

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Rerras

3. **Committee** Senate Finance

4. **Title** Individual Income Tax: Indexing the
Personal Exemption Amount

2. **Bill Number** SB 1319

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would annually index the personal exemption amount using the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning on or after January 1, 2005.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	GF
2003-04	\$0	GF
2004-05	\$163,575	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2002-03	\$0	GF
2003-04	\$0	GF
2004-05	<\$3.3 million>	GF

7. **Budget amendment necessary:** Yes

ITEM(S): 283 and 285, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

The Department will incur administrative costs of \$163,575 in Fiscal Year 2005 and \$193,405 in Fiscal Year 2006 and years thereafter for annual systems modifications, forms revisions, and the printing and distribution of updated withholding tables to reflect the change in the personal exemption amount.

Revenue Impact

This bill is estimated to reduce General Fund revenues by \$3.3 million in Fiscal Year 2005 and \$9.8 million in Fiscal Year 2006.

The revenue impact assumes that the delay in the implementation date of this provision allows time for withholding tables to be adjusted prior to the start of taxable year 2005. For this reason, it is assumed that there will be no delay in the revenue effect of this bill. However, the Fiscal Year 2005 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

Virginia currently allows a deduction of \$800 for each personal exemption allowed on a taxpayer's 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 \$3,000 for 2002. The increase is determined by multiplying \$2,000 by the increase in the CPI-U between 1988 and 2001. The resulting increase in the exemption amount is rounded to the next lowest multiple of \$50.

Proposed Legislation

This bill would index the personal exemption amount by the CPI-U beginning with the 2005 taxable year and years thereafter.

The following table illustrates the projected personal exemption amounts for the 2005 through 2008 taxable years:

Taxable Year	<i>Projected Personal Exemption Amount</i>
2005	\$823
2006	\$847
2007	\$869
2008	\$891

Other Legislation

HB 1408 would annually index the personal exemption amount using the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning on or after January 1, 2004.

HB 2054 would annually index the personal exemption amount and the individual income tax brackets using the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning on or after January 1, 2004.

cc : Secretary of Finance

Date: 01/23/03/NMS

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