

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Timothy D. Hugo

2. **Bill Number** HB 1250

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Individual Income Tax: Indexing the Tax Rates, Filing Thresholds, Personal Exemptions, and the Standard Deduction

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would annually index the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions using the Consumer Price Index for All Urban Consumers (CPI-U). These 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.

This bill would be effective for taxable years beginning on and after January 1, 2007.

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>
2005-06	\$0	GF
2006-07	\$103,680	GF
2007-08	\$92,050	GF
2008-09	\$39,819	GF
2009-10	\$40,908	GF
2010-11	\$42,028	GF
2011-12	\$43,182	GF

#### 6b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2005-06	\$0	GF
2006-07	(\$65 million)	GF
2007-08	(\$142 million)	GF
2008-09	(\$163 million)	GF
2009-10	(\$190 million)	GF
2010-11	(\$222 million)	GF
2011-12	(\$256 million)	GF

**7. Budget amendment necessary:** Yes  
ITEM(S): 264 and 265, Department of Taxation  
Page 1, Revenue Estimates

**8. Fiscal implications:**

The Department would incur costs of \$103,680 for FY 2007, \$92,050 for FY 2008, \$39,819 for FY 2009, \$40,908 for FY 2010, \$42,028 for FY 2011, and \$43,182 for FY 2012 for the annual updates and modifications to the individual income tax forms, withholding tables, and systems that would be required under this bill.

This bill would have a negative revenue impact of \$65 million for FY 2007, \$142 million for FY 2008, \$163 million for FY 2009, \$190 million for FY 2010, \$222 million for FY 2011, and \$256 million for FY 2012. These amounts were calculated by adjusting the tax rates, exemptions, thresholds and deductions by the current forecast for inflation.

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

Department of Taxation

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

In order to conform to the indexing period used by the Internal Revenue Service, the following technical amendments are suggested:

Page 1, Line 41 after for all items, from  
Strike: October 1 through September 30  
Insert: September 1 through August 31

Page 2, Line 69 after for all items, from  
Strike: October 1 through September 30  
Insert: September 1 through August 31

Page 5, Line 247 after for all items, from  
Strike: October 1 through September 30  
Insert: September 1 through August 31

Page 5, Line 260 after for all items, from  
Strike: October 1 through September 30  
Insert: September 1 through August 31

**11. Other comments:**

Consumer Price Index for All Urban Customers (CPI-U)

The Consumer Price Index for All Urban Consumers (CPI-U) is a measure calculated by the Bureau of Labor Statistics (BLS) that is used to track changes in the prices paid by urban consumers for common goods and services over time. This represents approximately 87% of the total population of the United States. The Index produces

monthly data on these changes. Typically, the Index for a given month is released approximately two or three weeks after the month ends.

### Proposal

This bill would annually index the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions using the Consumer Price Index for All Urban Consumers (CPI-U). These 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.

This bill would be effective for taxable years beginning on and after January 1, 2007.

### Technical Amendments Suggested

This bill would require the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions to be indexed using data from October through September. However, the Internal Revenue Code requires exemptions and deduction amounts to be indexed using a September through August period. Using a similar period would fit into the Department's schedule for printing individual income tax forms and instructions. Thus, several technical amendments have been suggested to adopt the same indexing period as under the Internal Revenue Code.

cc : Secretary of Finance

Date: 01/23/2006 AMS  
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