



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: HB 95 HLS 161ES 216
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 20, 2016 1:51 PM
Dept./Agy.: Revenue
Subject: Federal Income Tax Deduction
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TAX/INCOME TAX OR +\$374,000,000 GF RV See Note Page 1 of 1

Repeals the state income tax deduction for federal income taxes paid for purposes of calculating individual and corporate income taxes (Item #17)

Current law requires a deduction for 100% of federal income taxes paid when computing state income taxes.

Proposed law eliminates this deduction from the statutes, for both individual and corporate income taxes.

Effective for all tax years beginning on and after January 1, 2017.

Contingent upon the constitutional amendment removing the requirement for federal income taxes paid as a deduction from gross income contained in HB 31 of this session, to be submitted to the electors at the statewide election to be held on November 8, 2016.

Table with 7 columns: EXPENDITURES/REVENUES, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions, adjusting withholding tables, and distributing those new tables to tax remitters.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, elimination of the federal income tax deduction would increase aggregate income tax liabilities of individuals by some \$748 million.

Since changes to the federal income tax deduction affect all tax filers, it assumed that the Department of Revenue would adjust withholding tables to implement the bill at the start of 2017.

Based on fiscal year data from the Revenue Department 2015-16 Tax Exemption Budget, the deduction of federal taxes paid from corporate income provides approximately \$200 million of additional corporate tax.

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}

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}

Signature of John D. Carpenter

John D. Carpenter
Legislative Fiscal Officer