

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** L. Scott Lingamfelter

2. **Bill Number** HB 161

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income tax; subtraction of federal, state, or local government employee retirement payments.

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create an individual income tax subtractions for the amount of any federal, state, or local government employee retirement payments received during the taxable year.

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:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
2006-07	(\$827.9 million)	GF
2007-08	(\$594.7 million)	GF
2008-09	(\$629.1 million)	GF
2009-10	(\$665.5 million)	GF
2010-11	(\$704.0 million)	GF
2011-12	(\$744.7 million)	GF

7. **Budget amendment necessary:** Yes.

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8. **Fiscal implications:**

This bill would have a negative revenue impact of \$827.9 million for FY 2007, \$594.7 million for FY 2008, \$629.1 million for FY 2009, \$665.5 million for FY 2010, \$704.0 million for FY 2011, and \$744.7 million for FY 2012. These estimates are based on information from VRS and localities that show about \$2.278 billion retirement benefits were paid to Virginia residents from state and local retirement plans in 2005, and information from federal sources that about \$7.114 billion retirement benefits were paid to federal civilian and military retirees for 2004.

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.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law:

With one exception, federal, state and local government retirement benefits are taxable to individuals in the taxable year in which they are received. Virginia offers several benefits for retired individuals.

- For individuals born on or before January 1, 1939, Virginia offers an age deduction in the amount of \$12,000.
- For individuals born after January 1, 1939, who have attained the age of 65, a deduction in the amount of \$12,000 is available. This deduction shall be reduced by \$1 for every \$1 that the taxpayer's adjusted federal adjusted gross income exceeds \$50,000 for single taxpayers or \$75,000 for married taxpayers. For married taxpayers filing separately, the deduction will be reduced by \$1 for every \$1 the total combined adjusted federal adjusted gross income of both spouses exceeds \$75,000.
- For individuals born on or between January 2, 1941, and January 1, 1942, a deduction in the amount of \$6,000 is available.
- Virginia does not tax social security benefits.
- Virginia offers each blind or aged taxpayer an additional personal exemption in the amount of \$800.
- Virginia allows a subtraction for any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.

Proposal:

This bill would create an individual income tax subtraction for the amount of any federal, state, or local government employee retirement payments received during the taxable year.

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

cc : Secretary of Finance

Date: 01/16/2006 PTR
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