LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 365** HLS 07RS 111
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 31, 2007 8:38 AM
Author: TOWNSEND
Dept./Agy.: Revenue
Subject: Individual Income Tax - Excess Itemized Deductions
Analyst: Greg Albrecht

TAX/INCOME-INDIV/EXEMPT EG -$67,500,000 GF RV See Note
Provides for the deductibility of excess federal itemized deductions

Current law allows no state deduction for federal itemized deductions in excess of the federal standard deduction. Less than a 100% deduction was allowed in tax years 2000, 2001, and 2002. Complete elimination of this deduction occurred with the 2003 tax year.

Proposed law will allow filers who itemize on their federal returns to deduct, on their state return, 25% of the excess of their federal itemized deductions over their federal standard deduction for tax year 2007, and 50% for tax year 2008. After that, no deduction is provided for.

Effective for tax periods beginning on or after January 1, 2007.

EXPENDITURES	2007-08	2008-09	2009-10	2010-11	2011-12	5 -YEAR TOTAL
State Gen. Fd.	$165,000	$226,000	$0	$0	$0	**$391,000**
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	**$165,000**	**$226,000**	**$0**	**$0**	**$0**	**$391,000**

REVENUES	2007-08	2008-09	2009-10	2010-11	2011-12	5 -YEAR TOTAL
State Gen. Fd.	($67,500,000)	($144,000,000)	$0	$0	$0	**($211,500,000)**
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	**($67,500,000)**	**($144,000,000)**	**$0**	**$0**	**$0**	**($211,500,000)**

EXPENDITURE EXPLANATION

Costs above reflect Revenue Department estimates of the resources needed primarily to aid in and assure proper compliance by the 350,000 - 400,000 returns that will be able to deduct some portion of excess federal itemized deductions for the first time since 2002. Costs include 4 additional positions (half-year during FY08) and one-time costs including processing system and tax form changes.

REVENUE EXPLANATION

The estimated revenue losses above are based on a micro-simulation model of Louisiana personal income tax filers, processing data for the 2004 tax year (the latest complete detailed data available). That model was used to estimate the tax liability changes under the 25% and 50% deduction parameters proposed by this bill compared to current law liabilities of 2004. These liability changes were projected forward to the appropriate year of their occurrence (2007 for FY08 impact and 2008 for FY09 impact). After that, no deduction is provided for.

Since the deduction change affects only a subset of filers (roughly 20% that itemize at the federal level) and certain deductions (excess federal itemized deductions), the tax dollar effect of that change is projected on the basis of the growth of Louisiana filers' total federal itemized deductions (adjusted for the phase-out of the limitation on allowable federal itemized deductions in current federal law) as reflected in IRS data for Louisiana filers. A growth rate of 19.9% is applied from 2004 to 2007, and 6.7% from 2007 to 2008.

The Department of Revenue is not likely to adjust withholding tables and formulas to reflect the liability reductions associated with this deduction, since those changes will affect only about 20% of the tax filers. Thus, no withholding changes are incorporated into the estimated annual revenue losses.

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change
☐ 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