CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 10, 2017

H.R. 1393
Mobile Workforce State Income Tax Simplification Act of 2017

As ordered reported by the House Committee on the Judiciary
on March 22, 2017

H.R. 1393 would establish consistent criteria for states to determine state taxation and employer withholding for nonresidents who work in a state. CBO estimates that enacting H.R. 1393 would have no direct effect on the federal budget. Enacting H.R. 1393 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting H.R. 1393 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1393 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) by prohibiting a state 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, some production employees, 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. Because 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, Illinois, Massachusetts, California, and New York would face losses, with New York probably losing the largest amount of revenue—between $55 million and $120 million per year, according to state and industry estimates. 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 net revenues by $55 million to $100 million per year beginning in 2020, the first full year that the bill's changes would be in effect. That range stems 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 endeavors to develop estimates that are in the middle of a range of possible outcomes. On that basis, CBO has determined that the net cost of the intergovernmental mandate would be $78 million in 2020 and thus would not exceed the annual threshold established in UMRA in any of the first five years that the mandate becomes effective. (In 2017 the threshold is $78 million, and it is adjusted annually for inflation; in 2020, the threshold would be $84 million.)

H.R. 1393 contains no private-sector mandates as defined in UMRA.

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