DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement

1. Patron Riley E. Ingram

2. Bill Number HB 1411

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

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

3. Committee House Finance

4. Title Individual Income Tax: Indexing of the Income Amounts for the Income-Related Age Deduction

5. Summary/Purpose:

This bill would annually index the $50,000 and $75,000 income amounts for the income-related $12,000 age deduction for seniors 65 and above, using the Consumer Price Index for All Urban Consumers (CPI-U). The income 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, 2009.

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2007-08	$0	GF
2008-09	$0	GF
2009-10	($1.1 million)	GF
2010-11	($2.1 million)	GF
2011-12	($3.6 million)	GF
2012-13	($5.2 million)	GF
2013-14	($7.0 million)	GF

7. Budget amendment necessary: Yes.
Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs

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.

Revenue Impact

This bill would have a negative revenue impact of $1.1 million for FY 2010, $2.1 million for FY 2011, $3.6 million for FY 2012, $5.2 million for 2013, and $7.0 million for 2014.

The forecast for the CPI-U over the next six years indicates that the income amounts for the age deduction would grow by an average of slightly less than 2% per year under the provisions of this bill. Therefore, TAX determined this revenue estimate by comparing the total amount of the age deduction that would be claimed by taxpayers using the current income amounts to the total amount of the age deduction that would be claimed by taxpayers using the income amounts grown by the CPI-U.

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 amendment is suggested:

Page 4, Line 217, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

Age Deduction

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 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 were allowed to continue to receive that deduction until they reached age 65. At that time, they began to 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 annually index the $50,000 and $75,000 income amounts for the income-related $12,000 age deduction for seniors 65 and above, using the Consumer Price Index for All Urban Consumers (CPI-U). The income 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, 2009.

Technical Amendment Suggested

This bill would require the income amounts for the income-related 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 TAX'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.

Similar Legislation

House Bill 1247 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).

cc : Secretary of Finance