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### FISCAL IMPACT REPORT

|              |                         |             |          |          |          |
|--------------|-------------------------|-------------|----------|----------|----------|
| SPONSOR:     | Sandel                  | DATE TYPED: | 02/09/00 | HB       | 376      |
| SHORT TITLE: | Net Capital Gain Income |             |          | SB       |          |
|              |                         |             |          | ANALYST: | Williams |

### REVENUE

| Estimated Revenue |               | Subsequent<br>Years Impact | Recurring<br>or Non-Rec | Fund<br>Affected |
|-------------------|---------------|----------------------------|-------------------------|------------------|
| FY00              | FY01          |                            |                         |                  |
|                   | \$ (18,900.0) | \$ (18,300.0)              | Recurring               | General Fund     |

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB 23 which proposes a 100 percent capital gains deduction phased in over a three-year period and SB 153 would eliminate the personal income tax on capital gains.

## **SOURCES OF INFORMATION**

Taxation and Revenue Department (TRD)

## **SUMMARY**

### Synopsis of Bill

The bill would increase the net capital gains deduction for state income tax purposes from \$1,000 to \$3,500. The provisions would be applicable beginning tax year 2000.

## **FISCAL IMPLICATIONS**

TRD estimates potential net revenue loss to the general fund of \$18,900.0 in FY01 and \$18,300.0 for a full year. This estimate is based on expected realizations of nearly \$1.6 billion for tax year 2000. In contrast, last year's legislation was based on the assumption of a capital gains base of \$1.2 billion in tax year 1999.

## **TECHNICAL ISSUES**

TRD notes this proposal would exacerbate the marriage tax penalty.

## **OTHER SUBSTANTIVE ISSUES**

The TRD estimate incorporates an estimate for the amount of additional state tax the year after a decrease in state taxes paid. This causes a lower state tax deduction of about 7.9% of taxable income, and a corresponding increase in state and federal income tax. TRD notes the proposal would "write a check" from the state general fund to the federal treasury of about \$6.4 million.

**DISTRIBUTIONAL ISSUES**

TRD estimates 50 percent of the benefit of this proposal will go to taxpayers with taxable income of over \$80,000 (approximate household income of \$100,000). An estimated 75 percent of the total benefit would go to taxpayers with taxable incomes over \$45,000 (approximate household income of \$60,000).

AW/njw