

# DEPARTMENT OF TAXATION

## 2004 Fiscal Impact Statement

1. **Patron** Stephen C. Shannon

2. **Bill Number** HB 1469

3. **Committee** House Finance

**House of Origin:**

  X   Introduced

       Substitute

       Engrossed

4. **Title** Individual Income Tax: Indexing The Age Deduction

**Second House:**

       In Committee

       Substitute

       Enrolled

### 5. Summary/Purpose:

This bill would annually index the age deduction amount 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:** Preliminary. (See Line 8.)

#### 6a. Expenditure Impact:

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$0	GF
2004-05	\$35,200	GF
2005-06	\$100,220	GF
2006-07	\$11,520	GF
2007-08	\$11,520	GF
2008-09	\$11,520	GF
2009-10	\$11,520	GF

#### 6b. Revenue Impact:

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2003-04	\$0	GF
2004-05	<\$2.0 million>	GF
2005-06	<\$9.0 million>	GF
2006-07	<\$15.0 million>	GF
2007-08	<\$21.0 million>	GF
2008-09	<\$27.0 million>	GF
2009-10	<\$36.0 million>	GF

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

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## **8. Fiscal implications:**

### Administrative Costs

The Department would incur administrative costs of \$35,200 for Fiscal Year 2005, \$100,220 for Fiscal Year 2006, and \$11,520 for each year thereafter for systems development.

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 \$2 million in Fiscal Year 2005, \$9 million in Fiscal Year 2006, \$15 million in Fiscal Year 2007, \$21 million in Fiscal Year 2008, \$27 million in Fiscal Year 2009, and \$36 million in Fiscal Year 2010.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains provisions that would make changes to the age deduction amount in the individual income tax. The Governor's tax reform proposal recommends that the age deduction would remain at \$12,000 for those taxpayers eligible to receive the age deduction prior to 2005. Those taxpayers eligible to receive the \$6,000 age deduction prior to 2005 would continue to receive the age deduction until they reach the age of 65. Once they reach age 65, they would receive up to a \$12,000 age deduction, subject to a reduction based on income. Taxpayers who have not been eligible to receive an age deduction prior to 2005 would not receive an age deduction until they reach the age of 65. Once they reach age 65, they would receive up to a \$12,000 age deduction, subject to a reduction based on income.

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.

<b>Fiscal Year</b>	<b>Effect of HB 1469 on General Fund Revenue</b>	<b>General Fund revenue effect of similar provisions in the Governor's tax reform proposal</b>	<b>Difference between HB 1469 and similar provisions in the Governor's tax reform proposal</b>
2005	(\$2.0 million)	\$9.2 million	(\$11.2 million)
2006	(\$9.0 million)	\$35.0 million	(\$44.0 million)
2007	(\$15.0 million)	\$52.6 million	(\$67.6 million)
2008	(\$21.0 million)	\$58.0 million	(\$79.0 million)
2009	(\$27.0 million)	\$63.0 million	(\$90.0 million)
2010	(\$36.0 million)	\$69.0 million	(\$105.0 million)

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

Department of Taxation

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

**11. Other comments:**

Current Law

Virginia currently allows an age deduction for taxpayers age 62 or older. The deduction amounts are \$6,000 for taxpayers age 62 through 64 and \$12,000 for taxpayers age 65 and over. These amounts have remained unchanged since the 1996 taxable year.

The age deduction was originally enacted by the 1990 General Assembly. The base amounts were \$6,000 for taxpayers age 62 through 64 and \$12,000 for taxpayers age 65 and over, reduced by the individual's total Social Security or Railroad Tier 1 retirement benefits. Beginning in taxable year 1992, the age deduction amounts were indexed annually based on the most recent percentage increase in the Social Security wage base.

The 1994 Special Session of the General Assembly eliminated the indexation of the age deduction after taxable year 1993 and repealed the requirement for taxpayers to reduce the deduction amounts by Social Security or Railroad Tier 1 retirement benefits beginning in taxable year 1995.

### Comparison to Federal Law

For federal tax purposes, taxpayers who are age 65 and older and/or are blind receive an additional standard deduction amount that is added to the basic standard deduction. For the 2003 taxable year, the additional standard deduction amounts were \$850 for married individuals and \$1,050 for single taxpayers. Since 1989, the IRS has adjusted these amounts based on the percentage change in the Consumer Price Index for Urban Consumers for the preceding calendar year.

### Proposed Legislation

This bill would index the age deduction amount by the CPI-U beginning with the 2005 taxable year and each year thereafter.

The following table illustrates the projected age deduction amounts for taxable years 2005 through 2010:

Taxable Year	Estimated Age Deduction Amount	
	Taxpayers Age 62 to 64	Taxpayers Age 65 and Older
2005	\$6,113	\$12,225
2006	\$6,237	\$12,475
2007	\$6,378	\$12,755
2008	\$6,523	\$13,047
2009	\$6,680	\$13,359
2010	\$6,856	\$13,713

### **Other Legislation**

**House Bill 108, House Bill 859, and Senate Bill 589** would repeal the age deduction effective taxable year 2005.

**House Bill 1081 and Senate Bill 467** would grandfather individuals receiving an age deduction prior to 2005. Individuals reaching age 65 in 2005 or later would receive an income-related age deduction under this proposal.

**Senate Bill 530** would make the age deduction reliant on federal adjusted gross income.

**Senate Bill 635** would provide an income related age deduction and eliminate the \$6,000 age deduction beginning in taxable year 2011 for those born after January 1, 1949.

cc : Secretary of Finance