

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 456** HLS 19RS 755  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> April 28, 2019	5:30 PM	<b>Author:</b> IVEY
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Federal Income Taxes Paid Deduction		

TAX/INCOME TAX OR +\$901,000,000 GF RV See Note Page 1 of 1  
 Eliminates the deductibility of federal income taxes paid from state individual and corporate income taxes

Present law provides a deduction for federal income taxes paid for both individual and corporate income tax.

Proposed law eliminates the deduction.

Effective for tax periods beginning on and after January 1, 2020.

Contingent upon adoption of a constitutional amendment contained in House Bill \_\_\_\_\_ of this session, to be submitted to the electors at a statewide election.

<b>EXPENDITURES</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$87,000	\$0	\$0	\$0	\$0	<b>\$87,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$87,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$87,000</b>

  

<b>REVENUES</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$762,000,000	\$896,000,000	\$901,000,000	\$901,000,000	<b>\$3,460,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$762,000,000</b>	<b>\$896,000,000</b>	<b>\$901,000,000</b>	<b>\$901,000,000</b>	<b>\$3,460,000,000</b>

**EXPENDITURE EXPLANATION**

Implementation of this proposal will result in approximately \$51,000 of programming, testing and system development costs related to the revision of the affected tax returns. The cost also includes estimated expenses of \$36,000 from LDR's Revenue Processing Center (RPC) to update equipment and software to process the revised return in FY 2019-2020. LDR will also be required to promulgate new rules to issue revised withholding tables and tax tables as required by R.S. 47:295.

**REVENUE EXPLANATION**

The estimated effect of eliminating the federal tax deduction for individual returns is generated by a micro-simulation model processing 2017 resident individual income tax data. The model incorporates the significant federal income tax changes effective for the 2018 tax year. The resulting liability increase was some \$792 million. The Dept. of Rev indicates that return filing patterns for the individual income tax result in approximately 90% of returns received in a fiscal year's filing season are from the immediately preceding tax year, with the remaining 10% following in the next fiscal year's filing season. Thus, the FY21 liability effect is estimated as a \$713 million gain, with the full liability gain of \$792 million occurring in FY22 and each year thereafter.

The uncertainty associated with the effects of the federal tax law changes of late-2017 make it impossible for the Dept. of Revenue to simulate corporate returns from a prior year (2016 latest complete year) with the federal law changes incorporated. Thus, a rough estimate of the effect of eliminating the federal tax deduction for corporate returns is based on the last complete fiscal year of returns; \$121 million of foregone state tax revenue. The Dept. utilizes a 10% reduction for the federal tax law changes (\$109 million), and then filing pattern factors are applied; 45% of returns received in a fiscal year's filing season are from the immediately preceding tax year, 50% following in the next fiscal year's filing season, with the remaining 5% following in the next fiscal year's filing season. This results in an FY21 revenue gain of \$49 million, a FY22 gain of \$104 million, and the full gain of \$109 million in FY22 and beyond.

Combined results are are revenue gain of \$762 million in FY21, \$896 million in FY22, and \$901 million in FY23 and each following year.

There has been no accounting for changes in withholding requirements, which are likely to be made given the broad applicability across all taxpayers. Withholding changes would likely have a material effect on the actual fiscal year receipts associated with the tax year liability changes. In addition, the effects of the federal tax law changes, especially with regard to corporate taxpayers, are particularly uncertain. Thus, the specific estimated effects of the bill by fiscal year can not be considered reliable.

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