# LEGISLATIVE FISCAL OFFICE

## Fiscal Note

Fiscal Note On: **HB 365** HLS 07RS 111
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

| | | |
|---|---|---|
| **Date:** June 22, 2007 | 8:26 AM | **Author:** TOWNSEND |
| **Dept./Agy.:** Revenue | | |
| **Subject:** Individual Income Tax - Excess Itemized Deductions | | **Analyst:** Greg Albrecht |

TAX/INCOME-INDIV/EXEMPT    RE1 -$157,000,000 GF RV See Note    

Provides for the deductibility of excess federal itemized deductions

Current law allows no state deduction for excess federal itemized deductions. A deduction of less than 100% 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 the following percentages of the excess of their total federal itemized deductions their federal standard deduction: 57.5% for tax year 2007, 65% for tax year 2008, and 100% for tax year 2009 and thereafter. The federal income tax deduction adjustment for casualty losses added in 2005 is removed.

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. | ($157,000,000) | ($190,000,000) | ($308,000,000) | ($332,000,000) | ($357,000,000) | **($1,344,000,000)** |
| 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** | **($157,000,000)** | **($190,000,000)** | **($308,000,000)** | **($332,000,000)** | **($357,000,000)** | **($1,344,000,000)** |

**EXPENDITURE EXPLANATION**

The Department of Revenue estimates that the resources needed to aid in and assure proper compliance by the 350,000 - 400,000 returns that will be able to deduct a portion of excess federal itemized deductions for the first time since 2002. FY08 costs of $165,000 include 4 additional positions (half-year during FY08) and one-time costs including processing system and tax form changes. Costs are annualized and grow 4% per year to $255,000 by FY12. Many taxpayers will be familiar with the deduction being restored by this bill, though, and additional costs may not be as large as these estimates.

**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 57.5%, 65%. and 100% 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 FY08 impact, 2008 FY08 impact, 2009 FY10 impact) and then projected another two 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 this 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 is applied from 2007 to 2011.

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.

The removal of the federal income tax deduction adjustment for casualty losses added in 2005 does not affect the fiscal impact of the bill. That adjustment will not be needed since this bill allows all federal excess itemized deductions to be deducted at the state level, including casualty losses. Removing this language will preclude taxpayers from being able to benefit twice from the same casualty loss.

| 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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