LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 88** SLS 09RS 136

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 26, 2009 8:40 AM

Author: LONG

Dept./Agy.: Revenue

Subject: Property and casualty savings account

Analyst: Travis McIlwain

TAX/INCOME/PERSONAL RE 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 deposit 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 deposit account established by an insurance policyholder for residential and commercial property in Louisiana used solely to cover qualified expenses. 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provides for distributions from the property and casualty savings account be treated as income unless the funds are withdrawn to cover qualified catastrophe expenses.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.	$91,026	$53,284	$55,415	$57,632	$59,937	**$317,294**
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	**$91,026**	**$53,284**	**$55,415**	**$57,632**	**$59,937**	**$317,294**

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 will be administrative expenditures associated with this measure to the Department of Revenue due to the additional need of 1 position at a cost of $38,426, system modifications at a cost of $45,600 and forms modification at a cost of $7,000 . This bill charges the department 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 can be relatively low and is more likely when a comparable federal provision exists. State revenue losses are likely to be small initially, and grow over time as utilization of these accounts grows.

A $10,000 deposit (residential property) would result, at most, in a $600 of tax liability reduction at the 6% top marginal rate (higher than average tax rate is likely 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, at most, in $4,000 of tax liability reduction at the 8% top corporate marginal tax rate. Over 800 such deductions (residential property accounts) would have to be made to generate $500,000 of aggregate state tax loss. Only 125 such deductions (commercial property accounts) would have to be made to generate $500,000 of aggregate state tax loss.

The START Program is a similar type of program to the one proposed within this bill. There are approximately 33,500 active accounts with an average contribution of $1,500. The current estimated revenue loss from this deduction is $1.3 million. While not necessarily indicative of what this bill's deduction would cost (large number of accounts in START but small contributions per account), it does provide an idea of what is possible from these kinds of deductions.

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

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