

Task Force #1 HJR 60 (2002)

State Income Tax Issue

9. Examine tax preferences (subtractions, deductions, tax credits).

While the basic tax structure has not changed, there have been a growing number of tax preferences adopted in the last several years in the form of:

(i) **subtractions**, which exclude amounts of income from the determination of tax liability;

(ii) **deductions**, which reduce the amount of income that is ultimately taxable;
and

(iii) **tax credits**, which directly reduce tax liability, dollar-for-dollar.

Such tax preferences generally are intended to stimulate (or subsidize) certain kinds of economic behavior, or to shift the tax burden from certain groups, resulting in it shifting to others.

Attached is a chart, prepared by the Senate Finance Committee staff and the Tax Department, showing the tax preferences and the fiscal impact of each for FY99 through FY04.