

**DEPARTMENT OF TAXATION
2019 Fiscal Impact Statement**

1. **Patron** Elizabeth R. Guzman

3. **Committee** House Finance

4. **Title** Individual Income Tax; Income Tax Credit for
Low-Income Seniors

2. **Bill Number** HB 2131

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide a \$1,000 refundable individual income tax credit to any person who is 65 or older during the taxable year and has a family Virginia adjusted gross income that is less than 138 percent of the amount set forth in the applicable poverty guidelines for such taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2019, but before January 1, 2024.

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>
2019-20	(\$116.0 million)	GF
2020-21	(\$131.6 million)	GF
2021-22	(\$134.7 million)	GF
2022-23	(\$137.9 million)	GF
2023-24	(\$141.2 million)	GF
2024-25	(\$14.2 million)	GF

8. Fiscal implications:

Administrative Costs

Due to uncertainty about the systems and processing changes that may be required for the 2018 and 2019 income tax filing seasons, the Department of Taxation ("the Department") is unable to assign administrative costs to this bill at this time. During 2017, Congress enacted the Tax Cuts and Jobs Act, which made substantial changes to federal

tax law. At this time, it is uncertain what Virginia tax policy changes will be adopted in reaction to the federal law.

If substantial changes are enacted or required in response to state/federal law, it is possible that the Department may not have the ability to implement the changes set forth in this bill by the proposed effective date. Accordingly, the Department will reevaluate its costs once action is taken and may request additional funding or an amendment to delay the effective date of this legislation.

Revenue Impact

This bill would result in an estimated negative General Fund revenue impact of at least \$116.0 million in Fiscal Year 2020; \$131.6 million in Fiscal Year 2021; \$134.7 million in Fiscal Year 2022; \$137.9 million in Fiscal Year 2023; \$141.2 million in Fiscal Year 2024; and \$14.2 million in Fiscal Year 2025. This bill would also result in a minimal negative General Fund revenue impact in Fiscal Year 2025 to the extent taxpayers would file late or on extension and claim this credit.

The Department's estimates are based upon data regarding those taxpayers who file Virginia income tax returns. However, the income of certain taxpayers who are eligible for this tax credit may fall below Virginia's income tax filing threshold, \$11,950 for individuals and \$23,900 for married persons filing jointly. It is unknown how many of these taxpayers would file a Virginia return to benefit from the proposed credit and this could increase the revenue impact by an unknown amount.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Age Deduction

Taxpayers age 65 and older may claim an additional \$800 personal exemption. Certain taxpayers may also qualify for an age deduction of up to \$12,000. For taxpayers born on or before January 1, 1939, the amount of the age deduction is \$12,000. For taxpayers born after January 1, 1939, who have attained the age of 65, the amount of the age deduction is means-tested. Accordingly, the \$12,000 age deduction is reduced dollar-for-dollar for single taxpayers whose income exceeds \$50,000 and for married taxpayers whose combined income exceeds \$75,000.

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either the Tax Credit for Low-Income Individuals or a credit equal to 20 percent of the federal EITC that was claimed for the taxable year.

- The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married person's income tax return for the taxable year.
- Virginia also allows a nonrefundable individual income tax credit equal to 20 percent of the federal EITC claimed by an individual for the taxable year. The credit is for any individual or married persons that are eligible for the federal EITC for the taxable year and claimed such a credit.

No household may claim both credits in the same taxable year. For purposes of these credits, "household" means an individual or married persons, regardless of whether such married persons file joint or separate Virginia individual income tax returns.

Refundable Tax Credits

For Taxable Year 2018, Virginia allows 35 income tax credits. Of these credits, three are currently refundable:

- Agricultural Best Management Practices Tax Credit;
- Motion Picture Production Tax Credit; and
- Research and Development Expenses Tax Credit.

Proposed Legislation

This bill would provide a \$1,000 refundable individual income tax credit to any person who is 65 or older during the taxable year and has a family Virginia adjusted gross income that is less than 138 percent of the amount set forth in the applicable poverty guidelines for such taxable year. For purposes of this credit, "family Virginia adjusted gross income" would include the combined Virginia adjusted gross income of an individual, the individual's spouse, and any person claimed as a dependent on the individual's or his spouse's income tax return for the taxable year. "Poverty guidelines" would mean the poverty guidelines for the 48 contiguous states and the District of Columbia updated annually in the Federal Register by the U.S. Department of Health and Human Services under the authority of federal law.

This bill would provide that if more than one person in a single household who qualifies for this credit, only one such person is permitted to claim a credit. For purposes of this credit, "household" would mean an individual and in the case of married persons, the individual

and his spouse regardless of whether or not the individual and his spouse file combined or separate Virginia individual income tax returns.

This bill would also provide that no person would be permitted to claim this credit and also claim either the Tax Credit for Low-Income Individuals or the credit equal to 20 percent of the federal EITC for the same taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2019, but before January 1, 2024.

Similar Legislation

House Bill 2160 and **Senate Bill 1297** would allow any individual or married couple to claim a refundable individual income tax credit equal to 20 percent of the federal earned income tax credit ("EITC") claimed by such individual or married couple for the same taxable year.

House Bill 2086 would incrementally make Virginia's EITC fully refundable by making it 50 percent refundable for Taxable Year 2018 and increasing the refundable portion by 5 percent each taxable year until it becomes fully refundable for Taxable Year 2028 and after.

House Bill 2673 would make Virginia's EITC refundable in an amount equal to 30 percent of such credit.

cc : Secretary of Finance

Date: 1/20/2019 JJS
HB2131F161