

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 146** SLS 13RS 478
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 24, 2013 2:32 PM	Author: ERDEY
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Exempt Capital Gains, Dividends, Interest of 65+ Taxpayers	

TAX EXEMPTIONS OR -\$33,100,000 GF RV See Note Page 1 of 1
 Phases in certain exemptions for capital gains income and investment income of an individual 65 years of age or older from state individual income tax. (gov siq)

Current law subjects capital gains, dividends, and interest income to state individual income tax if these types of income are included in adjusted gross income.

Proposed law exempts net long-term capital gains as well as dividends, 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 2013 20%, 2014 40%, 2015 60%, 2016 80%, and 2017 and beyond 100%.

Effective upon governor's signature.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	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	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	(\$6,600,000)	(\$13,200,000)	(\$19,900,000)	(\$26,500,000)	(\$33,100,000)	(\$99,300,000)
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	(\$6,600,000)	(\$13,200,000)	(\$19,900,000)	(\$26,500,000)	(\$33,100,000)	(\$99,300,000)

EXPENDITURE EXPLANATION

The Department of Revenue will incur workload costs over the phase-out period associated with modifications to forms, computer programming and, and tax processing systems to incorporate this change to taxable income. The dollar value of such costs are typically estimated in the \$20,000 - \$40,000 for each change, depending on the change being incorporated. Some additional costs associated with taxpayer inquiries will also likely be incurred.

REVENUE EXPLANATION

State tax data for the 2011 tax year (latest available) indicates that individuals 65 years old or older reported adjusted gross income of over \$15.2 billion in that year (on 215,936 returns). The Social Security Administration report, "Income of the Aged Chartbook" (latest release 2012), indicating that in 2010 11.4% of the income of this age group was asset income. This suggests that approximately \$1.739 billion of this group's reported income is asset income.

A review of federal tax return data for the latest 15 years available (1997 - 2011) indicates that capital gains averaged 43% of asset income but only about 30% after 2008 (\$522 million), and that dividends & interest averaged 39% of asset income but over 40% after 2008 (\$678 million). Considerable variation can occur from year to year in these shares; 27% - 55% for capital gains and 30% - 52% for dividends & interest during these years. These shares of asset income result in an estimate of total income affected by this bill of \$1.148 billion (long-term capital gains are typically 90% of total gains plus dividends & interest income).

Going forward, the income being exempted by this bill will likely be on the rise, and utilizing the 2011 level may establish a minimum revenue loss from the bill. Each of these aggregate levels of exempt income was separately distributed across taxpayers in a Louisiana personal income tax micro-simulation model processing 2011 tax data on a combined basis of the distribution of these gains in 2011 on federal returns in broad federal adjusted gross income categories, 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 gross reduction in tax table tax liability totals \$54.2 million; \$25.5 million for capital gains and \$28.7 million for dividends & interest.

On 2011 state tax returns these taxpayers reduced their taxable income by \$352.4 million for certain capital gains that are already exempt (the sale of state domiciled privately held businesses or interests in such businesses), resulting in reduced tax liabilities of \$21.1 million. Subtracting that existing tax loss from the amount associated with the gross loss of this bill, leaves a full phase in net state tax loss of \$33.1 million resulting from this bill. The bill phases in the exemption evenly over five years, and this is depicted in the table above. These are likely minimum annual revenue losses over the fiscal note horizon. First effects are expected in FY14 as taxpayers file returns for the 2013 tax year; the first tax year that this exemption is applicable.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S}	
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

John D. Carpenter
 Legislative Fiscal Officer