

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** James M. LeMunyon

3. **Committee** House Finance

4. **Title** Individual Income Tax; Adjusted for Inflation.

2. **Bill Number** HB 432

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would index the individual income tax brackets, standard deduction, and personal exemptions. These amounts would 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 July 1 through June 30 of the year immediately preceding the affected taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2014.

6. **Budget amendment necessary:** Yes.

ITEM(S): Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2013-14	\$0	GF
2014-15	(\$49.7 million)	GF
2015-16	(\$60.9 million)	GF
2016-17	(\$90.2 million)	GF
2017-18	(\$122.2 million)	GF
2018-19	(\$157.4 million)	GF
2019-20	(\$194.9 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") 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, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department 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, the Department will identify the costs at that time.

Fiscal Impact

This bill would reduce General Fund revenue by \$49.7 million for Fiscal Year 2015, \$60.9 million for Fiscal Year 2016, \$90.2 million for Fiscal Year 2017, \$122.2 million for Fiscal Year 2018, \$157.4 million for Fiscal Year 2019, and \$194.9 million for Fiscal Year 2020.

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

Schedule of Indexed Parameters, beginning TY 2014.										
Taxable Year	CPI-U for Preceding Year	Brackets					Exemptions		Standard Deduction	
							Pers/Dep	Blind/Age	Single	Married
2013	2.925%	0	3,000	5,000	17,000	and up	930	800	3,000	6,000
2014	1.675%	0	3,050	5,084	17,285	and up	946	813	3,050	6,101
2015	1.350%	0	3,091	5,152	17,518	and up	958	824	3,091	6,183
2016	1.625%	0	3,142	5,236	17,803	and up	974	838	3,142	6,283
2017	1.850%	0	3,200	5,333	18,132	and up	992	853	3,200	6,400
2018	1.875%	0	3,260	5,433	18,472	and up	1,011	869	3,260	6,520
2019	2.050%	0	3,327	5,544	18,851	and up	1,031	887	3,327	6,653
2020	1.950%	0	3,391	5,652	19,218	and up	1,051	904	3,391	6,783

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Consumer Price Index for All Urban Consumers (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 typically 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 has ended.

Federal Indexing for Inflation

The federal individual income tax brackets, standard deduction, and personal exemptions are all indexed using CPI-U.

States Indexing for Inflation

The individual income tax brackets in fourteen states, the standard deduction in thirteen states and the District of Columbia, and personal exemptions in eight states and the District of Columbia are indexed to account for inflation. Virginia currently does not index for inflation.

Current Law

Under current law, the Virginia taxable income of an individual is taxed at the following rates: 2 percent on income not exceeding \$3,000; 3 percent on income in excess of \$3,000 but not in excess of \$5,000; 5 percent on income in excess of \$5,000, but not in excess of \$17,000; and 5.75 percent on income in excess of \$17,000.

Taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. The standard deduction amounts are \$3,000 for single individuals and \$6,000 for married couples.

All taxpayers are permitted to claim a personal exemption in the amount of \$930 for each personal exemption allowable for federal income tax purposes. In addition, each blind or aged taxpayer is permitted to an additional exemption in the amount of \$800.

Proposed Legislation

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This bill would be effective for taxable years beginning on and after January 1, 2014.

cc : Secretary of Finance

Date: 01/30/2014 mjm
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