

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Date: June 19, 2016 5:38 PM	Author: WHITE, MALINDA
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Reduce Excess Federal Itemized Deduction	

TAX/INCOME TAX EG +\$88,000,000 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, for tax years beginning on and after January 1, 2016 the calculation of excess federal itemized deductions shall not include the deduction for state individual income taxes and state and local sales and use taxes paid. {HFAHB38 416 235}

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.	\$88,000,000	\$97,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$485,000,000
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	\$88,000,000	\$97,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$485,000,000

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 allow state deduction of excess federal itemized deductions, but the deduction will be reduced by the exclusion of state individual income taxes and state and local sales and use taxes in the total of itemized deductions from which the federal standard deduction is subtracted to arrive at the excess itemized deduction for state tax purposes.

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 \$94 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 \$99.7 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 liability estimate of the bill results in a revenue gain in FY17 of approximately \$88 million, then \$97 million in FY18, and \$100 million in FY19 and beyond.

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}

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Legislative Fiscal Officer