LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 88** SLS 09RS 136
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2009 8:05 PM **Author:** LONG
Dept./Agy.: Revenue
Subject: Property and casualty savings account **Analyst:** Travis McIlwain

TAX/INCOME/PERSONAL OR DECREASE GF RV See Note

Provides for the creation of a tax deductible property and casualty savings account for property owners in Louisiana. (8/15/09)

Proposed legislation provides for tax deduction for contributions to a property and casualty savings account. The limitations on the amount of the deduction are: 1.) residential property - $10,000 or the actual amount of the deductible stated in the policy, whichever is less, 2.) commercial property - $50,000 or the actual amount of the deductible stated in the policy, whichever is less. Proposed legislation defines a property and casualty savings account as a regular savings account or money market account in a state or national bank, savings and loan association, credit union, or savings bank. Proposed legislation provides for distributions from the property and casualty savings account be treated as income unless the funds are withdrawn to cover qualified catastrophe expenses. Distributions are treated as income and subject to 2 1/2% tax penalty. This bill provides that the tax penalty will not apply if the taxpayer no longer owns the property or if the distribution is made by a taxpayer who reaches 70 years old. This bill requires the commissioner of insurance and the secretary of the Department of Revenue to promulgate rules to implement this bill.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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**

EXPENDITURE EXPLANATION

There may be some administrative expenditures associated with this measure to the Department of Revenue. This bill charges the Department of Revenue with determining who the qualified various account administrator of such accounts will be. It is speculative as to how many financial institutions will establish and administer such accounts, which according to the department is beyond their expertise and would require additional personnel with a financial institution background.

REVENUE EXPLANATION

Granting a tax deduction for contributions to a property and casualty savings account will decrease the state general fund receipts by an indeterminable amount. It is only speculative as to how many individuals would take advantage of such an account and its consequent deduction. Initially, utilization is likely to be small as taxpayers learn about these accounts. A similar concept has existed with federal medical savings accounts, and familiarity with those accounts combined with the state's recent experiences with insurance issues and natural disasters could make adoption of similar state level accounts for homeowner insurance more likely. However, utilization of accounts like this tends to be relatively low and is more likely when a comparable federal provision exists. State revenue losses are likely to be small until utilization of these accounts is widespread.

A $10,000 deposit (residential property) would result in about $330 of tax liability reduction at a 3.3% effective tax rate (higher than average tax rate is used because these types of accounts tend to be utilized by higher income individuals who can reallocate some of their savings into the required high deductible accounts). A $50,000 deposit (commercial property), would result in about $1,650 of tax liability reduction at a 3.3% effective tax rate. Over 1,500 such deductions (residential property accounts) would have to be made to generate $500,000 of aggregate state tax loss. Over 300 such deductions (commercial property accounts) would have to be made to generate $500,000 of aggregate state tax loss.

NOTE: On June 11, 2007, South Carolina enacted the Omnibus Coastal Property Insurance Reform Act of 2007 (HB 3820). Included within the Act are provisions which allow for the establishment of catastrophe savings accounts and a tax credit for deposits made into the account against state income. The fiscal impact of this measure (HB 3820) was estimated at $4 million of state general fund reduction in FY 07-08. However, the Act included a variety of tax measures that reduced revenue collections, and not just the catastrophic account provision.

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

Gregory V. Albrecht
Chief Economist