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Proposed 2011 Session Legislation

Agency Name & No:	**Department of Revenue (5801)**
Priority Number:	**Filename:**
Short Title:	Equalize the deduction for federal taxes between trusts and individual income taxpayers
Agency Contact Person/Phone:	

1. Purpose:

Correct the unintended error in SB407 (2003 Session) that failed to limit the deduction for federal taxes for trusts in the same manner as for individuals. Align the deduction allowed trusts for federal taxes paid with the amount allowed individuals.

2. Background:

For individuals, the deduction allowed for federal taxes paid is limited to $5,000 for single, separate, and HOH filers, and $10,000 for joint filers. The limitation does not apply to a trust, so an individual converting their income-earning assets into trusts could take advantage of this loophole and effectively deduct more than $5,000. Proper design standards for income and fiduciary taxation require that substantive tax provisions for individuals and trusts be identical to prevent serious inequities among similarly situated taxpayers. SB407 embodied an agreement that tax rates would be lowered in exchange for limits on the deduction for federal taxes. The error with regard to the need to be corrected to conform with that agreement.

3. Fiscal Impact by Fund Type: *This impact should be as specific as possible.*

A prior fiscal note estimates that collections for 2007 would have been $770,000 higher if the limitation of $5,000 had applied.

4. Summary Checklist [Check & complete all that apply]--

- ☐ Housekeeping Only ☐ Federal Requirement ☐ Audit Recommendation (Audit No.) ☑ Major Legislation
- ☐ Anticipated to be Controversial Legislation ☐ Bill Draft has been included in Legislation Submittal (if available)
- ☐ Supports Submitted EPP Item Number ☐ Local Government Fiscal Impact
- ☐ Increases FTE, or ☐ Decreases FTE by List FTE amount and program
- ☑ Increases Existing Revenue ◉ Tax ○ Fee ○ Penalty [amount in #3]
- ☐ Decreases Existing Revenue ○ Tax ○ Fee ○ Penalty [amount in #3]
- ☐ Establishes New Revenue ○ Tax ○ Fee ○ Penalty [amount in #3]
- ☑ Leg. has been Submitted in Previous Legislative Sessions (list priority no, LC no, or bill no): SB 418 (2009 Session)
- ☐ Legislation would affect other state agencies (list):
- ☑ Special Interest Groups Affected (list): MTCPA
- ☐ Other: