

Fiscal Estimate - 2021 Session

Original
 Updated
 Corrected
 Supplemental

| | |
|--|---|
| LRB Number 21-2566/1 | Introduction Number SB-267 |
| Description providing a temporary tax exemption for unemployment compensation | |
| Fiscal Effect | |
| State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations </div> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues </div> <div style="width: 30%;"> <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <div style="display: flex; justify-content: space-around; font-size: small;"> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </div> <input type="checkbox"/> Decrease Costs </div> </div> | |
| Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 30%;"> 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 30%;"> 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts </div> </div> | |
| Fund Sources Affected Affected Ch. 20 Appropriations <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS | |
| Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984 | Authorized Signature Ann DeGarmo (608) 266-7179 |
| Date 4/7/2021 | |

Fiscal Estimate Narratives

DOR 4/7/2021

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|---|-----------|---------------------|--------|---------------|----------|
| LRB Number | 21-2566/1 | Introduction Number | SB-267 | Estimate Type | Original |
| Description providing a temporary tax exemption for unemployment compensation | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

The bill exempts up to \$10,200 of the unemployment compensation for state income tax purposes in 2020 and 2021 that is received by an individual during the year. In the case of married couples who both receive unemployment compensation and who file a joint return, the \$10,200 limitation applies separately to each spouse. The exemption applies only if the federal adjusted gross income (AGI) of the individual, or of both spouses if filing a joint return, is less than \$150,000.

Under current federal law, unemployment compensation is generally taxed, except that the American Rescue Plan Act of 2021 temporarily allows individuals whose federal AGI is less than \$150,000 to exclude up to \$10,200 of the unemployment compensation received in 2020 by the individual or, in the case of married couples filing a joint return, each spouse.

Under current state law, unemployment compensation is exempt from state tax if the recipient's federal AGI does not exceed a base amount. The base amount is \$12,000 for single individuals or married individuals filing separate returns who live apart from their spouse for the entire year, \$18,000 for married couples filing joint returns, and zero for married individuals filing separate returns who live with their spouse during the year. If federal AGI exceeds the base amount, then the amount subject to tax under current state law is the lesser of the amount of unemployment compensation received or one-half of the amount that federal AGI exceeds the base amount. The bill maintains the existing provision.

Based on a simulation using 2019 tax returns and 2020 unemployment compensation payments, the bill will reduce tax year 2020 revenue by approximately \$121 million, primarily impacting fiscal year 2022.

The amount of unemployment compensation that will be paid out during 2021 is unknown. Unemployment rates are projected to continue declining relative to 2020 and federal supplemental benefits are not as large as they were in the beginning of the pandemic. Still, the unemployment rate remains elevated and supplemental payments continue to be administered. The number of ongoing unemployment compensation claimants as well as the share that will exceed \$10,200 for the calendar year are also unknown. Because of these unknown and unprecedented conditions, the deduction for tax year 2021 and subsequent revenue loss are indeterminate. As a point of reference, the deduction would have resulted in a revenue loss of about \$17 million if it had existed in 2019. The revenue loss for tax year 2021, primarily impacting fiscal year 2022, will be significantly closer to the tax year 2020 value (\$121 million) than the tax year 2019 value (\$17 million).

DOR anticipates incurring \$27,430 in one-time administrative costs related to training staff, fraud analyst procedures, and processing returns, as well as drafting and modifying tax forms, instructions, and other published guidance. The department cannot absorb these costs with existing resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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| LRB Number 21-2566/1 | Introduction Number SB-267 |
| Description providing a temporary tax exemption for unemployment compensation | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | |
| DOR anticipates incurring \$27,430 in one-time administrative costs related to training staff, fraud analyst procedures, and processing returns, as well as drafting and modifying tax forms, instructions, and other published guidance. | |
| 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 |
| DOR/ Bradley Caruth (608) 261-8984 | Ann DeGarmo (608) 266-7179 |
| | Date |
| | 4/7/2021 |