



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

Fiscal Note On: **SB 198** SLS 11RS 443  
 Bill Text Version: **ENGROSSED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> June 3, 2011 7:30 AM	<b>Author:</b> ERDEY
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Exempt Dividends and Interest of 65 + Taxpayers	

TAX EXEMPTIONS EG -\$4,100,000 GF RV See Note Page 1 of 1  
 Phases-in an exemption of investment income of those 65 years of age or older from state individual income tax. (gov sig)

Current law subjects interest and dividend income to state individual income tax if that income is included in adjusted gross income.

Proposed law exempts dividend and interest income received by an individual 65 years of age or older from state individual income taxation. The exemption is phased in over a 5-year period; for tax year 2011 20%, 2012 40%, 2013 60%, 2014 80%, and 2015 and beyond 100%.

Effective upon governor's signature.

EXPENDITURES	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	INCREASE	\$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
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
REVENUES	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$4,100,000)	(\$8,200,000)	(\$12,300,000)	(\$16,400,000)	(\$20,500,000)	(\$61,500,000)
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
<b>Annual Total</b>	<b>(\$4,100,000)</b>	<b>(\$8,200,000)</b>	<b>(\$12,300,000)</b>	<b>(\$16,400,000)</b>	<b>(\$20,500,000)</b>	<b>(\$61,500,000)</b>

**EXPENDITURE EXPLANATION**

The Department of Revenue indicates that modifications to forms, computer programming and, and tax processing systems to incorporate this change to taxable income may involve up to \$41,000 of one-time costs of staff time. Some minimal recurring costs for additional documentation handling and taxpayer inquiries will also likely be incurred.

**REVENUE EXPLANATION**

State tax data for the 2009 tax year (latest available) indicates that individuals 65 years old or older reported adjusted gross income of over \$12.3 billion in that year (on 223,726 returns). The Social Security Administration publishes a report, "Income of the Aged Chartbook" (latest release 2010), indicating that in 2008 12.7% of the income of this age group was asset income. This suggests that approximately \$1.568 billion of reported income is likely to be asset income.

A review of federal tax return data of Louisiana residents for the latest twelve years available (1997 - 2008) indicates that approximately 37% of asset income can be dividends and interest (considerable variation can occur from year to year; 30% - 45% shares during these years). That average share results estimated total income affected by this bill of \$580 million.

Interest and dividends in general have risen sharply in recent years and are likely to be strongly related to the current stage of the business cycle. In the 2001 - 2004 period, following the 2000-2001 recession, this income dipped to approximately 78% of the pre-recession period of 1997 - 2000, and then by 2008 had risen by over 200% from the low point in 2004. This income continued to rise through 2008. However, given the recent economic downturn, this income during the periods of the fiscal note horizon is likely to be lower than its 2008 peak.

Applying a 22% reduction in the estimated income level for fiscal note purposes (same % dip as after last recession) results in an aggregate income exemption of \$452.4 million. This aggregate level of income is distributed across taxpayers in a Louisiana personal income tax micro-simulation model processing 2009 tax data for this specific filer group on a combined basis of the distribution of these gains in 2008 on federal returns in broad federal adjusted gross income categories (for example, 53% on returns with \$200,000 or more of federal adjusted gross income) and the distribution of federal adjusted gross income from state returns within the broad federal categories. This calculates the state revenue loss on the basis of the marginal tax rates of state tax payers as would occur when tax returns are actually filed with this new deduction in place. The resulting reduction in tax table tax liability is \$23.4 million. However, these filers reported some \$55.8 million of interest received from federal government obligations, which is already exempt from state taxation. Removing that income from the analysis results in a tax table liability reduction of \$20.5 million.

This total liability reduction is phased in across tax years as provided in the bill. A tax 2011 exemption of 20% will reduce tax collections in FY12 when returns are filed in the spring of 2012.

<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>Dual Referral Rules</u></p>	<p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)1 &gt;= \$500,000 Annual Fiscal Cost {S}</p> <p><input type="checkbox"/> 6.8(F)2 &gt;= \$100,000 Annual SGF 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>	<p align="right"><i>H. Gordon Monk</i></p> <hr/> <p align="right"><b>H. Gordon Monk</b> Legislative Fiscal Officer</p>
---	-----------------------------------	---	--