

## DEPARTMENT OF TAXATION 2001 Fiscal Impact Statement

1. **Patron** Larrabee

2. **Bill**  
**Number** HB 2494

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Individual Income Tax: Increases the  
Standard Deduction for Married Taxpayers

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would increase the standard deduction amount for married taxpayers from \$5,000 to \$6,000. This bill would also increase the standard deduction amount for married taxpayers who file separately from \$2,500 to \$3,000.

This bill would be effective for taxable years beginning on and after January 1, 2002.

**6. Fiscal Impact Estimates are:** Tentative. (See Line 8.)

**6a. Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	\$0	GF
2001-02*	\$196,650	GF
2002-03*	\$0	GF

**6b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	\$0	GF
2001-02	<\$12.2 million>	GF
2002-03	<\$25.2 million>	GF

**\*Does not include systems costs. See Line 8.**

**7. Budget amendment necessary:** Yes.

**8. Fiscal implications:**

**Administrative Costs**

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because TAX is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, TAX is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report. TAX will incur other administrative costs with respect to this legislation of \$196,650 in FY 02 to print and mail withholding booklets to employers.

**Revenue Impact**

This bill is estimated to reduce General Fund revenues by \$12.2 million in Fiscal Year 2002, \$25.2 million in Fiscal Year 2003, and \$25.0 million in Fiscal Year 2004.

The revenue impact assumes that the one year delay in the implementation date of this provision allows time for withholding tables to be adjusted prior to the start of taxable year 2002. For this reason, it is assumed that there will be no delay in the revenue effect of this bill. However, the Fiscal Year 2002 revenue effect represents only six months of reduced income tax liability because the taxable year begins one-half way through the fiscal year.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary: No.**

**11. Other comments:**

**Current Law**

Currently, individual income taxpayers are entitled to claim a standard deduction on their Virginia return if they claimed a standard deduction on their federal return. The deduction amounts are as follows: \$3,000 for single taxpayers; \$5,000 for married

taxpayers filing jointly; and \$2,500 for married taxpayers filing separately. These amounts have been in effect since the 1989 taxable year.

### **Proposed Legislation**

This bill would increase the standard deduction amount allowed for married taxpayers to \$6,000 beginning in the 2002 taxable year. This bill would also increase the standard deduction amount for married taxpayers who file separately from \$2,500 to \$3,000. It would increase the standard deduction for married taxpayers to exactly two times the amount of the standard deduction for single taxpayers. This bill would not affect the current law requiring individuals who claim itemized deductions for federal tax purposes to itemize deductions on their Virginia return.

### **Comparison to Federal Law**

Since 1989, the IRS has adjusted the federal standard deduction based on the percentage change in the CPI-U for the preceding calendar year. For the 2000 taxable year, the basic standard deduction amounts are as follows: \$4,400 for single taxpayers; \$7,350 for married taxpayers filing jointly; and \$3,675 for married taxpayers filing separately. Taxpayers who are age 65 or older and/or are blind receive an additional standard deduction amount (\$850 for married individuals and \$1,100 for single taxpayers for the 2000 taxable year) that is added to the basic standard deduction.

### **Other Legislation**

**House Bill 1975** would increase the personal exemption from \$800 to \$900 for the 2002 taxable year, to \$1,100 for the 2003 taxable year, to \$1,300 for the 2004 taxable year, to \$1,500 for the 2005 taxable year and index the exemption amount by the Consumers Price Index for Urban Consumers for the 2006 taxable year and years thereafter.

**Senate Bill 882** would increase the personal exemption from \$800 to \$1,000 and the standard deduction amount for married taxpayers from \$5,000 to \$6,000 for taxable year 2001. For the 2002 taxable year, the standard deduction for married and single filers and personal exemption would be indexed based on the Consumer Price Index for Urban Consumers.

**Senate Bill 980** would increase the amount allowed for each personal exemption from \$800 to \$1,200 for taxable years beginning January 1, 2001 through December 31, 2002 and would annually index the amount for inflation based on the annual increases in the Consumer Price Index for Urban Consumers for taxable years beginning on and after January 1, 2002.

**Senate Bill 1392** would increase the personal exemption amount from \$800 to \$1,600 for taxable years beginning on or after January 1, 2002.

**Senate Bill 1422** is identical to this bill.