DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron James M. Scott

2. Bill Number HB 1553

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee House Finance

4. Title Age Deduction: Index Using the Consumer Price Index for All Urban Consumers

5. Summary/Purpose:

This bill 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). 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.

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

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2005-06	$0	GF
2006-07	($1.34 million)	GF
2007-08	($4.12 million)	GF
2008-09	($7.15 million)	GF
2009-10	($10.45 million)	GF
2010-11	($14.04 million)	GF
2011-12	($17.94 million)	GF

7. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates

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 $1.34 million for FY 2007, $4.12 million for FY 2008, $7.15 million for FY 2009, $10.45 million for 2010, $14.04 million for 2011, and $17.94 million for FY 2012.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

To clarify that the indexing would apply only to the age deduction as it will be available in 2007 and after, the following technical amendment is suggested:

Page 4, Line 217 after $12,000
Strike: and $6,000 deduction amounts
Insert: deduction amount

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

Page 4, Line 219 after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

<u>Age Deduction</u>

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 current $6,000 age deduction will no longer be available beginning in taxable year 2006. Individuals eligible to receive the $12,000 age deduction prior to taxable year 2004 will 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 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 are not 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 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.

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 proposal would annually index the age deduction amounts by an amount equal to the percentage change in the CPI-U. The percentage change would be the change identified from October 1 through September 30 of the year immediately preceding the affected taxable year.

The changes proposed by this bill would have no effect on the change to the age deduction that allows the $12,000 age deduction to be reduced based upon the income of the taxpayer. Thus, the age deduction would be indexed according to the CPI-U and then the taxpayer would determine the amount of his deduction based on his adjusted federal adjusted gross income.

Technical Amendments Suggested

This bill would require the age deduction 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, a technical amendment has been suggested to adopt the same indexing period as under the Internal Revenue Code.

This bill references the $6,000 age deduction that is allowed to taxpayers age 62 to 64. However, this deduction will be eliminated beginning in taxable year 2006. A technical amendment has been suggested to eliminate the reference.

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 483 would reinstate the $6,000 and $12,000 deduction for certain taxpayers aged 62 through 64, and 65 and older, respectively, for taxable years beginning on and after January 1, 2006, while those above certain income limits would be ineligible for the deduction.

House Bill 249 and House Bill 973 are identical to this bill.

House Bill 1098 would modify the income test for the age deduction by increasing the income ceiling for married taxpayers from $75,000 to $100,000.

cc : Secretary of Finance

Date: 01/22/2006 AMS
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