



Fiscal Note On: **HB 184** HLS 25RS 286
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | | |
|--|---------|------------------------------|
| Date: June 9, 2025 | 7:07 PM | Author: OWEN, CHARLES |
| Dept./Agy.: Dept. of Revenue | | |
| Subject: Income Tax Deduction: Hardship Distributions | | Analyst: Noah O'Dell |

TAX/INCOME-INDIV/EXEMPT EN DECREASE GF RV See Note Page 1 of 1

Authorizes an individual income tax deduction for certain amounts a taxpayer receives through hardship distributions from retirement accounts

Proposed law allows for a state income tax deduction to qualifying resident taxpayers for defined hardship withdrawals from elective deferral retirement accounts. In order to qualify for the deduction, the taxpayer (or their spouse in the case of married joint returns) must have a terminal illness (defined in law) as diagnosed by a licensed physician.

The deduction applies to tax years beginning on or after January 1, 2026.

| EXPENDITURES | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 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 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| REVENUES | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5 -YEAR TOTAL |
| State Gen. Fd. | \$0 | DECREASE | DECREASE | DECREASE | DECREASE | \$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 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | | | | | \$0 |

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) is anticipated to incur estimated costs of \$52,750 SGR in FY 27 related to computer system development, modification, and testing. The income tax deduction will require an additional line on multiple returns and associated forms. The department reports the ability to absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.


REVENUE EXPLANATION

The bill can only serve to decrease general fund revenue* which would begin in FY 27 when 2026 tax returns are first filed, though the LFO has no basis for estimating the magnitude of the revenue loss associated with the bill. The uncertainty is due to unknown factors including the number of resident taxpayers who will qualify in any given year or the size of hardship distributions that will qualify under each taxpayer's respective elective deferral retirement account plan(s). For a scalable illustration of potential magnitude, each \$10,000 in eligible hardship distributions from elective deferral accounts would render 3% no longer subject to state tax (assuming no other tax circumstance allows for an exemption), which would reduce SGF by \$300.

According to the retirement systems, state retirement plans are not considered elective deferral plans and would not be impacted by this bill. Further, any disability retirement distributions from state plans are already exempt from state income tax.

* The SGF impact may originate as the LDR retention of 1% of income and sales tax collections initially classified as SGR but ultimately reverted to the SGF for use in the budget. Should LDR reversions cease, this could become an SGR impact.

It is unclear if the terminal illness diagnosis requires one or two licensed physicians to meet the specifications of the bill. The bill cites one diagnosis in order to be eligible for the deduction but also references the definition of terminal illness in existing law which requires a second independent evaluation by a board-certified physician.

| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> | |
|---------------------------------|---|------------------------------------|--|
| <input type="checkbox"/> 13.5.1 | >= \$100,000 Annual Fiscal Cost {S & H} | <input type="checkbox"/> 6.8(F)(1) | >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.2 | >= \$500,000 Annual Tax or Fee Change {S & H} | <input type="checkbox"/> 6.8(G) | >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |
| | | |  Deborah Vivien Chief Economist |