

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2443-01
BILL NO.: SB 581
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: January 28, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	\$0	\$0
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(\$106,500,000)	(\$155,900,000)	(\$193,800,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation phases in the full deductibility of federal income taxes paid by individuals. An individual taxpayer will be allowed to deduct \$10,000 for a single return (\$20,000 for a combined return) beginning January 1, 2000, \$15,000 for a single return (\$30,000 for a combined return) beginning January 1, 2001, \$20,000 for a single return (\$40,000 for a combined return) beginning January 1, 2002, and will receive full deductibility beginning January 1, 2003.

DOR staff state that this proposal would have little or no administrative impact to their agency.

Officials of the **Office of Administration (COA)** state this proposal phases in the federal income tax deduction for individuals. The individual income tax loss due to this proposal would be (\$106.5 million) for FY 2001, (\$155.9 million) in FY 2002 and (\$193.8 million) for FY 2003. These estimates come directly from the FY 2001 Consensus Revenue Forecast and Budget and Planning's Individual Income Tax Simulator. COA stated the revenue reductions from this proposal would require an equivalent amount of General Revenue in order to fully fund the Foundation Formula.

Oversight will reflect the impact of this proposal as a loss to local school districts.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Increase in Federal Income Tax Deduction	(\$106,500,000)	(\$155,900,000)	(\$193,800,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	\$106,500,000	\$155,900,000	\$193,800,000
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
OUTSTANDING SCHOOLS TRUST FUND			
<u>Loss to Outstanding Schools Trust Fund</u>			
Increase in Federal Income Tax Deduction	(\$106,500,000)	(\$155,900,000)	(\$193,800,000)
<u>Savings Outstanding Schools Trust Fund</u>			
Reduction in funds transferred to local school districts	\$106,500,000	\$155,900,000	\$193,800,000
ESTIMATED NET EFFECT TO OUTSTANDING SCHOOLS TRUST FUND			
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
SCHOOL DISTRICTS			
<u>Loss to Local School Districts</u>			
Reduction in funds transferred from The Outstanding Schools Trust Fund	(\$106,500,000)	(\$155,900,000)	(\$193,800,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS			
	<u>(\$106,500,000)</u>	<u>(\$155,900,000)</u>	<u>(\$193,800,000)</u>

FISCAL IMPACT - Small Business

Small business would be expected to be fiscally impacted to the extent that they pay income taxes. The increase in the federal income tax deduction would cause small businesses to pay less income tax.

DESCRIPTION

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Current law limits the amount of federal income tax an individual can deduct on his or her state income tax return to \$5,000 for single taxpayers and \$10,000 for married taxpayers filing a combined return. This act phases in full deductibility of federal income taxes paid by individuals as follows: for tax year 2000, the limits are increased to \$10,000 for singles and \$20,000 for married filing combined; for tax year 2001, the limits will be \$15,000 for singles and \$30,000 for married filing combined; for tax year 2002, the limits will be \$20,000 for singles and \$40,000 for married filing combined; and for tax years 2003 and thereafter, a full deduction is allowed.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration



Jeanne Jarrett, CPA
Director
January 28, 2000