FISCAL NOTE

Bill #: HB197

Title: Allow filing federal tax return for state purposes

Primary Sponsor: Dave Gallik

Status: Introduced

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	$86,060	$0
Revenue:		
General Fund	$0	$(42,204,000)
Net Impact on General Fund Balance:	**$(86,060)**	**$(42,204,000)**

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. The individual income tax proposal contained in the bill would apply first to tax year 2002. Impacts of the first year would be felt in their entirety in fiscal year 2003.
2. This bill would allow individual income taxpayers the option of using either the current law method of filing and paying income taxes, or paying income taxes based on the taxpayer's federal taxable income (FTI). This option could be exercised for each tax year for which the taxpayer is liable for income tax. For taxpayers opting to file based on FTI: single taxpayers, and married couples filing separate tax returns would use the current law rate table; head of household filers would use the current law rate table with the bracket boundaries multiplied by a factor of 1.3; and married couples filing jointly would use the current law rate tables with the bracket boundaries multiplied by a factor of 2.

(continued)

3. The fiscal impact shown on the front of this fiscal note assumes that all taxpayers will pay the lesser of either current law tax, or the tax calculated under the option provided for in the bill. Under this assumption, it is not possible for this bill to have a positive revenue impact; but see the discussion below under technical note #4.
4. Based on a computer simulation analysis of this proposal, and using the above assumptions, the Department of Revenues estimates that this proposal will reduce liabilities by $42.204 million in tax year 2002 (fiscal 2003).
5. This proposal would require additional administrative expense in the Department of Revenue in order to provide for new computer and accounting systems to track the alternative methods of administering the individual income tax, calculating taxpayer liabilities, and billing taxpayers for their taxes due. These administrative impacts are detailed in the table below.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Expenditures:		
Operating Expenses	$62,680	$0
Equipment	23,380	0
TOTAL	$86,060	$0
Funding:		
General Fund (01)	$86,060	$0
Revenues:		
General Fund (01)	$0	$(42,204,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$(86,060)	$(42,204,000)

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

LONG-RANGE IMPACTS:
Revenue impacts of the level shown above will continue in each year. Taxpayers and tax preparers may discover methods that allow the revenue reduction to increase in future years, as methods of reducing liability by alternating between methods of tax calculation from one year to the next are discovered.

TECHNICAL NOTES:

1. The bill provides that "The tax determined under this section is based solely upon the taxpayer's federal taxable income as shown on the taxpayer's federal income tax form." This in violation of 31 USC 3124, which requires that states must not provide for an individual income tax base that includes in as a component of income interest earning on US securities. In addition, the federal government has precluded the states from taxing the income of Native Americans who work and live on reservations, and railroad retirement income. The federal government may require adjustments for these items of income as well.

2. The proposal allows taxpayers to utilize either option in any year for which the taxpayer has liability. This could provide an avenue for avoiding taxes that otherwise would be payable under current law tax benefit rules. For example, under current law, refunds of federal taxes that were previously deducted for state tax purposes are required to be included in income in subsequent years. A taxpayer could sidestep this requirement by filing using the FTI option every other year.
3. NEW SECTION. Section 1 provides for separate rate tables depending on filertype (e.g., single, head of household, or married). However, subsections (1)(a) and (1)(c) provide reference in both instances to married couples filing jointly; subsection (1)(a) should provide reference to married couples filing separately.
4. As noted earlier, the fiscal impact shown above assumes all taxpayers will pay the lesser of current law tax or the alternative tax provided for in this bill. In fact, this may not be true. There may be a significant number of taxpayers who will opt to pay the tax calculated using the alternative method provided for in this bill, even if the liability is higher than under current law, as a premium for the convenience and simplicity provided by the alternative. It is very unlikely that this "premium" payment will offset the negative impact shown above. For example, if every taxpayer who has a current law liability greater than zero whose tax liability under the alternative method were higher than current law liability by up to $200 were to pay the alternative tax, then the revenue impact shown above would be reduced by $3.4 million. If the $200 figure is increased to $500, then the revenue impact shown above would be reduced by $13.2 million. This, however, is a very unlikely scenario.