F I S C A L   I M P A C T   R E P O R T

SPONSOR Fischmann **ORIGINAL DATE** 01/25/12 **LAST UPDATED** 02/01/12 **HB**

SHORT TITLE Tax Credits, Deductions & Reporting **SB** 74

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	**FY13**	**FY14**		
	($78,000.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
No Response from TRD

SUMMARY

Synopsis of Bill

This bill is intended to be approximately revenue neutral, with four substantial revenue raisers balancing a business services (GRT) tax credit administered through the personal and corporate income tax systems. The tax credit is to be known as the Business Services Tax Credit and represents an attempt to moderate the pyramided gross receipts tax on inter-business services. The amount of the credit is 100% of the state (5.125%) gross receipts tax rate paid by the business services provider for services provided to another business, but limited to $13,000 per enterprise. The revenue raisers include a new bracket and 6% marginal rate for personal income tax; a 50% reduction in the amount of capital gains deduction (to 25% of the amount of capital gains); the imposition of a mandatory combined corporate income tax system; and an increase from 3% to 4% in the Motor Vehicle Excise Tax rate accompanied by a repeal of the trade-in allowance.

Effective Date: Generally effective on January 1, 2013 and applicable for taxable years beginning on or after January 1, 2013.

FISCAL IMPLICATIONS

As noted above, this bill is intended to be revenue neutral. TRD reports that it is having some difficulty modeling the $13 thousand credit. The FIR will be amended when the analysis is complete.

SIGNIFICANT ISSUES

The repeal of Motor Vehicle Excise Tax trade-in allowance raises equity concerns. The basic design of the Gross Receipts Tax is to tax goods and services once in the chain of commerce and mimic a subtraction-method value-added tax. The value-added in the purchase of a new car with the trade-in of a pre-owned vehicle is the “boot”, not the gross value of the retail price of the new car or truck. On the other hand, repealing the trade-in allowance provides more equity between dealer sales/purchases and private sales/purchases of motor vehicles.

SS/svb:amm