LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 197** SLS 11RS 444
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 3, 2011 7:48 AM **Author:** ERDEY
Dept./Agy.: Revenue
Subject: Exempt Capital Gains of 65+ Years Old Taxpayers **Analyst:** Greg Albrecht

TAX EXEMPTIONS EG -$4,600,000 GF RV See Note

Phases in an exemption of certain capital gains income of individuals 65 years of age or older from state individual income tax. (gov sig)

Current law subjects capital gains to state individual income tax if those gains are included in adjusted gross income.

Proposed law exempts net long-term capital gains received by an individual 65 years of age or older from state individual income taxation. The exemption is phased in over a 5-year period; for tax year 2011 20%, 2012 40%, 2013 60%, 2014 80%, and 2015 and beyond 100%.

Effective upon governor's signature.

EXPENDITURES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	$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	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	($4,600,000)	($9,300,000)	($13,900,000)	($18,600,000)	($23,200,000)	**($69,600,000)**
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	**($4,600,000)**	**($9,300,000)**	**($13,900,000)**	**($18,600,000)**	**($23,200,000)**	**($69,600,000)**

EXPENDITURE EXPLANATION

The Department of Revenue indicates that modifications to forms, computer programming and, and tax processing systems to incorporate this change to taxable income may involve up to $41,000 of one-time costs of staff time. Some minimal recurring costs for additional documentation handling and taxpayer inquiries will also likely be incurred.

REVENUE EXPLANATION

State tax data for the 2008 tax year (latest available) indicates that individuals 65 years old or older reported adjusted gross income of over $12.3 billion in that year (on 223,726 returns). The Social Security Administration publishes a report, "Income of the Aged Chartbook" (latest release 2010), indicating that in 2008 12.7% of the income of this age group was asset income. This suggests that approximately $1.568 billion of reported income is likely to be asset income.

A review of federal tax return data for the latest ten years available (1997 - 2008) indicates that approximately 47% of asset income can be associated with capital gains (considerable variation can occur from year to year; 33% - 55% shares during these years). That share of asset income results in an estimate of total income affected by this bill of $737 million.

Capital gains in general have risen sharply in recent years and are likely to be strongly related to the current stage of the business cycle. In the 2001 - 2004 period, following the 2000-2001 recession, gains dipped to approximately 55% of the pre-recession period of 1997 - 2000, and then by 2008 had more than quadrupled from the low point of 2003. Gains dipped in 2007, then jumped again in 2008. However, given the recent economic downturn, gains during the periods of the fiscal note horizon are likely to be lower than its 2008 peak.

Applying a 50% reduction in the estimated gains level for fiscal note purposes (similar % dip as after last recession) results in an aggregate net capital gains exemption of $368.5 million. This aggregate level of gains is distributed across taxpayers in a Louisiana personal income tax micro-simulation model processing 2009 tax data for this specific filer group on a combined basis of the distribution of these gains in 2008 on federal returns in broad federal adjusted gross income categories (for example, 89% on returns with $200,000 or more of federal adjusted gross income) and the distribution of federal adjusted gross income from state returns within the broad federal categories. This calculates the state revenue loss on the basis of the marginal tax rates of state tax payers as would occur when tax returns are actually filed with this new deduction in place. The resulting reduction in tax table tax liability is $23.2 million.

The total liability reduction is phased in across the tax years as provided in the bill. A tax year 2011 exemption of 20% will reduce tax collections in FY12 when returns are filed in the spring of 2012.

Given the volatility of capital gains, it is likely that the annual revenue losses of the bill will fluctuate around the estimates discussed above.

Senate / Dual Referral Rules / House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
6.8(F)2 >= $100,000 Annual SGF Cost {H&S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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