

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Mark L. Cole

2. **Bill Number** HB 101

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual income tax; Indexing tax brackets and personal exemptions

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would annually index the individual income tax personal exemption amounts and the individual income tax bracket amounts for inflation based on the annual rate of change in 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>Positions</i>	<i>Fund</i>
2003-04	\$85,680	0	GF
2004-05	\$270,000	1	GF
2005-06	\$233,920	1	GF
2006-07	\$195,205	1	GF
2007-08	\$201,062	1	GF
2008-09	\$207,094	1	GF
2009-10	\$213,307	1	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	<\$8.6 million>	GF
2005-06	<\$25.9 million>	GF
2006-07	<\$45.5 million>	GF
2007-08	<\$65.3 million>	GF
2008-09	<\$79.4 million>	GF
2009-10	<\$91.2 million>	GF

7. **Budget amendment necessary:** Yes

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8. Fiscal implications:

Administrative Costs

The Department would incur administrative costs of \$85,680 for FY 2004, \$270,000 for FY 2005, \$233,920 for FY 2006, \$195,205 for FY 2007, \$201,062 for FY 2008, \$207,094 for FY 2009 and \$213,307 for FY 2010. These administrative costs would be for annual systems modifications, forms revision, printing and distribution of updated income tax withholding tables, notification of employers and impacted groups and the hiring of a full time Forms Analyst.

Some of the administrative costs that the Department would incur as a result of this bill are similar to the costs for some of the individual income tax changes in the Governor's tax reform plan that are assumed in the Executive Budget. Assumed in the Executive Budget are costs of \$85,680 for FY 2004, \$225,707 for FY 2005, and \$612,478 for FY 2006 to implement all of the changes to the individual income tax proposed in the Governor's tax reform plan.

Revenue Impact

Compared to current law, this bill is estimated to decrease General Fund revenues by \$8.6 million in FY 2005, \$25.9 million in FY 2006, \$45.5 million in FY 2007, \$65.3 million in FY 2008, \$79.4 million in FY 2009 and \$91.2 million in FY 2010.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains provisions that would increase the personal and dependent exemption amounts and make changes to the individual income tax brackets. The Governor's tax reform proposal would increase the personal and dependent exemption from \$800 to \$1,000 and change the individual income tax brackets to a 3% tax on income up to \$7,000, a 5% tax on income above \$7,000 up to \$20,000 and an additional 6.25% bracket would be added for income greater than \$100,000. The following chart compares the General Fund revenue effects of this bill on current law with the changes to the General Fund revenue forecast, assumed in the Executive Budget, caused by these similar provisions in the Governor's tax reform proposal.

Fiscal Year	Effect of HB 101 on General Fund Revenue	General Fund revenue effect of similar provisions in the Governor's tax reform proposal	Difference between HB 101 and similar provisions in the Governor's tax reform proposal
2005	(\$8.6) million	(\$21.7) million	\$13.1 million
2006	(\$25.9) million	(\$31.5) million	\$5.6 million
2007	(\$45.5) million	(\$10.3) million	(\$35.2) million
2008	(\$65.3) million	\$11.8 million	(\$77.1) million
2009	(\$79.4) million	\$33.0 million	(\$112.4) million
2010	(\$91.2) million	\$52.9 million	(\$144.1) million

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Personal Exemption

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 personal exemption amount remained constant at \$600. For 1987, the personal exemption amount was \$700.

Comparison to Federal Law

Since 1989, the Internal Revenue Service (IRS) has indexed the personal exemption amount allowed on the federal individual income tax return. The personal exemption for federal purposes has increased from \$2,000 for 1989 to \$3,050 for 2003. 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 2007 taxable years:

Taxable Year	Estimated Personal Exemption Amount
2005	\$814
2006	\$830
2007	\$847
2008	\$865
2009	\$880
2010	\$896

Individual Income Tax Brackets

Current Law

The current Virginia individual income tax brackets are as follows:

Virginia Taxable Income	Individual Income Tax Percentage
\$3,000 or less	2%
\$3,001 through \$5,000	3%
\$5,001 through \$17,000	5%
\$17,001 and above	5.75%

Comparison to Federal Law

Since 1985 the IRS has indexed the federal individual income tax brackets using the CPI-U. However, for 2002 through 2008, the lowest federal income tax bracket will not be indexed.

Proposed Legislation

This bill would index the individual income tax bracket by the CPI-U beginning with the 2005 taxable year and years thereafter. The projected indexed Virginia individual income tax brackets for the 2005 through 2007 taxable years are as follows:

Taxable Year	Individual Income Tax Brackets			
	2%	3%	5%	5.75%
2005	\$3,054 or less	\$3,055 - \$5,090	\$5,091 - \$17,306	\$17,307 or more
2006	\$3,112 or less	\$3,113 - \$5,187	\$5,188 - \$17,635	\$17,636 or more
2007	\$3,177 or less	\$3,178 - \$5,296	\$5,297 - \$18,005	\$18,006 or more
2008	\$3,244 or less	\$3,245 - \$5,407	\$5,408 - \$18,383	\$18,384 or more
2009	\$3,301 or less	\$3,302 - \$5,502	\$5,503 - \$18,707	\$18,708 or more
2010	\$3,359 or less	\$3,360 - \$5,599	\$5,600 - \$19,036	\$19,037 or more

Other Legislation

House Bill 299 would annually index the individual income tax personal exemption amounts for inflation based on the annual rate of change in the Consumer Price Index for Urban Consumers (CPI-U) for taxable years beginning on or after January 1, 2005.

Senate Bill 281 would increase the individual personal exemption amount from \$800 to \$1,200 for taxable years beginning on or after January 1, 2004.

Senate Bill 446 would increase the Virginia individual income tax personal exemption amount from \$800 to \$1,200 for taxable years beginning on or after January 1, 2004 and 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.

cc : Secretary of Finance