

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Date: February 24, 2016 10:13 AM	Author: LEGER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Federal Income Tax Deduction	

TAX/INCOME TAX EG +\$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.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$374,000,000	\$815,000,000	\$881,000,000	\$948,000,000	\$948,000,000	\$3,966,000,000
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$374,000,000	\$815,000,000	\$881,000,000	\$948,000,000	\$948,000,000	\$3,966,000,000

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. Additional inquiries from tax remitters is also likely. These costs are typically estimated as several thousands or even tens of thousands of dollars of staff time.

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. This estimate is based only on resident filers. Nonresident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Nonresidents tend to make up 5% - 6% of total tax-year liabilities.

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. Withholdings would begin being realized in the second half of FY17. Based on the total liability increase estimate above and a start date of January 2017, compliance/enforcement ramp-up is assumed to be minimal and essentially two-quarters of increased tax liability would be gained in FY17, or some \$374 million. Collections in FY18 and beyond will be composed of four quarters of withholdings each fiscal year for the full estimate of \$748 million per year.

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. These figures are fiscal year figures and encompass multiple tax year's of returns. Thus, there will likely be a transition period such that little is collected in FY17 from corporate declarations reflecting tax year 2017. Then, collections will come in during FY18 and FY19 for tax year 2017, normalizing by FY20. A three year transitions is assumed for purposes of this fiscal note. Corporate receipts are highly volatile and actual collections will likely differ from this simple assumed transition.

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}

John D. Carpenter
Legislative Fiscal Officer