

**DEPARTMENT OF TAXATION  
2001 Fiscal Impact Statement**

1. **Patron:** Newman

2. **Bill Number** SB 1392

3. **Committee:** Senate Finance

**House of Origin:**  
 **Introduced**  
 **Substitute**  
 **Engrossed**

4. **Title:** Individual Income Tax: Increase the Personal Exemption

**Second House:**  
 **In Committee**  
 **Substitute**  
 **Enrolled**

5. **Summary/Purpose:**

This bill would increase the amount allowed for each personal exemption from \$800 to \$1,600.

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

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

6a. **Expenditure Impact:**

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2000-01	\$0	GF
2001-02	<\$125.6 million>	GF
2003-04	<\$261.1 million>	GF

**\*Does not include systems cost. See line 8.**

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

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## **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 \$125.6 million in Fiscal Year 2002, \$261.1 million in Fiscal Year 2003, and \$259.1 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: None.**

## **11. Other comments:**

### **Current Law**

Virginia currently allows a deduction of \$800 for each personal exemption allowed on a taxpayer's individual federal income tax return. An additional exemption amount of \$800 is allowed for taxpayers who are blind or age 65 and over. This personal exemption amount was last increased by the General Assembly in 1987. From 1972 to 1986,

Virginia's exemption amount remained constant at \$600. For 1987, the exemption was \$700.

### **Comparison to Federal Law**

Since 1989, the Internal Revenue Service (IRS) has indexed the personal exemption allowed on the federal individual income tax return. The personal exemption for federal purposes has increased from \$2,000 for 1989 to \$2,800 for 2000. The increase is determined by multiplying \$2,000 by the increase in the CPI-U between 1988 and 1999. The resulting increase in the exemption amount is rounded to the next lowest multiple of \$50.

### **Proposed Legislation**

This bill would increase the present amount allowed for the personal exemption to \$1,600 for taxable years beginning on or after January 1, 2002.

### **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.

**House Bill 2494 and Senate Bill 1422** would increase the standard deduction for married taxpayers amount from \$5,000 to \$6,000 for the 2002 taxable year.

**Senate Bill 882** would increase the personal exemption from \$800 to \$1,000 and the standard deduction for married taxpayers from \$5,000 to \$6,000 for taxable year beginning on or after January 1, 2001 and then index both the exemption and deduction in subsequent taxable years.

**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.

cc: Secretary of Finance

Date: 1/22/01/NMS

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