

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 2715-01  
BILL NO.: HB 1296  
SUBJECT: Revenue Dept.; Taxation and Revenue-General  
TYPE: Original  
DATE: February 7, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$437,500,000)	(\$463,800,000)	(\$491,600,000)
Outstanding Schools Trust	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$437,500,000)</b>	<b>(\$463,800,000)</b>	<b>(\$491,600,000)</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$105,900,000</b>	<b>\$112,300,000</b>	<b>\$119,000,000</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this proposal eliminates the limit on the individual federal income tax deduction on January 1, 2000. This proposal will have little or no administrative impact to the Department of Revenue.

Officials of the **Office of the State Treasurer (STO)** state this proposal would not fiscally impact their agency.

Officials of the **Office of Administration (COA)** state this proposal restores the full federal income tax deduction for individual income taxpayers, and replaces that revenue with General Revenue in the amount of 3.125% of total federal income tax claimed.

COA staff state that their estimate for restoring the full federal income tax deduction is from the FY 2001 Consensus Revenue Forecast and Budget and Planning's Individual Income Tax Simulator. The amount of the revenue loss is (\$331.6 million) in FY 2001, (\$351.5 million) in FY 2002 and (\$372.6 million) in FY 2003. A six percent growth rate was assumed.

This proposal states that an amount equal to 3.125% of total federal income tax liability of individual taxpayers be transferred from the General Revenue Fund to the Outstanding Schools Trust Fund. In FY 2001 the amount of federal tax liability of individual income taxpayers is approximately \$14 billion, 3.125% of this amount is \$437.5 million. The amount of General Revenue transferred to the Outstanding Schools Trust Fund is \$437.5 million in FY 2001, \$463.8 million in FY 2002 and \$491.6 million in FY 2003. A six percent annual growth rate was assumed. The net change in the Outstanding Schools Trust Fund due to changing the individual income tax is \$105.9 million in FY 2001, \$112.3 million in FY 2002 and \$119 million in FY 2003.

**Oversight** will reflect the net change impact of this proposal as income 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
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Increase in Federal Income Tax Deduction	(\$331,600,000)	(\$351,500,000)	(\$372,600,000)
<u>Loss to General Revenue Fund</u>			
Increase in funds transferred to Outstanding Schools Trust Fund (3.125%)	(\$437,500,000)	(\$463,800,000)	(\$491,600,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	\$331,600,000	\$351,500,000	\$372,600,000
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$437,500,000)</u></b>	<b><u>(\$463,800,000)</u></b>	<b><u>(\$491,600,000)</u></b>
<b>OUTSTANDING SCHOOLS TRUST FUND</b>			
<u>Loss to Outstanding Schools Trust Fund</u>			
Increase in Federal Income Tax Deduction	(\$331,600,000)	(\$351,500,000)	(\$372,600,000)
<u>Loss to Outstanding Schools Trust Fund</u>			
Increase in funds transferred to local school districts	(\$105,900,000)	(\$112,300,000)	(\$119,000,000)
<u>Income-Outstanding Schools Trust Fund</u>			
Transfer from General Revenue Fund (3.125%)	\$437,500,000	\$463,800,000	\$491,600,000
<b>ESTIMATED NET EFFECT ON OUTSTANDING SCHOOLS TRUST FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**SCHOOL DISTRICTS**

Income to Local School Districts

Increase in funds transferred from Outstanding Schools Trust Fund	\$105,900,000	\$112,300,000	\$119,000,000
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**ESTIMATED NET EFFECT ON  
SCHOOL DISTRICTS**

	<b><u>\$105,900,000</u></b>	<b><u>\$112,300,000</u></b>	<b><u>\$119,000,000</u></b>
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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

This bill authorizes a 100% state income tax deduction for federal income taxes paid by individuals. Under current law, individuals are only allowed to deduct up to \$5,000 on a single return and \$10,000 on a married filing combined return. The bill also replaces the funds lost to the Outstanding Schools Trust Fund resulting from the increased deduction with general revenue funds. The bill will apply to tax year 2000 and thereafter.

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 the State Treasurer  
Office of Administration



Jeanne Jarrett, CPA  
Director  
February 7, 2000