

**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**



Fiscal Note On: **SB 34** SLS 051ES 105  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Sub. Bill For.: **REVISED**  
 Proposed Amd.:

<b>Date:</b> November 9, 2005 6:21 PM	<b>Author:</b> DARDENNE
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Personal Income Tax - Federal Disaster Relief Windfall	

TAX/TAXATION OR -\$119,500,000 GF RV See Note Page 1 of 1

Provides that the federal income tax deduction for individuals will not be reduced by any federal disaster relief tax credits, which includes deductions limiting loss of property arising from a disaster and any other tax benefit determined by the

Current law allows taxpayers to deduct the amount of their federal income tax when computing their LA taxable income.

Proposed law provides that the federal income tax liability is to be increased by the amount of any federal disaster relief tax credits. Federal disaster relief tax credits are defined as any credit which is a disaster relief tax credit, or is determined by the Department of Revenue as a disaster relief tax credit, or any deduction which operates to limit or relieve an individual of any loss of property by the individual arising from events happening in a disaster.

Effective for all taxable periods beginning after December 31, 2004.

<b>EXPENDITURES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	(\$119,500,000)	(\$140,100,000)	\$0	\$0	\$0	<b>(\$259,600,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>(\$119,500,000)</b>	<b>(\$140,100,000)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$259,600,000)</b>

**EXPENDITURE EXPLANATION**

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

**REVENUE EXPLANATION**

According to the Department of Revenue, the language of this bill effectively creates a casualty loss deduction on state income tax returns through the deduction for federal income taxes paid. Under this bill, the federal tax deduction would increase by the amount of the losses, state taxable income would decline, as would state tax liabilities.

The Department estimates the state revenue loss from this new deduction from estimates of the federal tax loss developed by the Congressional Joint Committee on Taxation with regard to the Katrina Emergency Tax Relief Act of 2005. The federal tax loss from casualty losses is \$1.089 billion in 2006 and \$1.259 billion in 2007. These tax loss estimates were grossed up to a casualty loss estimate by assuming a 15% effective average federal tax rate, resulting in \$7.260 billion of loss in 2006 and \$8.390 billion of loss in 2007. Louisiana's share of these losses is estimated as 66% of the total (Hurricane Insurance Information Center), resulting in estimates of Louisiana casualty loss claims of \$4.7 billion in 2006 and \$5.5 billion in 2007. If these levels of casualty loss were deducted from Louisiana tax returns, the potential state income tax revenue loss is \$141 million in 2006 and \$165 million in 2007 (at a 3% effective average state tax rate).

Since these casualty losses will reduce federal tax liabilities and those liabilities are deductions on the state return, state tax liabilities will increase due to this interaction. The estimated state tax revenue gain from this \$21.5 million in 2006 and \$24.9 million in 2007 (66% of the federal revenue loss estimates at a 3% state tax rate). The net effect of these two processes is a state revenue loss of \$119.5 million in 2006 and \$140.1 million in 2007.

The bill also appears to preclude federal disaster relief tax credits from increasing state liabilities through the state deduction for federal taxes paid. The official revenue forecasts do not incorporate an expectation of receiving additional state tax revenue as a result of federal disaster relief tax credits. However, the revenue forecast does anticipate the tax revenue associated with taxpayer income that the deduction component of this bill would affect. Thus, the bill will result in a substantial loss of state tax revenue. While some tax payers may not have sufficient state tax liabilities to fully benefit from the new deduction provided and thus, the revenue loss estimates above may be overstated, the federal loss estimates from which these state estimates were derived only reflected hurricane Katrina. Additional losses will result from hurricane Rita.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

*H. Gordon Monk*

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**Legislative Fiscal Officer**