LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 685** HLS 13RS 1552
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 24, 2013 2:36 PM
Author: GAROFALO
Dept./Agy.: Revenue
Subject: Exempt Capital Gains From Individual Income Tax
Analyst: Greg Albrecht

TAX/INCOME-INDIV/EXEMPT OR -$115,000,000 GF RV See Note
Provides relative to the deduction for net capital gains

Current law exempts from state individual income taxation net capital gains (income taxed at the federal capital gains rate) arising from the sale or exchange of an equity interest in or substantially all of the assets of a non-publicly traded business organization commercially domiciled in Louisiana.

Proposed law exempts all net capital gains (income taxed at the federal capital gains rate) from individual income tax.

Effective for all taxable periods beginning on or after January 1, 2014.

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.	$0	($115,000,000)	($115,000,000)	($115,000,000)	($115,000,000)	**($460,000,000)**
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	**$0**	**($115,000,000)**	**($115,000,000)**	**($115,000,000)**	**($115,000,000)**	**($460,000,000)**

EXPENDITURE EXPLANATION

The Department of Revenue will incur one-time workload costs 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 range, depending on the change being incorporated. Some additional costs associated with taxpayer inquiries will also likely be incurred.

REVENUE EXPLANATION

Other than capital gains from the sale of privately held businesses or interests in such businesses, state income tax data does not distinguish net capital gains within adjusted gross income. However, federal IRS data for Louisiana resident federal tax filings can provide some idea of the amount of income being exempted by this bill. The latest federal data available is for tax year 2011 and indicates total net capital gains received by Louisiana residents in that tax year was some $2.794 billion. These gains can be quite variable and tend to be strongly related to the business cycle. In the 2001 - 2004 period, following the 2000-2001 recession, gains dipped to $1.6 billion, approximately 55% of the pre-recession period of 1997 - 2000, and then by 2008 were $6.8 billion, more than four times the lows of early in the decade (2003). Gains dropped off significantly in 2009 from the expansion peak of 2008, stepped up in 2010 and then took a 7% drop in 2011. As the economy slowly recovers, capital gains income will likely eventually begin an up-cycle.

Going forward, the gains being exempted by this bill may be on the rise, and utilizing the 2011 level may establish a minimum revenue loss from the bill. This aggregate level of gains is 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 is $155 million.

On 2011 state tax returns taxpayers reduced their taxable income by $705.5 million for exempted capital gains (the sale of state domiciled privately held businesses or interests in such businesses), resulting in reduced tax liabilities of $39.5 million. Subtracting that existing tax loss from the amount associated with an exemption for all capital gains, leaves a net state tax loss of $115 million resulting from this bill. This is likely a minimum annual revenue loss over the fiscal note horizon. First effects are expected in FY15 as taxpayers file returns for the 2014 tax year; the first tax year that this exemption is applicable.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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