

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3063-01
BILL NO.: HB 1390
SUBJECT: Corporations; Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 9, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$461,800,000)	(\$488,300,000)	(\$516,300,000)
Outstanding Schools Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$461,800,000)	(\$488,300,000)	(\$516,300,000)

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	\$105,900,000	\$112,300,000	\$119,000,000

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

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

In a similar proposal officials of the **Office of the State Treasurer (STO)** stated 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 corporations and individuals, 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 for corporations is from the FY 2001 Consensus Revenue Forecast and Budget and Planning's Corporate Income Tax Simulator. This proposal states that an amount equal to 3.125% of total federal income tax liability of corporate taxpayers be transferred from the General Revenue Fund to the Outstanding Schools Trust Fund. In FY 2001 the amount of federal tax liability of corporate income taxpayers is approximately \$776.7 million, 3.125% of this amount is \$24.3 million. The amount of General Revenue transferred to the Outstanding Schools Trust Fund is \$24.3 million in FY 2001, \$24.5 million in FY 2002 and \$24.8 million in FY 2003. A one percent annual growth rate was assumed.

COA staff state that their estimate for restoring the full federal income tax deduction for individuals 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.

ASSUMPTION (continued)

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
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Increase in Federal Income Tax Deduction	(\$355,900,000)	(\$376,000,000)	(\$397,400,000)
<u>Loss to General Revenue Fund</u>			
Increase in funds transferred to Outstanding Schools Trust Fund (3.125%)	(\$461,800,000)	(\$488,300,000)	(\$516,400,000)
<u>Savings to General Revenue Fund</u>			
Reduction in funds transferred to Outstanding Schools Trust Fund	\$355,900,000	\$376,000,000	\$397,400,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$461,800,000)</u>	<u>(\$488,300,000)</u>	<u>(\$516,400,000)</u>
OUTSTANDING SCHOOLS TRUST FUND			
<u>Loss to Outstanding Schools Trust Fund</u>			
Increase in Federal Income Tax Deduction	(\$355,900,000)	(\$376,000,000)	(\$397,400,000)
<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%)	\$461,800,000	\$488,300,000	\$516,400,000

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**ESTIMATED NET EFFECT ON
 OUTSTANDING SCHOOLS TRUST
 FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<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**

<u>\$105,900,000</u>	<u>\$112,300,000</u>	<u>\$119,000,000</u>
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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 corporations and 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 and corporations are only allowed to deduct 50% of federal income tax paid.. 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.

DESCRIPTION

(Continued)

This legislation is not federally mandated, would not duplicate any other program and would not

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require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of the State Treasurer
Office of Administration

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
February 9, 2000