LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On:	**HB**	**33**	HLS 161ES 115
Bill Text Version:	**ENGROSSED**		
Opp. Chamb. Action:			
Proposed Amd.:			
Sub. Bill For.:			

Date: February 24, 2016 10:07 AM	**Author:** LEGER	
Dept./Agy.: Revenue		
Subject: Reduce Excess Federal Itemized Deduction	**Analyst:** Greg Albrecht	

TAX/INCOME TAX   EG +$142,000,000 GF RV See Note   Page 1 of 1
Reduces the amount of the individual income tax deduction for excess federal itemized personal deductions (Item #18)

Current law allows a deduction from gross income for 100% of excess federal itemized deductions. This state deduction is the difference between a taxpayers total federal itemized deductions and the federal standard deduction.

Proposed law reduces the deduction to 50% of excess federal itemized deductions.

Effective for all tax years beginning on and after January 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$142,000,000	$142,000,000	$142,000,000	$142,000,000	$142,000,000	**$710,000,000**
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	**$142,000,000**	**$142,000,000**	**$142,000,000**	**$142,000,000**	**$142,000,000**	**$710,000,000**

EXPENDITURE EXPLANATION

The Department of Revenue will incur some costs associated with preparing tax forms (hardcopy and online) for this change, as well as changes in tax instructions. These costs might be several thousand dollars of staff time for modifications and testing.

REVENUE EXPLANATION

Based on a micro-simulation model of the state personal income tax, processing 2014 tax return data, a 50% reduction of the deduction for excess federal itemized deductions would increase aggregate income tax liabilities by some $142 million.

This estimate is based only on resident filers that itemized on their federal tax returns (approximately 24% of filers). Non-resident filers would also be affected, and their omission from the model works to understate the estimate somewhat. Non-residents tend to make up 5% - 6% of total tax-year liabilities. The full effect of the liability change is reflected in the FY17 estimate, even though some returns will be filed under extension in the fall of 2017; after FY17 (in FY18). This works to overstate the FY17 estimate somewhat. However, no growth is assumed from the 2014 tax year to the 2016 tax year first affected by the bill. This works to provide some offset to that overstatement.

If no changes are made to withholding tables by the Department of Revenue or to withholding behavior by taxpayers, this change in liabilities would first be realized on returns filed in the spring of 2017 and each spring filing period thereafter. If withholding tables or the behavior of taxpayers changes, the timing of a portion of these receipts could shift across fiscal years.

In addition, the uncertainty associated with significant tax changes affecting only a subset of filers and involving filing timing, in conjunction with a slowing economy argues for holding the estimates constant over the fiscal note horizon even though the official revenue forecast currently contains roughly 3% annual growth in total personal income tax collections over the next few years.

Senate	Dual Referral Rules	House	
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}	
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

John D. Carpenter

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Legislative Fiscal Officer