

**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**

Fiscal Note On: **HB 48** HLS 05RS 423

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Sub. Bill For.:

Proposed Amd.:



<b>Date:</b> April 20, 2005 3:41 PM	<b>Author:</b> BRUNEAU
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Grants Excess Itemized Deduction	

TAX/INCOME TAX OR -\$238,000,000 GF RV See Note  
 Provides for the deductibility of federal itemized income taxes

Grants a deduction for 100% of excess federal itemized deductions.

Effective for all tax years beginning on or after January 1, 2005 (tax year 2005).

<b>EXPENDITURES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$20,000	\$0	\$0	\$0	\$0	<b>\$20,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$20,000</b>

  

<b>REVENUES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	(\$238,000,000)	(\$250,000,000)	(\$262,000,000)	(\$274,000,000)	(\$287,000,000)	<b>(\$1,311,000,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>(\$238,000,000)</b>	<b>(\$250,000,000)</b>	<b>(\$262,000,000)</b>	<b>(\$274,000,000)</b>	<b>(\$287,000,000)</b>	<b>(\$1,311,000,000)</b>

**EXPENDITURE EXPLANATION**

The Department of Revenue reports that modifying the tax processing system may cost \$20,000 in the first year. Some portion of these costs would be attributable to each of the tax changes that may be enacted, and not all attributable to any particular change such as the one proposed by this bill.

**REVENUE EXPLANATION**

The revenue losses estimated above are based on a personal income tax simulation model processing 2003 tax year data. That model estimates that granting the full excess federal itemized deduction would reduce 2003 tax liabilities by \$217 million. That liability reduction must be projected forward to tax year 2005, the first tax year affected by this bill, and throughout the fiscal note horizon. A growth rate of 4.7954% per year was utilized for this projection; a long-run compound annual growth rate of total itemized deductions at the U.S. level.

According to the Department of Revenue, it is unlikely that withholding requirements will be changed for a tax law change affecting less than a quarter of the taxfiler population, as this bill does. Thus, changes in tax period liabilities would primarily affect revenues of the fiscal year that begins in the tax year of the liability change. For example, a liability change of \$238 million is projected for tax year 2005 that will be realized on tax returns filed in the spring of 2006, affecting fiscal year 2006 revenues. However, over time, taxpayers may adjust their withholdings themselves in order to realize these liability reductions earlier through lower withholdings. To the extent that occurs, some portion of the annual revenue losses will be accelerated into earlier fiscal years than estimated above.

It should be noted that the choice of growth rate can substantially influence the fiscal note projections. This bill only addresses excess itemized deductions. With federal marriage penalty relief starting in 2003, and assuming that relief is permanently retained, the underlying growth of this bill's impact is assumed to be most appropriately projected by the growth in total itemized deductions. A historical average annual growth rate is utilized with the understanding that growth in any particular year can be more or less than this annual average.

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

*H. Gordon Monk*  
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**Acting Legislative Fiscal Officer**