

Fiscal Estimate Narratives

DOR 2/11/2015

| | | | | | |
|--|-----------|---------------------|--------|---------------|----------|
| LRB Number | 15-1579/1 | Introduction Number | SB-024 | Estimate Type | Original |
| Description Treatment of depreciation, depletion, and amortization for income and franchise tax purposes | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

Under current law, for taxable years beginning after December 31, 2013, depreciation and amortization are calculated using the Internal Revenue Code (IRC) in effect on January 1, 2014. For the purposes of calculating depletion and deductions under Section 179, 179A, 179B, 179C, 179D, and 179E of the IRC, the IRC in effect for the year the assets are placed in service would be used.

The bill provides that for taxable years beginning on or after January 1, 2014, for purposes of computing depreciation, depletion, amortization, and deductions under Section 179 of the IRC, a taxpayer may use the law in effect on January 1, 2013.

Fiscal Effect

Under the assumption that the phrase "the law in effect on January 1, 2013" refers to only the IRC, the fiscal effect of the bill would be minimal, as the two major pieces of federal legislation affecting laws on depreciation, depletion, amortization, and Section 179 deductions for tax years 2013 (the American Taxpayer Relief Act of 2012, enacted January 2, 2013) and 2014 (the Tax Increase Prevention Act of 2014, enacted December 19, 2014) were not in effect on January 1 of 2013 and 2014, respectively.

If the phrase refers to state law, or to both the federal IRC and state law, and the bill is enacted before the June 15, 2015 estimated payment due date, the fiscal effect would be a reduction in revenue of an estimated \$7.9 million in fiscal year 2015, and revenue increases of an estimated \$2.23 million in fiscal years 2016 through 2018, and a revenue increase of an estimated \$1.21 million in fiscal year 2019. If the bill is enacted after the June 15, 2015 estimated payment due date, the fiscal effect would be a reduction in revenue of an estimated \$5.83 million in fiscal year 2016, and revenue increases of an estimated \$2.08 million in fiscal years 2017 and 2018, and a revenue increase of an estimated \$1.67 million in fiscal year 2019.

In general, because of the time value of money, taxpayers will choose the method that results in the lowest tax liability in the nearest term. The above estimates assume that taxpayers will generally choose to use the more beneficial provisions regarding depletion and Section 179 deductions in current state law, and therefore those provisions of the bill will have no fiscal effect. In addition, the assumptions above assume that taxpayers will largely choose the method for depreciation and amortization that results in the lowest tax year 2014 tax liability, and the fiscal effect derives from taxpayers choosing to use depreciation and amortization methods in effect on January 1, 2013 rather than those in current law. This estimate further assumes that some taxpayers will take the election to use prior law to relieve administrative burdens, even if it is to their detriment in terms of their tax year 2014 liability.

Long-Range Fiscal Implications

Since an election on depreciation only results in an acceleration of revenue loss; not a new source of loss; there is no long-range fiscal effect of this bill for tax years 2020 and thereafter.

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

| | | | |
|--|-----------|--|-----------------|
| LRB Number 15-1579/1 | | Introduction Number SB-024 | |
| Description Treatment of depreciation, depletion, and amortization for income and franchise tax purposes | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | \$ | | \$ |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | | | |
| Local Assistance | | | |
| Aids to Individuals or Organizations | | | |
| TOTAL State Costs by Category | \$ | | \$ |
| B. State Costs by Source of Funds | | | |
| GPR | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | | Increased Rev | Decreased Rev |
| GPR Taxes | | \$ | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | | \$ | \$ |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | | \$ | \$ |
| NET CHANGE IN REVENUE | | \$See Text | \$ |
| Agency/Prepared By | | Authorized Signature | Date |
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