LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 38** HLS 162ES 61
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP HSE COMM AMD**
Sub. Bill For.:

Date: June 15, 2016 9:26 AM
Author: WHITE, MALINDA
Dept./Agy.: Revenue
Subject: Reduce Excess Federal Itemized Deduction
Analyst: Greg Albrecht

TAX/INCOME TAX OR +$113,100,000 GF RV See Note

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, for tax years 2016 and 2017, the deduction will be decreased to the greater of 57.5% of excess federal itemized deductions or the sum of charitable contributions and mortgage interest in excess of the federal standard deduction. For tax year 2018 and beyond the deduction returns to 100%. The REC shall incorporate session actions (including this bill) into the official forecast no later than July 1, 2016, for FY17 and July 1, 2017 for FY18. If this base forecast for FY17 or FY18 is subsequently increased by more than the amounts due to this bill, this bill's decreased deduction shall be terminated for tax year 2016 and/or 2017, and any associated taxes already paid can be recouped via carry-forward of the deduction in the next tax year. If the deduction is not reinstated to 100% prior to tax year 2018, then taxpayers can recoup the associated tax amounts paid for tax years 2016 and 2017 when filing for the 2018 tax year plus the 100% deduction for that tax year.

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.	$113,100,000	$124,700,000	$15,500,000	$3,900,000	$0	**$257,200,000**
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	**$113,100,000**	**$124,700,000**	**$15,500,000**	**$3,900,000**	**$0**	**$257,200,000**

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. Costs associated with this particular proposal have not been estimated. 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

This bill will, for two tax years, allow the greater of a 57.5% state deduction of excess federal itemized deductions or the sum of the dollar amount of charitable contributions and mortgage interest that exceeds the federal standard deduction.

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, this proposed deduction would increase tax year 2014 aggregate income tax liabilities by some $122.1 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 $128.5 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, 3% for tax year 2011 and all other earlier tax years. Applying that pattern to the 2016 and 2017 liability estimates from the two year effectiveness of the bill results in a revenue gain in FY17 of $113.1 million, then $124.7 million in FY18, $15.5 million in FY19, and $3.9 million in FY20.

Only the estimated revenue impacts of the deduction decrease for the two tax years of 2016 and 2017 is included in the table above. The bill contemplates the possible replacement of these monies should the general fund revenue estimate be increased for FY16 and FY17. The bill also contemplates the possibility of the deduction not being reinstated to 100% by tax year 2018. In that case, the bill authorizes taxpayer recoupment of the 2016 and 2017 tax amounts when filing 2018 tax returns in addition to a 100% deduction for tax year 2018. This is a negative exposure of some $257 million to the general fund, with recoupment beginning as early as FY19.

Senate Dual Referral Rules House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 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}

John D. Carpenter

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Legislative Fiscal Officer