

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 197** HLS 17RS 870

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 23, 2017 2:03 PM	Author: WHITE, MALINDA
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Net Capital Gains Tax Deduction	

TAX/INCOME TAX OR INCREASE GF RV See Note
Sunsets the individual income tax deduction for net capital gains

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Present law provides a deduction from the individual income tax calculation for capital gains arising from the sale of an equity interest in non-publicly traded organization commercially domiciled in the state, held for a minimum of five years prior to the sale. The percentage of deduction rises the longer the interest was held, starting at 50% if held 5-10 years, adding 10% additional deduction for each additional five years the interest is held. If held for 30 years or more the deduction is 100%.

Proposed law eliminates the availability of the deduction for gains reported for tax periods beginning on or after January 1, 2020.

Effective upon governor's signature.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	INCREASE	INCREASE	\$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

EXPENDITURE EXPLANATION

Tax system changes will have to be made for tax year 2020 filings. These changes are typically estimated by the Dept. as several tens of thousands of dollars of staff time for design, modification, and testing (\$26,000 in this case).

REVENUE EXPLANATION

This deduction was modified to its current form by Act 11 of 2016 ES2, and no tax return data is yet available suggesting the annual (tax year or fiscal year) cost of the deduction in its current form. Prior to the current form, when a 100% deduction was allowed regardless of the length of time an equity interest was held, the state's revenue losses average \$43 million per year in FY14 and FY15. Revenue losses increased to \$89 million in FY16, with this step-up likely to avoid the the limitations being imposed by Act 11. Since this bill, eliminating the deduction entirely, applies with tax periods beginning in 2020, the first likely effect on state revenue is FY21, when returns are filed in the spring of 2021 for tax year 2020. The bill will result in additional net tax receipts, but the magnitude of that effect is indeterminable until some actual filing history under the recent modifications has occurred.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 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
Legislative Fiscal Officer