



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 639** HLS 23RS 1368
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 30, 2023 6:55 PM	Author: FREIBERG
Dept./Agy.: Revenue	Analyst: Benjamin Vincent
Subject: Net Capital Gains Deduction	

TAX/INCOME TAX OR INCREASE GF RV See Note Page 1 of 1
 Repeals the individual income tax deduction for net capital gains

Current law provides an income tax deduction for net capital gains, provided the capital gains arise from the sale of either an equity interest in, or substantially all assets of, certain non-publicly traded business organizations domiciled in the state. The asset or equity interest must have been held by the investor for a minimum of five years to qualify for a 50% deduction, and the amount of the deduction increases by an additional 10 percentage points with every additional five years held. An asset held for 30 years prior to sale would be fully exempt.

Proposed law repeals the deduction, and specifies that only deductions for gains reportable as installment sales shall be permitted.

Effective upon governor's signature, and applicable to taxable periods beginning on or after January 1, 2024.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total		\$0	\$0	\$0	\$0	\$0

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						

EXPENDITURE EXPLANATION

Minor additional LDR expenditures for computer system development and modification, tax form redesign, and testing are anticipated. Specific estimates have not yet been determined at the time of this analysis.

REVENUE EXPLANATION

Proposed law repeals a net capital gains deduction against income tax, but authorizes a narrower deduction for certain capital gains.

The existing deduction has reduced general fund revenue collections by approximately \$50 million annually over the last several years. The 2023 Tax Exemption Budget implies that the provisions in proposed law that repeal the deduction would increase collections by approximately \$41.8 million in FY24.

The provisions authorizing a deduction for installment sales would offset the revenue increase to an unknown extent in any given year. Information on the volume of net capital gains that would remain eligible for the deduction due to being structured as installment sales is unavailable. LFO assumes that a significant portion of capital gains income would still become non-deductible due to proposed law, increasing general fund revenues to an indeterminable extent as reflected in the table above.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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