

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Thomas K. Norment, Jr.

2. **Bill Number** SB 897

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Recognition of
Charitable Contributions for the Relief of
Tsunami Victims

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow individuals who, during January 2005, made charitable contributions for the relief of victims affected by the tsunami on December 26, 2004 to deduct such contributions as if they had been made on December 31, 2004.

This bill would be in force from its passage.

6. **Fiscal Impacts are:** Preliminary. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

The Department would incur no administrative costs to implement this bill.

The negative revenue impact associated with this bill is unknown. Estimates for the total amount of donations made nationwide during the month of January range from \$75 million to \$150 million. This would create a negative revenue impact in Virginia during FY 2005 ranging from \$113,960 to \$226,000.

Any negative impact for FY 2005 may be balanced by a corresponding gain in revenue for FY 2006 if the charitable contributions to the victims of the tsunami represent a redirection of charitable donations on the part of taxpayers. This is due to the fact that taxpayers will then have less charitable contributions to deduct on their 2005 income tax returns. However, if these contributions are an addition to what taxpayers would normally donate, there will be no revenue gain in FY 2006.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Federal Law

On January 6, Congress enacted legislation that permits accelerated income tax deductions for charitable cash donations made to assist victims of the tsunami that occurred on December 26, 2004. The bill allows taxpayers to claim a tax deduction in taxable year 2004 for donations made until January 31, 2005. The President signed this bill into law on January 7, 2005.

Currently, Virginia conforms to the terms of the Internal Revenue Code as it was written on December 31, 2003. Thus, taxpayers would not be eligible to claim this deduction on their 2004 Virginia income tax returns.

Proposal

This bill would allow charitable contributions made by individuals during January 2005 for the relief of victims affected by the December 26, 2004 Indian Ocean tsunami to be deducted on the 2004 Virginia income tax return by allowing all such contributions to be treated as if they were made on December 31, 2004. Since this would conform with federal treatment, individuals would not have to adjust their 2004 and 2005 Virginia individual income tax returns to account for different treatment of charitable contributions on behalf of tsunami relief.

Under this bill, individuals would only be allowed to treat such contributions as being made on December 31, 2004 for the purposes of deducting itemized deductions for Virginia individual income tax purposes. Charitable contributions by corporations would not be affected.

This bill would define "itemized deductions" as the amount allowable for itemized deductions for federal income tax purposes where the taxpayer has elected for the taxable year to itemize deductions on his federal income tax return.

This bill would be in force from its passage.

Other Legislation

House Bill 2411 and **Senate Bill 856** would advance the date of conformity to the Internal Revenue Code from December 31, 2003 to December 31, 2004.

cc : Secretary of Finance

Date: 1/16/2005 AMS
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