



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 80** HLS 161ES 220
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 8, 2016 9:22 AM	Author: STOKES
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Federal Income Tax Deduction	

TAX/INCOME TAX RE SEE FISC NOTE GF RV Page 1 of 1

Repeals the state income tax deduction for federal income taxes paid for purposes of calculating individual and corporate income taxes (Item #17)

Current law requires a deduction for 100% of federal income taxes paid when computing state income taxes.

Proposed law eliminates this deduction from the statutes, for both individual and corporate income taxes.

Effective for all tax years beginning on and after January 1, 2017.

Contingent upon the constitutional amendment removing the requirement for federal income taxes paid as a deduction from gross income contained in HB 76 of this session, to be submitted to the electors at the statewide election to be held on November 8, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions, adjusting withholding tables, and distributing those new tables to tax remitters. Additional inquiries from tax remitters is also likely. These costs are typically estimated as several thousands or even tens of thousands of dollars of staff time.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, elimination of the federal income tax deduction would increase aggregate income tax liabilities of individuals by some \$748 million. This estimate is based only on resident filers. Nonresident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Nonresidents tend to make up 5% - 6% of total tax-year liabilities.

This liability expansion is based upon the current law tax rate and bracket structure. However, the bill is contingent upon the constitutional amendment contained in HB 76, which not only allows for the elimination of the deduction for federal income taxes paid, but establishes a maximum individual income tax rate of 4.75% while still allowing a graduated rate and bracket structure. Thus, other legislation establishing a specific rate and bracket structure within the 4.75% limitation of HB 76 is necessary in order to estimate the fiscal effect of this bill, with respect to the individual income tax.

Based on three fiscal years of data from the Revenue Department 2015-16 Tax Exemption Budget, the deduction of federal taxes paid from corporate income provides approximately \$200 million of additional corporate tax. These are fiscal year figures and encompass multiple tax year's of returns. Thus, there will likely be a transition period such that little is collected in FY17 from corporate declarations reflecting tax year 2017. Then, collections will come in during FY18 and FY19 for tax year 2017, normalizing by FY20. A three year transition is typical for corporate tax changes to be largely reflected in fiscal year revenue collections. Based on a three year transition, approximately the following amounts may be collected from corporate filers: \$22 million (11%) in FY18, \$190 million (95%) in FY19, and \$200 million (100%) in FY20 and beyond. Corporate receipts are highly volatile and actual collections will likely differ from this simple transition. This positive corporate tax effect may or may not be offset by individual income tax effects, depending on the specific rate and bracket structure established for individual income taxation within the limitations of HB 76.

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}

John D. Carpenter
Legislative Fiscal Officer