DEPARTMENT OF TAXATION
2007 Fiscal Impact Statement

1. Patron Jeffrey M. Frederick

2. Bill Number HB 2439

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

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

3. Committee House Finance

4. Title Individual Income Tax; Modification of the Age Deduction

5. Summary/Purpose:

This bill would replace the current individual income tax age deduction with deductions of $7,000 for taxpayers age 62 through 64 and $14,000 for taxpayers age 65 and older. The deduction for those aged 62 through 64 would only be available to those taxpayers whose social security benefits were no more than $3,500.

The deduction and benefits amounts would be indexed annually according to the Consumer Price Index for all Urban Consumers 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, 2008.

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

6b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2006-07	-	GF
2007-08	-	GF
2008-09	($79.8 million)	GF
2009-10	($98.4 million)	GF
2010-11	($117.9 million)	GF
2011-12	($138.2 million)	GF
2012-13	($159.8 million)	GF

7. Budget amendment necessary:
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.

Based on an analysis of the age deductions claimed in 2004 tax returns and social security statistics regarding the number of social security beneficiaries and the average dollar amount of the benefits, the tentative revenue loss would be $79.8 million in Fiscal Year 2009, $98.4 million in Fiscal Year 20010, $117.9 million in Fiscal Year 2011, $138.2 million in Fiscal Year 2012, and $159.8 million in Fiscal Year 2013.
$79.8 million in Fiscal Year 2009,

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to clarify that the $3,500 social security limitation applies only to taxpayers aged 62 through 64, the following technical amendment is suggested:

Page 4, Line 202, after older
Strike: , or
Insert: . In addition, there shall be subtracted a deduction in the amount of

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

Page 4, Line 206, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

<u>Current Law</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 $6,000 age deduction is no longer available. 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 bill would replace the current individual income tax age deduction with deductions of $7,000 for taxpayers age 62 through 64 and $14,000 for taxpayers age 65 and older. The deduction for those aged 62 through 64 would only be available to those taxpayers whose social security benefits were no more than $3,500.

The deduction and benefits amounts would be indexed annually according to the Consumer Price Index for all Urban Consumers 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.

Technical Amendment Suggested

This bill would require the amount of the age deductions and the social security benefits 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. Another technical amendment is suggested to clarify that the $3,500 social security limitation applies only to those aged 62 through 64.

Similar Legislation

House Bill 1821 would modify the $12,000 age deduction by eliminating the reduction based on income for taxpayers age 65 or older. In addition, this bill would restore the $6,000 age deduction for taxpayers age 62 through 64.

House Bill 2577 would modify the reduction based on income for the age deduction by mandating that the deduction could not be less than $6,000. This modification would only apply to those taxpayers who were born after January 1, 1939, and no later than January 1, 1942, however.

House Bill 2643 would annually index $12,000 age deduction for seniors age 65 and above using the Consumer Price Index for All Urban Consumers (CPI-U). The age deduction amount 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.

cc : Secretary of Finance

Date: 1/26/2007 AMS
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