

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 21** HLS 182ES 56
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 22, 2018	8:12 PM	Author: SHADOIN
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Excess Federal Itemized Deduction		

TAX/INCOME TAX Page 1 of 1
 OR +\$25,000,000 GF RV See Note
 Reduces the amount of the individual income tax deduction for excess federal itemized personal deductions (Item #20)

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.

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.	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$125,000,000
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	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$125,000,000

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

Recent federal tax law, in part, nearly doubles the standard deduction, as well as caps the sum of state & local income, sales taxes, and property taxes that can be included in itemized deductions at \$10,000. These changes significantly reduce the total amount of excess federal itemized deduction at the state level. 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 excess federal itemized deduction on state tax returns.

Based on a micro-simulation model of the state personal income tax maintained by the Legislative Fiscal Office, processing 2016 tax year return data modified to incorporate recent federal tax law changes that are effective for the 2018 tax year, the excess federal itemized deduction change proposed by the bill results in an increase in aggregate income tax liabilities of resident tax filers of some \$70 million. However, this estimate seems high in light of other estimates of excess itemized deduction changes with less associated uncertainty. In addition, while this model simulates several thousand average returns over numerous income ranges within in a number of filer subsets, it does not compute all returns individually and has limited capacity to incorporate federal law changes. Re-computations of 2015 and 2016 returns by the Dept. of Revenue under the conditions of this bill, and incorporating the recent federal tax law changes, results in aggregate liability increases ranging from \$22 million to \$36 million, depending on the utilization of federal income tax data. The Dept. can calculate all returns individually and has more federal data capacity but, in both cases, various assumptions and calculations external to the models still have to be utilized to complete estimates.

There is considerable uncertainty associated with estimates of state tax changes in light of the significant effects expected from recently enacted federal law changes that affect state tax liability calculations. Specific dollar estimates of state tax law changes are highly uncertain until state tax returns actually reflect the federal law changes. This uncertainty is reflected in the materially different estimates generated by the two efforts discussed above, and within the range of estimates generated by the Dept. Consequently, a Dept. generated estimate of nearly \$25 million, based on 2016 returns and federal income tax data is recommended for fiscal note purposes. This estimate seems reasonable in that state income tax or sales tax are relatively small shares of total itemized deductions (19% and 1.3% respectively), and are part of a capped maximum at the federal level.

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| <p><u>Senate</u></p> <p><input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}</p> <p><input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}</p> | <p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}</p> <p><input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p> |
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John D. Carpenter
 Legislative Fiscal Officer