

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Brenda L. Pogge

3. **Committee** House Finance

4. **Title** Individual Income Tax Subtraction; All Retirement Income

2. **Bill Number** HB 678

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would modify the Virginia individual income tax subtraction for income derived from certain retirement plans and programs by allowing the subtraction regardless of whether the contributions to such plans and programs (i) were deductible for federal income tax purposes, or (ii) subject to taxation in another state. Under current law, the subtraction is permitted to the extent the contributions are deductible for federal income tax purposes and subject to taxation in another state.

This bill would also establish a new individual income tax subtraction for any retirement (i) allowance paid to a member or beneficiary by the Virginia Retirement System, (ii) allowance, pension, or annuity paid to a retiree by the public or governmental retirement system of another state, or (iii) allowance, pension, or annuity paid to a retiree by a private retirement system or plan of which the recipient was a member at any time during his period of employment.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8)

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 system 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.

Revenue Impact

This bill would have an unknown, but potentially significant, negative General Fund revenue impact, beginning in Fiscal Year 2019. This bill would increase the availability of Virginia's existing subtraction for retirement income by removing certain limitations on such subtraction and would permit a new subtraction for certain retirement income not covered by the existing subtraction. Because the Department does not have available specific data regarding taxable income from retirement programs and plans covered by this bill, the extent to which Virginia taxpayers would be eligible to claim these subtractions is uncertain. However, the Department estimates that the maximum negative revenue impact would be approximately \$2.78 billion for Fiscal Year 2019, \$1.97 billion for Fiscal Year 2020, \$2.08 billion for Fiscal Year 2021, \$2.20 billion for Fiscal Year 2022, \$2.30 billion for Fiscal Year 2023, and \$2.45 billion for Fiscal Year 2024.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department recommends specifying an effective date to clarify when taxpayers will be permitted to claim the subtractions under this bill. For purposes of estimating the revenue impact, the Department assumed the bill would be effective for taxable years beginning on and after January 1, 2018.

11. Other comments:

Virginia's Retirement Income Tax Incentives

Virginia permits an individual income tax subtraction for the amount of Social Security Act and Tier 1 Railroad Retirement Act benefits a taxpayer included in his or her federal adjusted gross income.

Virginia also allows an individual income tax subtraction for any income received from a:

- Qualified pension, profit-sharing, or stock bonus plan;
- Individual retirement accounts or annuities;
- Deferred compensation plan, or
- Federal government retirement program.

Income from such programs and plans may only be subtracted to the extent contributions to such plans are subject to taxation in another state and deductible from the taxpayer's federal adjusted gross income.

Proposed Legislation

This bill would modify the Virginia individual income tax subtraction for income derived from certain retirement plans and programs by allowing the subtraction regardless of whether the contributions to such plans and programs (i) were deductible for federal income tax purposes, or (ii) subject to taxation in another state. Under current law, the subtraction is permitted to the extent the contributions are deductible for federal income tax purposes and subject to taxation in another state.

This bill would also establish a new individual income tax subtraction for any retirement:

- Allowance paid to a member or beneficiary by the Virginia Retirement System;
- Allowance, pension, or annuity paid to a retiree by the public or governmental retirement system of another state; or
- Allowance, pension, or annuity paid to a retiree by a private retirement system or plan of which the recipient was a member at any time during his period of employment.

The effective date of this bill is not specified.

cc: Secretary of Finance

Date: 1/23/2018 JLOF
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