LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 181** SLS 15RS 471
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 14, 2015 5:11 PM
Author: ADLEY
Dept./Agy.: Revenue
Subject: Repeal Deduction For Certain Net Capital Gains
Analyst: Greg Albrecht

TAX/INCOME/PERSONAL EG +$3,700,000 GF RV See Note

Repeals an income tax deduction for the net capital gains on the sale of a nonpublicly traded business commercially domiciled in Louisiana. (gov sig)

Current law allows a deduction of the income from net capital gains arising from the sale or exchange of an equity interest in or substantially all of the assets of a non-publicly traded corporation, partnership, limited liability company, or other business domiciled in the state.

Proposed law repeals this deduction.

Applicable to tax periods beginning on or after January 1, 2015.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$3,700,000	$35,100,000	$35,900,000	$36,600,000	$36,600,000	**$147,900,000**
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	**$3,700,000**	**$35,100,000**	**$35,900,000**	**$36,600,000**	**$36,600,000**	**$147,900,000**

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill increases taxable income by eliminating a deduction from gross income, and will result in higher state tax liabilities and tax receipts. The Revenue Dept. Tax Exemption Budget reports that the actual state tax loss from this deduction for the last four complete fiscal years was $12.6 million in FY11, $55 million in FY12, $34.2 million in FY13, and $44.7 million in FY14. The first fiscal year of realizations was FY11, and total revenue losses since inception have been $146.5 million. Since the underlying base of income is capital gains and can exhibit considerable variation from year to year and be shifted among years by federal tax changes on these gains, all four years since inception are averaged to generate an expected fiscal year revenue loss in the future of some $36.6 million per year. Elimination of the deduction would eventually be expected to result in approximately that amount of fiscal year revenue gain.

However, fiscal year realizations result from multiple tax years of returns processed within the fiscal year, while the bill eliminates the deduction starting with the single tax year of 2015. Thus, in FY16 only a portion of the returns processed in that fiscal year will be returns filed subject to the change made by this bill. In FY17, a greater portion of returns processed will be subject to this bill, with a greater portion in FY18, FY19, and FY20. The revenue effect of the bill will accumulate toward that amount over time as successive tax years are subject to the deduction's elimination, subject to the volatile nature of the underlying capital gain base involved.

LDR isolated the respective tax year returns within the last complete fiscal year (FY14). Each tax year's share of deducted income in FY14 returns processed was calculated. For the first preceding tax year the share was 10%; for the second preceding tax year 86%%, the third year 2%, and the fourth year 2%. These annual shares are then accumulated for each succeeding fiscal year of the fiscal note horizon: FY16 10%, FY17 96%, FY18 98%, FY19 100%, with these accumulating shares applied to the average fiscal year effect to estimate what the elimination of the deduction is likely to generate in each fiscal year of the fiscal note horizon.

Senate	Dual Referral Rules	House
[ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		[x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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