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FISCAL IMPACT REPORT

SPONSOR Harrison DATE TYPED 1/31/05 HB 534
 SHORT TITLE Amending the Income Tax Act SB _____
 ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
33,000.0	66,000.0	63,000.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

SUMMARY

House Bill 534 alters the definition of “net income” in the income tax act. Current law excludes itemized deductions defined in the Internal Revenue Service Code less the amount of the IRS allowed standard deduction. The bill would change what may be excluded from net income by also excluding the amount of state and local taxes included in the taxpayer’s itemized deduction.

FISCAL IMPLICATIONS

TRD estimates that total state taxes deducted in tax year 2005 will be approximately \$1.2 billion, and the average effective tax rate is 5.5 percent. Multiplying \$1.2 billion by 5.5 percent yields the full-year impact of \$66 million. The FY05 impact is based on the assumption that 50 percent of the first year impact will be accrued to FY05. The lower impact shown in the subsequent years’ cell reflects the lower income tax rates being implemented.

ADMINISTRATIVE IMPLICATIONS

TRD reported the following administrative impact:

Implementing provisions of the measure would impose moderate administrative impacts on the Department. A new line on would need to be added to the PIT-1 form. Changes to all other forms which reference the taxable income line and tax lines would need to be made; instruction and publication changes would also be needed. Taxpayer and staff education would be required. Audit and compliance procedures would need to be developed. Changes would also be needed on the withholding tax tables.