GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0379	**Title:**	Revise income tax laws
Primary Sponsor:	Kaufmann, Christine	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$93,379	$53,235	$54,221	$55,225
Revenue:				
General Fund	$24,017,000	$6,431,000	$11,644,000	$16,181,000
Net Impact-General Fund Balance:	$23,923,621	$6,377,765	$11,589,779	$16,125,775

Description of fiscal impact: This bill would revise income tax rates, limit the capital gains credit to gains on the sale of depreciable property, and create a child credit equal to 20% of the federal child credit. The net effect would be to increase income tax revenue, with the net increase growing over time. However, since the bill would be retroactively effective for TY 2013 but could not be implemented until the year is partly over, there will be more than one tax year's impact in FY 2014.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would change income tax by changing the width of existing brackets and adding two new rates. Taxable income between $150,000 and $250,000 would be taxed at 7.9%, and taxable income over $250,000 would be taxed at 8.9%. This bill also would limit the capital gains credit to gains from the sale of depreciable property. These changes would be effective for TY 2013.
2. The department examined capital gains schedules filed with a sample of returns for 2002 through 2006. The proportion of capital gains that resulted from the sale of depreciable property varied widely between years but averaged 42%. This fiscal note assumes that 42% of capital gains in future years will be from the sale of depreciable property.
3. The income tax forecasting model was modified to reflect the rates in this bill and the limit on the capital gains credit. The following table shows the changes in calendar year tax liability for 2013 through 2017.

Change in Calendar Year Tax Liability

Year	$ million
2013	$42.392
2014	$44.105
2015	$48.568
2016	$53.305
2017	$56.371

4. This bill would be retroactively effective for all of CY 2013, but taxpayers will not begin to make larger estimated payments or increase withholding based on the changes in this bill until CY 2013 is half over. Thus, there will be no change in revenue for FY 2013, and the increase in revenue for TY 2013 will all occur in FY 2014. For later years, the SJ 2 assumption that income tax revenue for a calendar year is split evenly between two fiscal years should hold. Thus, the change in revenue for FY 2014 will reflect the change for all of TY 2013 and half of TY 2014. The following table shows changes in fiscal year revenue.

Change in Fiscal Year Revenue

FY	$ million
FY 2014	$64.445
FY 2015	$46.337
FY 2016	$50.936
FY 2017	$54.838

5. This bill would create a state child credit equal to 20% of a taxpayer's federal child credit.
6. The income tax forecasting model calculates federal child credits for all returns each year of the forecast. Not all eligible taxpayers will claim the credit, but some taxpayers who are not required to file a return will file to claim the credit. This fiscal note assumes that the total amount of credits claimed will be 20% of the calculated federal credits. The following table shows credits for tax years 2013 through 2017.

Tax Year	Child Credit at 20% of Federal ($ million)
2013	$40.428
2014	$39.906
2015	$39.292
2016	$38.657
2017	$38.025

7. Child credits will be claimed on returns filed in the spring after each tax year. For each tax year, credits will reduce revenue in the next higher numbered fiscal year. The following table shows the increase in revenue from the rate changes and limit on the capital gains credit, the revenue reduction from the child credit, and the net effect on revenue.

Revenue Change - $ million

Fiscal Year	Impact of Rates and Credit Limit	Child Credits	Net Revenue Change
FY 2014	$64.445	-$40.428	**$24.017**
FY 2015	$46.337	-$39.906	**$6.431**
FY 2016	$50.936	-$39.292	**$11.644**
FY 2017	$54.838	-$38.657	**$16.181**

8. The changes to the capital gains credit would require a new worksheet in the income tax booklet, and the child credit would require a new line on the tax return. Changes to the department's data capture and data processing systems to accommodate the new rate table, the capital gains worksheet, and the new credit would be made in FY 2014 at a cost of $37,200 for contracted services.
9. The department would require 1.00 FTE to review and verify capital gains credit calculations and child credit claims. The position would be filled at the beginning of FY 2014 to help develop and test the form and system changes. Personal services costs would be $46,263 per year in FY 2014 and FY 2015, $47,144 in FY 2016, and $48,043 in FY 2017. One time operating costs to set up a new employee will be $3,269. Ongoing operating costs will be $6,647 in FY 2014, $6,972 in FY 2015, $7,077 in FY 2016, and $7,182 in FY 2017.

Fiscal Impact:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Department of Revenue				
FTE	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services	$46,263	$46,263	$47,144	$48,043
Operating Expenses	$47,116	$6,972	$7,077	$7,182
TOTAL Expenditures	$93,379	$53,235	$54,221	$55,225
Funding of Expenditures:				
General Fund (01)	$93,379	$53,235	$54,221	$55,225
TOTAL Funding of Exp.	$93,379	$53,235	$54,221	$55,225
Revenues:				
General Fund (01)	$24,017,000	$6,431,000	$11,644,000	$16,181,000
TOTAL Revenues	$24,017,000	$6,431,000	$11,644,000	$16,181,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$23,923,621	$6,377,765	$11,589,779	$16,125,775

Long-Term Impacts:

1. Since the income limitation on the federal child credit is not adjusted for inflation, the number and amount of credits will generally decrease over time.
2. Capital gains on depreciable property are relatively stable over time while capital gains on financial assets vary widely from year to year. In years when taxpayers realize large gains on sales of financial assets, capital gains credits will be much lower under SB 379 than under current law. In years when taxpayers realize few gains on sales of financial assets, the difference will be much smaller. Thus, the increase in revenue from limiting the capital gains credit to gains on depreciable property will be disproportionately larger in years when gains on other assets are larger, such as years during a stock market boom. This will make income tax revenue somewhat more volatile.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*