CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 21, 2015

H.R. 2315
Mobile Workforce State Income Tax Simplification Act of 2015

As ordered reported by the House Committee on the Judiciary on June 17, 2015

H.R. 2315 would establish consistent criteria for states to determine state taxation and employer withholding for nonresidents who work in a state. CBO estimates that federal taxation and employer withholding would not be affected by the legislation and that implementing the bill would have no effect on the federal budget. Enacting H.R. 2315 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

H.R. 2315 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) by prohibiting states from taxing the income of employees who work in the state for fewer than 31 days. The prohibition would not apply to the income of professional athletes, entertainers, or public figures. UMRA includes in its definition of mandate costs any amounts that state governments would be prohibited from raising in revenues as a result of the mandate. The mandate costs of H.R. 2315 would include taxes that state governments would be precluded from collecting under the bill.

Most states that levy a personal income tax allow residents to take a credit for income taxes that the residents pay to another state. The cost of the mandate would equal, for all states collectively, the difference between the amount of revenue that they would lose—from nonresidents who work in the state for fewer than 31 days—and the amount of revenue they would gain—from residents whose credits for payments to other states would be lower under the bill. Generally, states that have large employment centers close to a state border would lose the most revenue; states from which employees tend to commute would gain revenue. For example, New York would probably lose the largest amount of revenue—between $50 million and $125 million per year, according to state and industry estimates—and Illinois, Massachusetts, and California would face smaller losses. In contrast, New Jersey would probably gain revenue. Because states tax income at different rates and on different tax bases, the changes in tax revenues nationwide would not net to zero.

On the basis of information from officials in a number of states, analysis of state tax data, and an analysis by Ernst & Young, CBO estimates that, for all states collectively, the bill would reduce revenues on a net basis by between $50 million and $100 million per year beginning in 2018, the first full year that the bill's changes would be in effect. Given that range—stemming from the underlying uncertainty about the amount of revenue that states collect from nonresidents and the amount they would receive from residents whose credits would be lower under the bill—CBO cannot determine whether the net cost of the intergovernmental mandate in the bill would exceed the annual threshold established in UMRA ($77 million in 2015, adjusted annually for inflation).

H.R. 2315 contains no private-sector mandates as defined in UMRA.

The CBO staff contacts for this estimate are Aurora Swanson (for federal costs) and Jon Sperl (for intergovernmental mandates). This estimate was approved H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.