007. If these levels of casualty loss were deducted from Louisiana tax returns, the potential state income tax revenue loss is \$141 million in 2006 and \$165 million in 2007 (at a 3% effective average state tax rate).

Since these casualty losses will reduce federal tax liabilities and those liabilities are deductions on the state return, state tax liabilities will increase due to this interaction. The estimated state tax revenue gain from this is \$21.5 million in 2006 and \$24.9 million in 2007 (66% of the federal revenue loss estimates at a 3% state tax rate). The net effect of these two processes is a state revenue loss of \$119.5 million in 2006 and \$140.1 million in 2007.

These estimated losses represent real losses to the baseline revenue forecast. The revenue forecast does anticipate the tax revenue associated with taxpayer income that the deduction of this bill would affect. Thus, the bill will result in a substantial loss of state tax revenue. While some tax payers may not have sufficient state tax liabilities to fully benefit from the new deduction provided and thus, the revenue loss estimates above may be overstated, the federal loss estimates from which these state estimates were derived only reflected hurricane Katrina. Additional losses will result from hurricane Rita.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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Legislative Fiscal Officer