

**DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement**

1. **Patron** William C. Wampler, Jr.

2. **Bill Number** SB 281

3. **Committee** Senate Finance

House of Origin:
 Introduced
 Substitute
 Engrossed

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

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill 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.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$106,800	GF
2004-05	\$233,465	GF
2005-06	\$0	GF
2006-07	\$0	GF
2007-08	\$0	GF
2008-09	\$0	GF
2009-10	\$0	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	<\$180.1 million>	GF
2005-06	<\$116.2 million>	GF
2006-07	<\$117.4 million>	GF
2007-08	<\$116.2 million>	GF
2008-09	<\$109.4 million>	GF
2009-10	<\$103.8 million>	GF

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs

The Department would incur administrative costs of \$106,800 for FY 2004 and \$233,465 for FY 2005. These administrative costs would be for systems modifications, forms revision, printing and distribution of updated income tax withholding tables, notification of employers and impacted groups.

Some of the administrative costs that the Department would incur as a result of this bill are similar to the costs 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

This bill is estimated to decrease General Fund revenues by \$180.1 million in FY 2005, \$116.2 million in FY 2006, \$117.4 million in FY 2007, \$116.2 million in FY 2008, \$109.4 million in FY 2009 and \$103.8 million in FY 2010.

Included in the Executive Budget is the Governor’s tax reform proposal. The Governor’s tax reform proposal contains provisions that would increase the personal and dependent exemption. The following chart compares the General Fund revenue effects of this bill on current law with the changes to General Fund revenue forecast caused by the similar provision in the Governor’s tax reform proposal.

Fiscal Year	Effect of SB 281 on General Fund Revenue	General Fund revenue effect of similar provisions in the Governor’s tax reform proposal	Difference between SB 281 and similar provisions in the Governor’s tax reform proposal
2005	<\$180.1 million>	<\$29.3 million>	<\$150.8 million>
2006	<\$116.2 million>	<\$56.2 million>	<\$60.0 million>
2007	<\$117.4 million>	<\$55.5 million>	<\$61.9 million>
2008	<\$116.2 million>	<\$54.9 million>	<\$61.3 million>
2009	<\$109.4 million>	<\$51.6 million>	<\$57.8 million>
2010	<\$103.8 million>	<\$48.9 million>	<\$54.9 million>

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 \$3,050 for 2003. The increase is determined by multiplying \$2,000 by the increase in the CPI-U between 1988 and 2002. The resulting increase in the exemption amount is rounded to the next lowest multiple of \$50.

Proposed Legislation

This bill 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.

Other Legislation

House Bill 101 would index the individual income tax brackets and the personal exemption amounts for inflation based on the annual rate of change in the CPI-U.

House Bill 299 would increase would index the Virginia individual income tax personal exemption amounts for inflation based on the annual rate of change in the CPI-U.

Senate Bill 446 would increase the individual income tax personal exemption from \$800 to \$1,200 for taxable years beginning on or after January 1, 2004. For taxable years beginning on or after January 1, 2005, the \$1,200 exemption would be indexed for inflation based on the annual rate of change in the CPI-U.

cc : Secretary of Finance