

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 358** HLS 17RS 408
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 15, 2017 5:05 PM	Author: IVEY
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Income Tax - Federal Income Tax Deduction	

TAX/INCOME TAX EG SEE FISC NOTE GF RV Page 1 of 1
 Eliminates the deductibility of federal income taxes paid for purposes of calculating state individual income tax liability

Present law requires that federal income taxes paid shall be allowed as a deductible item in computing state income taxes for both individuals and corporations.

Proposed law provides that the computation of taxable income not include this deduction for individual income tax.

Applicable for all tax periods beginning on and after January 1, 2018, and contingent upon adoption of a constitutional amendment proposed in House Bill 356 of this session, and enactment of House Bills 119, 355, and 357 of this session.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW					
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						

EXPENDITURE EXPLANATION

The Dept. of Revenue will likely incur minor costs to incorporate the change in this deduction. Additional resources may be required by the department dependent upon the cumulative amount of changes enacted in the session.

REVENUE EXPLANATION

The bill is contingent upon an amendment to the state constitution, which presumably at least removes the requirement for a federal income tax deduction. Assuming passage of such an amendment, the fiscal impact of this measure is estimated below.

The effect of this bill was estimated utilizing a micro-simulation model of the individual income tax processing 2015 tax return data. The elimination of the federal income tax deduction for individual income tax (with no other tax changes) would increase annual aggregate state tax liabilities by some \$796 million.

Since the bill would be effective for tax year 2018, and this change would effect essentially all tax filers, the Dept. of Revenue will likely adjust withholding tables for implementation at the outset of the tax year. Thus, revenue gains will occur in the second half of FY18. To the extent withholdings are able to account for the full effect of the bill, revenue gains in FY18 could be approximately one-half of the annual tax year total, or \$398 million. After that, revenue gains should stabilize toward full annual amounts (\$796 million per year) . During FY19, a full year of revenue gains will occur through withholding increases for the second half of tax year 2018 (the first half of FY19) and the first half of tax year 2019 (the second half of FY19).

However, this bill is contingent upon enactment of HB 355 which makes significant changes to the individual income tax. Thus, the ultimate effect of this bill depends on the final changes enacted in HB 355.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer