

**DEPARTMENT OF TAXATION
2002 Fiscal Impact Statement**

1. Patron: Rerras

2. Bill Number SB 407

3. Committee: Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. Title: Individual Income Tax: Increase and Index
the Personal Exemption

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would increase the individual income tax personal exemption from \$800 to \$1,200 for taxable years beginning on and after January 1, 2002. This bill would also index the personal exemption amount using the Consumer Price Index for Urban Consumers (CPI-U) beginning with the 2003 taxable year and years thereafter.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2000-01	\$0	GF
2001-02	\$0	GF
2002-03	\$245,155	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$0	GF
2002-03	<\$182.0 million>	GF
2003-04	<\$128.1 million>	GF

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs

There are costs associated with modifying the system to implement this legislation. TAX is currently in the process of replacing its automated systems as part of a partnership with AMS. As a result, TAX will be maintaining two systems – the current STARS system and the new IRMS system – for a period of time as a contingency.

The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the contract.

Because the scope of this legislation is significant, systems changes will not be paid through the AMS contract. The department would incur system development costs of \$117,580 in FY 2003 and \$103,455 in FY 2004 to implement this bill. In addition, the department would incur \$127,575 in costs in FY 2003 and FY 2004 for forms development, postage, and printing.

Revenue Impact

This bill is estimated to reduce General Fund revenues by \$182.0 million in Fiscal Year 2003 and \$128.1 million in Fiscal Year 2004.

Although this bill would be effective for taxable years beginning on or after January 1, 2002, the revenue estimate assumes that the effect on the General Fund revenues associated with this bill in the first six months of calendar year 2002 will not be realized until after the start of Fiscal Year 2003. The Fiscal Year 2003 impact, therefore represents 18 months of reduced tax liabilities.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Virginia currently allows a deduction of \$800 for each personal 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. This personal exemption amount was last increased by the General Assembly in 1987. From 1972 to 1986, Virginia's exemption amount remained constant at \$600. For 1987, the exemption was \$700.

Comparison to Federal Law

Since 1989, the Internal Revenue Service (IRS) has indexed the personal exemption allowed on the federal individual income tax return. The personal exemption for federal purposes has increased from \$2,000 for 1989 to \$2,900 for 2001. The increase is determined by multiplying \$2,000 by the increase in the CPI-U between 1988 and 2000. The resulting increase in the exemption amount is rounded to the next lowest multiple of \$50.

Proposed Legislation

This bill would increase the Virginia individual income tax personal exemption from \$800 to \$1,200 for the taxable year beginning on or after January 1, 2002 through December 31, 2002. This bill would also index the personal exemption amount by the CPI-U beginning with the 2003 taxable year and years thereafter.

The following table illustrates the proposed personal exemption amounts:

Taxable Year	Estimated Personal Exemption Amount
2002	\$1,200
2003	\$1,224
2004	\$1,254

Other Legislation

House Bill 162 would increase the age deduction amounts from \$6,000 to \$7,500 for taxpayers ages 62 through 64 and from \$12,000 to \$15,000 for taxpayers age 65 and older.

House Bill 214 would increase the standard deduction amount for married individuals from \$5,000 to \$6,000 for the 2002 taxable year.

Senate Bill 139 would (i) create a new tax bracket of 6% for Virginia taxable income in excess of \$30,000; (ii) eliminate the additional \$800 personal exemption for blind or aged taxpayers; and (iii) provide an individual income tax deduction for the amount of social security taxes paid in the taxable year up to a maximum deduction of \$6,000.

cc: Secretary of Finance

Date: 1/28/02/NMS

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