DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement

1. Patron Mark D. Obenshain

2. Bill Number SB 733

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

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

3. Committee Senate Finance

4. Title Individual Income Tax; Adjusted for Inflation

5. Summary/Purpose:

This bill would index the individual income tax brackets, standard deduction, and personal exemptions 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 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, 2016.

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

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

7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2015-16	$0	GF
2016-17	($9.4 million)	GF
2017-18	($14.6 million)	GF
2018-19	($56.3 million)	GF
2019-20	($102.1 million)	GF
2020-21	($148.2 million)	GF
2021-22	($195.2 million)	GF

8. Fiscal implications:

Administrative Costs

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

Revenue Impact

This bill would have an overall negative General Fund revenue impact of $23.3 million in Fiscal Year 2017; $42.7 million in Fiscal Year 2018; $84.1 million in Fiscal Year 2019; $130.0 million in Fiscal Year 2020; $176.3 in Fiscal Year 2021; and $223.4 million in Fiscal Year 2022. However, because the Introduced Executive Budget provides funding for increasing Virginia's personal exemption amounts, the net impact of this bill would be a negative General Fund revenue impact of $9.4 million in Fiscal Year 2017, $14.6 million in Fiscal Year 2018, $56.3 million in Fiscal Year 2019, $102.1 million in Fiscal Year 2020, $148.2 million in Fiscal Year 2021, and $195.2 million in Fiscal Year 2022.

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 39, after from
Strike: July 1 through June 30
Insert: September 1 through August 31

Page 5, Line 250, after from
Strike: July 1 through June 30
Insert: September 1 through August 31

Page 5, Line 262, after from
Strike: July 1 through June 30
Insert: September 1 through August 31

Page 5, Line 270, after from
Strike: July 1 through June 30
Insert: September 1 through August 31

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 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.

Federal Indexing for Inflation

Effective in 1985, 1986, and all taxable years after 1989, the federal individual income tax brackets, standard deduction, and personal exemptions are all indexed using CPI-U. For Taxable Year 2015, the federal tax brackets for married individuals filing joint returns and surviving spouses are as follows:

Married Filing Jointly or Surviving Spouse	
Taxable Income	**Tax Rate**
$0 to $18,450	10%
$18,451 to $74,900	$1,845.00 plus 15% of the amount over $18,450
$74,901 to $151,200	$10,312.50 plus 25% of the amount over $74,900
$151,201 to $230,450	$29,387.50 plus 28% of the amount over $151,200
$230,451 to $411,500	$51,577.50 plus 33% of the amount over $230,450
$411,501 to $464,850	$111,324.00 plus 35% of the amount over $411,500
$464,851 or more	$129,996.50 plus 39.6% of the amount over $464,850

For Taxable Year 2015, the federal tax brackets for unmarried individuals (other than Surviving Spouses and Heads of Households) are as follows:

Unmarried Individuals	
Taxable Income	**Tax Rate**
$0 to $9,225	10%
$9,226 to $37,450	$922.50 plus 15% of the amount over $9,225
$37,451 to $90,750	$5,156.25 plus 25% of the amount over $37,450
$90,751 to $189,300	$18,481.25 plus 28% of the amount over $90,750
$189,301 to $411,500	$46,075.25 plus 33% of the amount over $189,300
$411,501 to $413,200	$119,401.25 plus 35% of the amount over $411,500
$413,201 or more	$119,996.25 plus 39.6% of the amount over $413,200

Different tax brackets apply to those who are heads of household or are married individuals filing separate returns.

For Taxable Year 2015, the standard deduction amounts are as follows:

Filing Status	Standard Deduction
Married Individuals Filing Joint Returns and Surviving Spouses	$12,600
Heads of Households	$9,250
Unmarried Individuals (other than Surviving Spouses and Heads of Households)	$6,300
Married Individuals Filing Separate	$6,300

Federal law also allows an additional standard deduction for the aged or the blind. These amounts are indexed using CPI-U. For Taxable Year 2015, the additional standard deduction amount for the aged or the blind is $1,250. The additional standard deduction amount is increased to $1,550 if the individual is also unmarried and not a surviving spouse.

A federal personal exemption may be claimed for each person filing a return (for married couples, each spouse is entitled to an exemption) and for each person who can be claimed as a dependent. For Taxable Year 2015, a $4,000 federal personal exemption may be claimed.

State Indexing for Inflation

The individual income tax brackets in sixteen states (Arizona, Arkansas, California, Idaho, Iowa, Maine, Minnesota, Montana, Nebraska, New York, North Dakota, Oregon, Rhode Island, South Carolina, Vermont, and Wisconsin) are indexed to account for inflation.

In addition, the standard deduction in twenty states (Arizona, California, Colorado, Idaho, Iowa, Kentucky, Maine, Minnesota, Missouri, Montana, Nebraska, New Mexico, New York, North Dakota, Oklahoma, Oregon, Rhode Island, South Carolina, Vermont, and Wisconsin) and the District of Columbia and personal exemptions in thirteen states (Colorado, Idaho, Illinois, Maine, Michigan, Minnesota, Montana, New Mexico, North Dakota, Ohio, Rhode Island, South Carolina, and Vermont) and the District of Columbia are indexed to account for inflation. Among those states, nine of them (Colorado, Idaho, Minnesota, Missouri, New Mexico, North Dakota, Oklahoma, South Carolina, and Vermont) conform to the federal standard deduction, the federal personal exemptions, or both.

Instead of allowing the personal exemption amounts as a tax deduction, several states allow a tax credit for personal exemptions. Tax deductions lower one's taxable income, whereas tax credits provide a reduction of one's income tax liability. Among those states offering a tax credit for personal exemptions, four of them (Arkansas, California, Oregon, and Utah) are indexed to account for inflation.

Current Law

Under current law, the Virginia taxable income of an individual is taxed at the following rates:

Virginia Taxable Income	Virginia Tax Rate
$0 to $3,000	2%
$3,001 to $5,000	$60 and 3% of excess over $3,000
$5,001 to $17,000	$120 and 5% of excess over $5,000
$17,001 or more	$720 and 5.75% of excess over $17,000

The amount of Virginia taxable income subject to Virginia's top marginal tax rate has changed over the years. The history of such changes from Taxable Year 1972 to the present is shown below:

Year	Taxable Income Subject to 5.75% Tax Rate
1972-1986	$12,001 or more
1987	$14,001 or more
1988	$15,001 or more
1989	$16,001 or more
1990-Present	$17,001 or more

Under current law, 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 married individual filing a separate return and $6,000 for married persons.

Taxpayers who 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. Virginia's standard deduction amounts have changed over the years. The history of such changes from Taxable Year 1972 to the present is shown below.

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Taxpayers
1972-1980	$1,300	$1,300
1981-1986	15% of federal adjusted gross income with a $1,300 minimum deduction and a $2,000 maximum deduction	15% of federal adjusted gross income with a $1,300 minimum deduction and a $2,000 maximum deduction
1987	$2,000	$2,000
1988	$2,700	$2,700
1989-2004	$3,000	$5,000
2005-present	$3,000	$6,000

All taxpayers are permitted to claim a personal exemption in the amount of $930 for each personal exemption allowable for federal income tax purposes. Virginia's personal exemption amounts have changed over the years, as shown below:

Year	Virginia Personal Exemption
1972	$600
1973-1986	$600
1987	$700
1988-2005	$800
2006-2007	$900
2008-present	$930

In addition to the $930 personal exemption, an $800 personal exemption for age or blindness may be claimed for each filer who is blind or who has attained the age of 65 before the close of the taxable year. Virginia's additional personal exemptions for age or blindness have changed over the years, as shown below:

Year	Personal Exemption for Blindness/Age
1972	$600
1973-1986	$600 for blindness $1,000 for age
1987	$900
1988-present	$800

Beginning in Taxable Year 1973, the General Assembly allowed an additional $400 personal exemption for taxpayers who claimed the additional federal personal exemption for age. Therefore, for Taxable Years 1973 through 1986, the total Virginia additional personal exemption for age was $1,000. There was no additional amount allowed for blindness. Thus, taxpayers who claimed the federal personal exemption for blindness would be entitled to only a $600 additional personal exemption on Virginia returns filed from 1973 through 1986.

Proposed Legislation

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

This bill would be effective for taxable years on and after January 1, 2016.

Similar Bills

House Bill 215 is identical to this bill.

House Bill 163 would increase the age deduction from $12,000 to $13,000, and would index the income restrictions that limit the deduction for certain taxpayers.

House Bill 540, **Senate Bill 289**, and **Senate Bill 685** would increase the individual income tax personal exemption amount from $930 to $1,000, and would increase the additional personal exemption for age or blindness from $800 to $900.

House Bill 693 and **Senate Bill 618** would index the individual income tax standard deduction using the Consumer Price Index for All Urban Consumers (CPI-U).

Senate Bill 570 would increase the maximum income within each individual income tax bracket by $1,000 and would reduce the rate of taxation for the lowest individual income tax bracket to zero percent.

cc : Secretary of Finance

Date: 2/1/2016 JJS
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