DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron Mark D. Sickles

2. Bill Number HB 1098
House of Origin:
X **Introduced**
____ **Substitute**
____ **Engrossed**

Second House:
____ **In Committee**
____ **Substitute**
____ **Enrolled**

3. Committee House Finance

4. Title Age Deduction; Modification of Income Test

5. Summary/Purpose:

This bill would increase the amount of the allowable adjusted federal adjusted gross income for married taxpayers from $75,000 to $100,000 for the purposes of the income-related test for the age deduction.

This bill would be effective for taxable years beginning on or after January 1, 2006.

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

Fiscal Year	***Dollars***	***Fund***
2005-06	$0	GF
2006-07	($23.45 million)	GF
2007-08	($16.01 million)	GF
2008-09	($16.72 million)	GF
2009-10	($17.24 million)	GF
2010-11	($17.78 million)	GF
2011-12	($18.33 million)	GF

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

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

This bill would have a negative revenue impact of $23.45 million for FY 2007, $16.01 million for FY 2008, $16.72 million for FY 2009, $17.24 million for FY 2010, $17.78 million for FY 2011, and $18.33 million for FY 2012.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The age deduction was modified during the 2004 session in several ways. First, the $12,000 age deduction is now subjected to a reduction based on income and the $6,000 age deduction for those who are age 62 through 64 will no longer be available beginning in taxable year 2006. Individuals eligible to receive the $12,000 age deduction prior to taxable year 2004 are able to 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 will continue to receive that deduction until they reach age 65. At that time, they will receive the $12,000 age deduction subject to a reduction based upon income.

Individuals who were not eligible to receive any form of the age deduction prior to taxable year 2004 are not eligible to receive an age deduction until they reach the age of 65. At that time, 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 are required to reduce their age deduction by $1 for every $1 of adjusted federal adjusted gross income above $50,000. Married individuals must 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 is 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

This bill would increase the amount of the allowable adjusted federal adjusted gross income for married taxpayers from $75,000 to $100,000 for the purposes of the income-related test for the age deduction.

This bill would be effective for taxable years beginning on or after January 1, 2006.

Other Legislation

House Bill 245 would modify the current age deduction by specifying that the deduction would be at least $6,000 for those taxpayers born after January 1, 1939, but no later than January 1, 1942.

House Bill 249, House Bill 973 and House Bill 1553 would annually index the $6,000 and $12,000 age deductions for seniors age 62 to 64 and 65 and above, respectively, using the Consumer Price Index for All Urban Consumers (CPI-U).

House Bill 483 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.

cc : Secretary of Finance

Date: 01/22/2006 AMS
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