

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** Nick Rerras

2. **Bill Number** SB 446

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Increasing and
Indexing 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 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.

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	\$106,480	0	GF
2004-05	\$285,200	1	GF
2005-06	\$201,520	1	GF
2006-07	\$207,205	1	GF
2007-08	\$213,062	1	GF
2008-09	\$207,205	1	GF
2009-10	\$224,316	1	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2003-04	\$0	GF
2004-05	<\$183.5 million>	GF
2005-06	<\$126.2 million>	GF
2006-07	<\$134.6 million>	GF
2007-08	<\$140.9 million>	GF
2008-09	<\$139.4 million>	GF
2009-10	<\$138.1 million>	GF

7. **Budget amendment necessary:** Yes

ITEM(S): Page 1, Revenue Estimates
284 and 286, Department of Taxation

8. Fiscal implications:

Administrative Costs

The Department would incur administrative costs of \$106,480 for FY 2004, \$285,200 for FY 2005, \$201,520 for FY 2006, \$207,205 for FY 2007, \$213,062 for FY 2008, \$207,094 for FY 2009 and \$224,316 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 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 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 \$183.5 million in FY 2005, \$126.2 million in FY 2006, \$134.6 million in FY 2007, \$140.9 million in FY 2008, \$139.4 million in FY 2009 and \$138.1 million in FY 2010.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains a provision that would increase the personal and dependent exemption amount to \$1,000. 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 similar provisions in the Governor's tax reform proposal.

Fiscal Year	Effect of SB 446 on General Fund Revenue	General Fund revenue effect of similar provisions in the Governor's tax reform proposal	Difference between SB 446 and similar provisions in the Governor's tax reform proposal
2005	<\$183.5 million>	<\$29.3 million>	<\$154.2 million>
2006	<\$126.2 million>	<\$56.2 million>	<\$70.0 million>
2007	<\$134.6 million>	<\$55.5 million>	<\$79.1 million>
2008	<\$140.9 million>	<\$54.9 million>	<\$86.0 million>
2009	<\$139.4 million>	<\$51.6 million>	<\$87.8 million>
2010	<\$138.1 million>	<\$48.9 million>	<\$89.2 million>

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 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.

This bill would also 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 2010 taxable years:

Taxable Year	<i>Projected Personal Exemption Amount</i>
2004	\$1,200
2005	\$1,222
2006	\$1,245
2007	\$1,271
2008	\$1,298
2009	\$1,320
2010	\$1,344

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

cc : Secretary of Finance