LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On:	**HB**	**50**	HLS 162ES 77
Bill Text Version:	**ENROLLED**		
Opp. Chamb. Action:			

Proposed Amd.:

Sub. Bill For.:

Date: June 28, 2016 1:23 PM		**Author:** MONTOUCET
Dept./Agy.: Revenue		
Subject: Income Tax Deduction For Net Capital Gains		**Analyst:** Greg Albrecht

TAX/INCOME TAX   EN INCREASE GF RV See Note   Page 1 of 1

Reduces the individual income tax deduction for net capital gains (Item #42)

<u>Present law</u>, for purposes of individual income taxation, allows a deduction of income from net capital gains, which shall be limited to gains recognized and treated for federal income tax purposes as arising from the sale or exchange of an equity interest in or substantially all of the assets of a nonpublicly traded corporation, partnership, limited liability company, or other business organization commercially domiciled in this state.

<u>Proposed law</u> allows the deduction to gains from sales of property which has been held for at least five years immediately prior to its sale. Allowable deductions are limited by the number of years the entity being sold has been domiciled in the state: if domiciled in state for 5 to 10 years the deduction is 50%, for 10 to 15 years 60%, for 15 to 20 years 70%, for 20 to 25 years 80%, for 25 years to 30 years 90%, and for 30 years of more 100% of the qualified gains are deductible. Applicable to sales or exchanges in equity interests that occur on and after the effective date of this bill. Effective upon governor's signature.

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.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

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.

REVENUE EXPLANATION

According to the Department of Revenue data, the average amount of net capital gain deduction claimed over the five tax years of 2010 - 2014 has been some $1.006 billion per year. Virtually all of this deduction is claimed on returns facing a 6% marginal tax rate. Thus, the average tax year liability reduction has been some $60 million per year. This bill will reduce this deduction and liability reduction by some unknown amount.

While the language of the current bill will require the Department of Revenue to obtain information on the length of time that entities are domiciled in the state when an equity interest is sold and the deduction is claimed, the Department does not obtain that information under current law. Thus, while denying the deduction to domicile times less than five years and providing a tiered deduction based on domicile time will likely reduce the fiscal costs of the deduction, a reliable estimate of the fiscal effect of the bill can not be made.

Given the annual amounts deducted, and the consequent annual fiscal costs, potential net revenue gains to the state are likely to be material, although a specific dollar estimate can not be made. However, caution should be observed given the volatile nature of any type of capital gains. Actual results from limiting this deduction can vary significantly from year to year.

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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