DEPARTMENT OF TAXATION
2005 Fiscal Impact Statement

1. Patron Jeffrey M. Frederick

2. Bill Number HB 1533

House of Origin:

X **Introduced**

___ **Substitute**

___ **Engrossed**

Second House:

___ **In Committee**

___ **Substitute**

___ **Enrolled**

3. Committee House Finance

4. Title Individual Income Tax: Reinstatement of Age Deduction for Certain Seniors

5. Summary/Purpose:

This bill would repeal the income-based test for the age deduction and restore the full $6,000 and $12,000 deductions for seniors age 62 to 64 and 65 and above, respectively. However, this bill would disallow the deduction for taxpayers with Virginia adjustable gross incomes exceeding $150,000 for individuals and $250,000 for taxpayers filing joint returns.

In addition, this bill would clarify the amount of the personal exemption.

This bill would be effective for taxable years beginning on or after January 1, 2005.

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

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Fund*
2004-05	$0	GF
2005-06	$167,425	GF
2006-07	$2,600	GF
2007-08	$0	GF
2008-09	$0	GF
2009-10	$0	GF
2010-11	$0	GF

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2004-05	$0	GF
2005-06	($61.75 million)	GF
2006-07	($49.43 million)	GF
2007-08	($54.82 million)	GF
2008-09	($60.09 million)	GF
2009-10	($65.38 million)	GF
2010-11	($69.20 million)	GF

7. **Budget amendment necessary:** Yes.
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8. **Fiscal implications:**

The Department of Taxation is in the final stages of preparing for an August changeover to an entirely new system developed over many years through a public-private partnership. Legislative changes that become effective before the new system is in place must be made to both the old and new systems. However, the Department must "freeze" both systems for several months while its existing records and other data are converted to the new system, and will not be able to resume system modifications until the new system is stable. This freeze is required both by the physical requirements of a major system upgrade and the fact that all personnel capable of modifying either system will be fully committed to the changeover.

The Department would incur costs of $167,425 for FY 2006 and $2,600 for FY 2007 to implement this bill, including necessary systems changes. The Department believes that there will be sufficient time available to make the necessary systems changes required by this bill without affecting the system changeover. However, if numerous changes must be implemented within the same time frame the Department may not be able to accomplish all of the modifications without additional resources or the ability to delay the effective date of some of the changes.

This bill would have a negative revenue impact of $61.75 million for FY 2006, $49.43 million for FY 2007, $54.82 million for FY 2008, $60.09 million for FY 2009, $65.38 million for FY 2010, and $69.20 million for FY 2011. For the purposes of this estimate, it is assumed that the changes made to the age deduction during the 2004 legislative session are in effect for TY 2004.

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

Department of Taxation

10. **Technical amendment necessary:** Yes.

This bill does not specify the manner in which the income ceiling applies to married persons filing separate returns. Therefore, the following technical amendment is suggested:

Page 5, Line 202, after returns.
Insert: For married taxpayers filing separately, the deduction will not be allowed if the total combined Virginia taxable income, excluding this deduction, exceeds $250,000.

In the course of codifying administrative action pursuant to 2004 legislation relating to the personal exemption amount, an unintended change was made to the additional exemption amount for blind and aged taxpayers.

Page 5, Line 187 after exemption
Unstrike: in the amount of $800

If the intent of this bill is merely to change the post-2004 age deduction, not to repeal it for 2004, the following technical amendments are suggested:

Page 5, Line 198 after January 1
Strike: 2005
Unstrike: 1996 but before January 1, 2004

Page 5, Line 200 after however,
Insert: effective for all taxable years beginning on or after January 1, 2005,

11. Other comments:

Current Law

The age deduction was modified during the 2004 session in several ways. First, the deduction is now subjected to a reduction based on income and the current $6,000 age deduction will be phased out. Individuals eligible to receive the $12,000 age deduction prior to taxable year 2004 continue to receive the full $12,000 age deduction without reduction. Individuals eligible to receive the $6,000 age deduction prior to taxable year 2004 continue to receive this deduction until they reach age 65. At that time, they will receive a $12,000 age deduction subject to a reduction based upon income.

Individuals who were not eligible to receive an age deduction prior to taxable year 2004 will not be eligible to receive an age deduction until they reach the age of 65. Once they reach age 65, they will receive a $12,000 age deduction subject to a reduction based upon income.

Those individuals who receive a $12,000 income-related age deduction will reduce their age deduction by $1 for every $1 of adjusted federal adjusted gross income above $50,000. Married individuals will reduce their $12,000 income-related age deduction by $1 for every $1 of their total combined adjusted federal adjusted gross income above $75,000. For married taxpayers filing separately, the $12,000 income- related age deduction will be reduced by $1 for every $1 the total combined adjusted federal adjusted gross income of both spouses exceeds $75,000.

"Adjusted federal adjusted gross income," means federal adjusted gross income minus any benefits received under Title II of the Social Security Act and other benefits subject to federal taxation solely under IRC § 86.

Proposal

For taxable years beginning on or after 2005, this bill would repeal the reduction based on income and allow taxpayers to claim the full amount of the age deductions. Taxpayers age 62 to 64 would once again be able to claim a $6,000 deduction, while taxpayers age 65 and above would be eligible for a $12,000 deduction.

However, this bill would place a new income based restriction on the age deduction. An individual whose Virginia taxable income, excluding the age deduction, exceeded

$150,000 would be ineligible. For taxpayers filing joint returns, this income limit would be increased to $250,000. This limitation would require the taxpayer to calculate his Virginia taxable income twice, once to determine the age deduction and then again to incorporate that age deduction in the final Virginia taxable income.

This bill would also increase the personal exemption amount to $900 effective for taxable years beginning on and after January 1, 2005. This provision codifies administrative action authorized by the ninth enactment of 2004 Acts of Assembly, Special Session I, Chapter 3 (HB 5018). The Secretary of Finance has certified that sufficient new revenue is available to fund the increase in the personal exemption for the 2005 taxable year and the Executive budget provides for it. Therefore, passage of this provision in the bill would have no fiscal impact.

This bill would be effective for taxable years beginning on or after January 1, 2005.

Other Legislation

House Bill 1935 would remove the income-based test for the age deduction and associate the $6,000 and $12,000 deductions for seniors age 62 to 64 and 65 and above, respectively, to the Consumer Price Index for All Urban Consumers (CPI-U). The age deduction amounts would be indexed annually by an amount equal to the percentage change in the index for all items from October 1 through September 30 of the year immediately preceding the affected taxable year.

House Bill 2706 and **Senate Bill 1186** would restore the $6,000 age deduction to taxpayers who turn age 62 during calendar year 2004 for taxable years 2005 and 2006.

cc : Secretary of Finance

Date: 1/24/2005 AMS
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