

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 38** HLS 162ES 61
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

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Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Reduce Excess Federal Itemized Deduction		

TAX/INCOME TAX OR +\$116,700,000 GF RV See Note Page 1 of 1
 Reduces the amount of the individual income tax deduction for excess federal itemized personal deductions (Item #42)

Present law allows a deduction from gross income for 100% of excess federal itemized deductions. This state deduction is the difference between a taxpayers total federal itemized deductions and the federal standard deduction.

Proposed law reduces the deduction to 57.5% of excess federal itemized deductions.

Effective for all tax years beginning on and after January 1, 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	\$0	\$0	\$0	\$0	\$0	\$0
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.	\$116,700,000	\$128,600,000	\$132,600,000	\$132,600,000	\$132,600,000	\$643,100,000
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	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$116,700,000	\$128,600,000	\$132,600,000	\$132,600,000	\$132,600,000	\$643,100,000

EXPENDITURE EXPLANATION

The Department of Revenue will incur some costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions. These costs might be several thousand dollars of staff time for modifications and testing (the Department estimates roughly \$25,000). Small costs such as this are typically absorbed within the existing agency budget, but ultimately contribute to the supplanting/delaying of other functions/activities.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, a 57.5% deduction of excess federal itemized deductions would increase tax year 2014 aggregate income tax liabilities by some \$126 million. This estimate is based on resident filers that itemized on their federal tax returns (approximately 24% of filers) plus 5% additional for non-resident filers. This liability estimate is re-based to the 2016 tax year first affected by this bill by the average growth of gross income tax collections over FY14 and FY15 (2.55% per year compounded growth or a 1.052 factor), resulting in an estimate of tax year 2016 liability increase of \$132.6 million.

The full effect of this liability change will occur over more than one fiscal year. According to Revenue Department data on returns filed claiming the excess federal itemized deduction prior to the substantial changes enacted in the 2015 session, 88% of the returns received by the end of FY14 were for the 2013 tax year, the immediately preceding tax year, while 9% were for tax year 2012, 2% for tax year 2011, and trailing shares for a number of earlier tax years. Applying that pattern to the 2016 liability estimate above results in a revenue gain in FY17 of \$116.7 million, then \$128.6 million in FY18, and \$132.6 million in FY19 and beyond.

Current employment conditions in the state support a no growth assumption other than the re-basing to the 2016 tax year.

If no changes are made to withholding tables by the Department of Revenue or to withholding behavior by taxpayers, this change in liabilities would first be realized on returns filed in the spring of 2017 and each spring filing period thereafter. If withholding tables or the behavior of taxpayers changes, the timing of a portion of these receipts could shift across fiscal years in addition to the filing pattern incorporated into this estimate.

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