DEPARTMENT OF TAXATION
2010 Fiscal Impact Statement

1. Patron Charles W. Carrico, Sr.

2. Bill Number HB 73

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

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

3. Committee House Finance

4. Title Income Tax: Additional Personal Exemption for Surviving Spouse or Head of Household

5. Summary/Purpose:

This bill would create an additional individual income tax exemption in the amount of $800 for taxpayers who qualify as a surviving spouse as defined in § 2(a) of the Internal Revenue Code ("IRC") or as a head of household as defined in § 2(b) of the IRC.

The exemption would be available for taxable years beginning on or after January 1, 2010.

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2009-10	$0	GF
2010-11	($15.9 Million)	GF
2011-12	($12.3 Million)	GF
2012-13	($11.7 Million)	GF
2013-14	($11.8 Million)	GF
2014-15	($12.0 Million)	GF
2015-16	($12.1 Million)	GF

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

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

Based on data derived from federal tax returns, this bill would have a negative revenue impact. The bill would grant the exemption retroactively to January 1, 2010; however, TAX would not be able to make the required changes to implement this exemption until a date after the bill's enactment. Taxpayers would also need time to change withholding declarations and estimated payments. Therefore, this analysis assumes that taxpayers will not be able to make these changes until after July 1, 2010, increasing the revenue loss in FY 2011. Based on this analysis, this bill would reduce General Fund revenues by $15.9 million in FY 2011, $12.3 million in FY 2012, $11.7 million in FY 2013, $11.8 million in FY 2014, $12.0 million in FY 2015, and $12.1 million in FY 2016.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Law

Under federal law, taxpayers may be able to file as head of household if they are unmarried or "considered unmarried" on the last day of the year; paid more than half the cost of maintaining a home for the year; and a "qualifying person" lived with the taxpayer in the home for more than half the year (except for temporary absences, such as school). Such "qualifying persons" generally include any person whom the taxpayer can claim as a dependent or the taxpayer's child.

If a taxpayer qualifies to file as head of household, the taxpayer's tax rate usually will be lower than the rates for single or married filing separately. For federal income tax purposes, the taxpayer will also receive a higher standard deduction than if he or she files as single or married filing separately.

The federal surviving spouse filing status is available to any taxpayer whose spouse died during either of the two taxable years immediately preceding the current taxable year, and who maintains a household constituting the principal place of abode for a dependent child. For federal income tax purposes, this filing status allows the taxpayer to benefit from joint return tax rates and the highest standard deduction amount.

For example, if the taxpayer's spouse died in 2008 and the taxpayer did not remarry, he or she may be able to use the surviving spouse filing status on their 2009 and 2010 federal income tax returns. For 2008, the taxpayer would still be allowed to use the married filing jointly filing status.

Virginia Law

Effective for taxable year 2008, Virginia increased the deduction from $900 to $930 for each personal and dependent exemption allowed on a taxpayer's federal income tax return. An additional exemption amount of $800 is allowed for taxpayers who are blind or age 65 and over.

Under Virginia law, a taxpayer who does not itemize deductions for federal purposes may claim a standard deduction. The amount of the standard deduction is $3,000 for single taxpayers and $6,000 for married taxpayers filing jointly. Married taxpayers filing separately may each claim a standard deduction of $3,000.

Virginia's income tax is imposed at graduated rates, starting at 2% and capped at 5.75%. The highest rate applies to income over $17,000. When a married couple chooses to file a joint Virginia income tax return, the first $17,000 of their total taxable income is taxed at the lower rates, while the remainder is subject to tax at the rate of 5.75%. In order to avoid the "marriage penalty," whereby the married couple pays a higher tax amount than they would if each person filed separately, the taxpayers may use the Spouse Tax Adjustment. To do so, each taxpayer calculates their income tax separately. As a result, the first $17,000 of their incomes will be taxed at the lower rates, resulting in an adjustment to tax of up to $259.

Proposed Legislation

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cc : Secretary of Finance

Date: 1/26/2010 TLG
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