

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** Timothy D. Hugo

2. **Bill Number** HB 1247

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 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, 2009.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$0	GF
2008-09	\$108,300	GF
2009-10	\$103,395	GF
2010-11	\$48,720	GF
2011-12	\$48,197	GF
2012-13	\$48,574	GF
2013-14	\$48,963	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007-08	\$0	GF
2008-09	(\$16.8 million)	GF
2009-10	(\$46.7 million)	GF
2010-11	(\$74.4 million)	GF
2011-12	(\$103.7 million)	GF
2012-13	(\$132.8 million)	GF
2013-14	(\$166.2 million)	GF

7. Budget amendment necessary: Yes.

ITEM(S): Page 1, Revenue Estimates
270 and 273, Department of Taxation

8. Fiscal implications:

Administrative Costs

TAX would incur costs of \$108,300 for FY 2009, \$103,395 for FY 2010, \$48,720 for FY 2011, \$48,197 for FY 2012, \$48,574 for FY 2013, and \$48,963 for FY 2014 for the annual updates and modifications to the individual income tax forms, withholding tables, and systems that would be required under this bill.

Revenue Impact

This bill would have a negative revenue impact of \$16.8 million for FY 2009, \$46.7 million for FY 2010, \$74.4 million for FY 2011, \$103.7 million for FY 2012, \$132.8 million for FY 2013, and \$166.2 million for FY 2014. This estimate assumed that future filing threshold amounts would not be indexed until they came into effect.

The following table shows expected inflation and expected income tax parameter amounts.

Year	Index as HB 1247, FY Impact in \$M	Index Brackets Only	Index \$930,\$800 Exemption Only	Index \$3K, \$6K St. Ded Only	Index Filing Threshold Only
2005	0.0	0.0	0.0	0.0	0.0
2006	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.0	0.0
2008	0.0	0.0	0.0	0.0	0.0
2009	-16.8	-9.2	-3.5	-2.7	-1.5
2010	-46.7	-26.4	-10.1	-7.5	-2.8
2011	-74.4	-42.6	-16.2	-12.1	-3.8
2012	-103.7	-60.1	-22.8	-17.2	-4.0
2013	-132.8	-77.8	-29.4	-22.3	-4.0
2014	-166.2	-96.3	-36.3	-27.8	-6.9

To implement this change, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

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

Page 5, Line 265, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

Page 5, Line 279, 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.

Recent Changes to the Filing Thresholds and the Personal Exemption

In 2007, legislation was enacted that modified the individual income tax thresholds and the personal exemption. The threshold for single individuals was increased from \$7,000 to \$11,250 for 2008 and 2009, \$11,650 for 2010 and 2011 and \$11,950 for 2012 and beyond. The threshold for married couples was increased from \$14,000 to \$22,500 for 2008 and 2009, 23,300 for 2010 and 2011, and 23,900 for 2012 and beyond. In addition, the personal exemption amount was increased from \$900 to \$930 effective for taxable year 2008.

Proposal

This bill would annually index the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$930 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, 2009.

Technical Amendments Suggested

This bill would require the amount of income used to determine the income tax rates, the filing thresholds, the 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 TAX'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.

Similar Legislation

House Bill 1411 would annually index the income amounts for the income-related \$12,000 age deduction for seniors 65 and above using the Consumer Price Index for All Urban Customers (CPI-U).

cc : Secretary of Finance

Date: 1/19/2008 TG
HB1247F161