LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 365** HLS 07RS 111

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 22, 2007 8:25 AM

Author: TOWNSEND

Dept./Agy.: Revenue

Subject: Individual Income Tax - Excess Itemized Deductions

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TAX/INCOME-INDIV/EXEMPT RE -$270,000,000 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, 100% of the excess of their federal itemized deductions over their federal standard deduction.

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	$235,000	$245,000	$255,000	**$1,126,000**
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**	**$235,000**	**$245,000**	**$255,000**	**$1,126,000**

REVENUES	2007-08	2008-09	2009-10	2010-11	2011-12	5 -YEAR TOTAL
State Gen. Fd.	($270,000,000)	($288,000,000)	($309,000,000)	($333,000,000)	($359,000,000)	**($1,559,000,000)**
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	**($270,000,000)**	**($288,000,000)**	**($309,000,000)**	**($333,000,000)**	**($359,000,000)**	**($1,559,000,000)**

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 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 estimates tax liability changes under the tax parameters proposed by this bill compared to current law. The liability reduction for that year is $225 million. This liability change has to be projected forward three years to reflect its estimated value in the 2007 tax year (affecting FY08 revenue collections) and then projected another four years through the fiscal note horizon.

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 an average of 7.4% per year from 2007 to 2011. In 2007: $270 million.

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.

These estimates may be larger than expected for two reasons: (1) the proposed law restores 100% of excess federal itemized deductions from a current baseline where no such deduction is allowed at all, whereas in 2002 42.5% of this deduction was already denied (worth $157 million in the FY08 estimate above) and, (2) the 2007 effective tax year for the change proposed by this bill is five years after these provisions were last contained in the state's tax law to any degree (tax year 2002), with economic and revenue growth occurring over this period (growth from the 2004 total liability change of this bill to the 2007 total liability change is $45 million).

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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