LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 8** HLS 181ES 72
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 26, 2018 8:55 AM
Author: LEGER
Dept./Agy.: Revenue
Subject: Excess Federal Itemized Deduction
Analyst: Greg Albrecht

TAX/INCOME TAX EG +$79,000,000 GF RV See Note

Reduces the amount of the individual income tax deduction for excess federal itemized personal deductions (Item #6)

Present law allows a deduction on state individual income tax returns for 100% of the excess amount of federal itemized deductions over the federal standard deduction.

Proposed law maintains a 100% excess federal itemized deduction, but disallows the inclusion of state income or general sales taxes paid in the computation of total federal itemized deductions for the purposes of computing the state excess federal itemized deduction. Applicable to tax years beginning on and after January 1, 2018.

Effective July 1, 2018 if HBs 2, 3, 12, 15, 23, 29, and HCR 2, all of this special session, are enacted or adopted by the legislature.

EXPENDITURES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**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	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	$79,000,000	$70,000,000	$70,000,000	$70,000,000	$70,000,000	**$359,000,000**
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	**$79,000,000**	**$70,000,000**	**$70,000,000**	**$70,000,000**	**$70,000,000**	**$359,000,000**

EXPENDITURE EXPLANATION

The Dept. of Revenue will likely incur minor costs to incorporate the change in this deduction. Additional resources may be required by the department dependent upon the cumulative amount of changes enacted in the session.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2016 tax year return data, the excess federal itemized deduction change proposed by the bill would increase aggregate income tax liabilities of resident tax filers by some $70 million. This estimate is based on a current law baseline that contemplates recent federal tax law changes that are effective for the 2018 tax year. That law, in part, nearly doubles the standard deduction, significantly reducing the total amount of excess federal itemized deduction, as well as caps the sum of state & local income and sales taxes that can be included in itemized deductions at $10,000. This bill then disallows the inclusion of state income or general sales taxes paid in the computation of total federal itemized deductions for the purposes of computing the state excess federal itemized deduction.

The Department of Revenue has already adjusted withholdings in response to the increased state tax liabilities that will result from the recently enacted federal law changes. While these adjustments are not relevant to this bill's effects, and this bill would only affect filers that would still itemize on their federal returns even after the federal changes (less than 25% of filers), the Department has indicated that it would make additional adjustments to withholdings in response to this bill's state law changes. Withholding changes complicate the estimates of specific fiscal years' receipts.

This fiscal note assumes there is some ramp-up lag-time before material withholding receipts, attributable to this bill, are evident in overall personal income tax collections. This would put material withholding effects near the end of FY18 and its accrual period, and one quarter of withholding receipts in FY18 are estimated for this note. In addition, 50% of the annual liability increase is assumed to be collected via withholdings, making FY18 receipts an estimated $9 million. Collections in FY19 will be composed of four quarters of withholdings (2018q3 - 2019q2, $35 million) plus payments with returns in the spring 2019 filing season for the entire liability increase not already paid through withholdings (the 2018q1 ramp-up lag and the 50% of total annual liability not collected via withholdings, $44 million). Thus, FY19 collects an estimated $79 million of revenue. By FY20, collections should normalize to reflect only the annual liability increase of $70 million collected via four quarters of withholdings ($35 million) plus reconciliation payments with returns in the spring months ($35 million).

There is considerable uncertainty associated with estimates of significant tax changes involving filing timing and extensions, withholdings assumptions, and interaction with recently enacted federal law changes that affect state tax liability calculations. Specific dollar estimates for specific fiscal years should be viewed with caution.

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}

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