

DEPARTMENT OF TAXATION

2010 Fiscal Impact Statement

1. **Patron** James M. LeMunyon

2. **Bill Number** HB 784

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:**

TAX understands that the patron will be amending this bill. This fiscal impact statement is applicable to that amended version.

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 increase in the index for all items from September 1 through August 31 of the year immediately proceeding the affected taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2010.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2009-10	\$0	GF
2010-11	(\$ 12.3 million)	GF
2011-12	(\$ 38.7 million)	GF
2012-13	(\$ 68.7 million)	GF
2013-14	(\$ 98.5 million)	GF
2014-15	(\$127.7 million)	GF
2015-16	(\$157.8 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 \$12.3 million for Fiscal Year 2011, \$38.7 million for Fiscal Year 2012, \$68.7 million for Fiscal Year 2013, \$98.5 million for Fiscal Year 2014, \$127.7 million for Fiscal Year 2015, and \$157.8 million for Fiscal Year 2016. 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.

Taxable Year	CPI-U for preceding year	<u>Filing Thresholds</u>		<u>Exemptions</u>		<u>Deductions</u>		<u>Income Tax Brackets</u>				
		Single	Married	Pers/ Dep	Aged/ Blind	Single	Married	2%	3%	5%	5.75%	
2010	-0.386%	11,650	23,300	930	800	3,000	6,000	0 - 3,000	- 5,000	- 17,000	and above	
2011	1.397%	12,117	24,234	943	811	3,042	6,084	0 - 3,042	- 5,070	- 17,237	and above	
2012	2.232%	12,387	24,775	964	829	3,110	6,220	0 - 3,110	- 5,183	- 17,622	and above	
2013	2.045%	12,640	25,282	984	846	3,174	6,347	0 - 3,174	- 5,289	- 17,982	and above	
2014	1.883%	12,878	25,758	1,003	862	3,234	6,467	0 - 3,234	- 5,389	- 18,321	and above	
2015	1.915%	13,125	26,251	1,022	879	3,296	6,591	0 - 3,296	- 5,492	- 18,672	and above	
2016	1.932%	13,379	26,758	1,042	896	3,360	6,718	0 - 3,360	- 5,598	- 19,033	and above	

Because the change in the CPI-U was negative for the period ending in 2009, there would be no change in the indexed income tax parameters for Taxable Year 2010.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

TAX understands the Patron will introduce the following amendments or a substitute bill that incorporates the following amendments.

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 items, from

Strike: October 1 through September 30

Insert: September 1 through August 31

Page 2, Line 84, after items, from

Strike: October 1 through September 30

Insert: September 1 through August 31

Page 5, Line 275, after items, from

Strike: October 1 through September 30

Insert: September 1 through August 31

In order to clarify that only increases in the CPI-U will affect the income tax parameters, the following technical amendments are suggested:

Page 1, Line 40, after the percentage

Strike: change

Insert: increase

Page 2, Line 83, after the percentage

Strike: change

Insert: increase

Page 5, Line 274, after the percentage

Strike: change

Insert: increase

In order to clarify that this bill would index the personal deductions, the following technical amendments are suggested:

Page 5, Line 286, after purposes.

Insert: c. For taxable years beginning on and after January 1, 2010, the \$800 and \$930 deduction amounts in this subdivision shall be indexed annually by an amount equal to the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U), for all items, from September 1 through August 31 for the year immediately preceding the affected taxable year.

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 percent 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.

The CPI-U has generally been positive to reflect increases in the prices paid by urban consumers for common goods and services. However, in 2009, the CPI-U was negative for the first time in over fifty years. Therefore, had the individual income tax rates and various tax preferences currently been linked to the “change” in the CPI-U, taxes would have increased while the tax preferences, such as the standard deduction, would have decreased.

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 increase in the index for all items from September 1 through August 31 of the year immediately preceding the affected taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2010.

cc : Secretary of Finance
Date: 1/24/2010 JKM
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