FISCAL NOTE

Bill #: HB70

Title: Inflation adjustment for retirement tax exemption

Primary Sponsor: Ron Erickson

Status: Introduced

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Revenue:		
General Fund	$(3,562,000)	$(3,562,000)
Net Impact on General Fund Balance:	**$(3,562,000)**	**$(3,562,000)**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Current law provides for a retirement income exclusion of up to $3,600 ($7,200 if married and filing jointly), that is phased out $2 for every dollar of federal adjusted gross income over $30,000.
2. This proposal would increase the allowable maximum exclusion to $4,700; and increase the starting point for the phaseout of the exclusion to $39,200.
3. This legislation would apply retroactively to tax years beginning after December 31, 2000 (to tax year 2001). There is no impact in fiscal 2001 from this proposal; the first full-year's worth of impact would occur in fiscal year 2002 when taxpayers file their tax year 2001 returns.
4. The bill provides that the $4,700 exclusion amount, as well as the $39,200 starting point for the phaseout range, will be indexed annually, based on the June 2002 consumer price index. Consequently, the first year for which indexing will have an impact on the exclusion amount and the phaseout amount will be tax year 2003. Consequently, the effects of the indexing provisions of this bill will not affect revenues until fiscal year 2004.

5. Under current law, 42,680 taxpayers use the retirement exclusion, and claim an average exclusion of $3,636 (this includes exclusions of railroad retirement income and exclusions for married couples who file jointly and may exclude an amount larger than $3,600). The proposal will increase the number of taxpayers taking the exclusion by 10,705; increasing the total number of taxpayers taking the exclusion to 53,385, who will take an average exclusion of $4,316 for the first two years of the program (fiscal 2002 and 2003). The number of filers taking the exclusion increases because the income limitation for eligibility increases from $31,800 to $41,550, for most filers.
6. Under current law, the total amount of retirement income excluded is $155,172,531; under the proposal the total amount of retirement income excluded is $230,430,850 for the first two years of the proposal (fiscal 2002 and 2003).
7. Based on a computer simulation using the tax year 1999 database of all full-year resident filers claiming retirement income, this proposal will reduce general fund revenue by $3,562,000 in both fiscal 2002 and 2003.
8. There are no administrative impacts associated with this proposal.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)	$(3,562,000)	$(3,562,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$(3,562,000)	$(3,562,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
This proposal has no impact on county or other local revenues or expenditures.

LONG-RANGE IMPACTS:
The indexing provisions of this proposal will take effect first in tax year 2003 (fiscal 2004). Based on the current forecast of inflation over this time period, the maximum exclusion will increase to $4,830 and the starting point of the phaseout range will increase to $40,250 in tax year 2003. This will act to *reduce* general fund revenues an estimated $3,994,000 in fiscal 2004. The revenue impact in each succeeding year due to the indexing provisions of the bill is expected to increase this amount by about $432,000. For example, the impact in fiscal 2005 will be $(4,426,000); the impact in fiscal 2006 will be $(4,858,000); etc.