

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Terrie L. Suit

3. **Committee** House Finance

4. **Title** Individual Income Tax; Modification of the Age Deduction

2. **Bill Number** HB 1821

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would modify the \$12,000 age deduction by eliminating the reduction based on income for taxpayers age 65 or older. In addition, this bill would restore the \$6,000 age deduction for taxpayers age 62 through 64.

This bill would be effective for taxable years beginning on and after January 1, 2008.

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

6b. **Revenue Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|---------------------------|-----------------------|--------------------|
| 2006-07 | \$0 | GF |
| 2007-08 | \$0 | GF |
| 2008-09 | (\$58.5 million) | GF |
| 2009-10 | (\$63.0 million) | GF |
| 2010-11 | (\$67.2 million) | GF |
| 2011-12 | (\$71.0 million) | GF |
| 2012-13 | (\$75.3 million) | GF |

7. **Budget amendment necessary:** Yes.

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8. **Fiscal implications:**

TAX 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 systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX 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, TAX will identify the costs at that time.

This bill would have a negative revenue impact of \$58.5 million for FY 2009, \$63.0 million for FY 2010, \$67.2 million for FY 2011, \$71.0 million for FY 2012, and \$75.3 million for FY 2013.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The age deduction was modified during the 2004 session in several ways. First, the \$12,000 age deduction is now subjected to a reduction based on income and the current \$6,000 age deduction will no longer be available beginning in taxable year 2006. Individuals eligible to receive the \$12,000 age deduction prior to taxable year 2004 will continue to receive the full \$12,000 age deduction without reduction. Individuals eligible to receive the \$6,000 age deduction prior to taxable year 2004 will continue to receive this deduction until they reach age 65. At that time, they will receive a \$12,000 age deduction subject to a reduction based upon income.

Individuals who were not eligible to receive an age deduction prior to taxable year 2004 are not eligible to receive an age deduction until they reach the age of 65. Once they reach age 65, they will receive a \$12,000 age deduction subject to a reduction based upon income.

Those individuals who receive a \$12,000 income-related age deduction are required to reduce their age deduction by \$1 for every \$1 of adjusted federal adjusted gross income above \$50,000. Married individuals must reduce their \$12,000 income-related age deduction by \$1 for every \$1 of their total combined adjusted federal adjusted gross income above \$75,000. For married taxpayers filing separately, the \$12,000 income-related age deduction is reduced by \$1 for every \$1 the total combined adjusted federal adjusted gross income of both spouses exceeds \$75,000.

“Adjusted federal adjusted gross income,” means federal adjusted gross income minus any benefits received under Title II of the Social Security Act and other benefits subject to federal taxation solely under IRC § 86.

Proposal

This bill would modify the \$12,000 age deduction by eliminating the reduction based on income for taxpayers age 65 or older. In addition, this bill would restore the \$6,000 age deduction for taxpayers age 62 through 64.

Similar Legislation

House Bill 2439 would replace the current individual income tax age deduction with deductions of \$7,000 for taxpayers age 62 through 64 and \$14,000 for taxpayers age 65 and older. This deduction would only be available to those taxpayers whose social security benefits were no more than \$3,500. The dollar amounts would be annually indexed for inflation.

House Bill 2577 would modify the reduction based on income for the age deduction by mandating that the deduction could not be less than \$6,000. This modification would only apply to those taxpayers who were born after January 1, 1939, and no later than January 1, 1942, however.

House Bill 2643 would annually index \$12,000 age deduction for seniors age 65 and above using the Consumer Price Index for All Urban Consumers (CPI-U). The age deduction amount would be indexed annually by an amount equal to the percentage change in the index for all items from October 1 through September 30 of the year immediately preceding the affected taxable year.

cc : Secretary of Finance

Date: 1/26/2007 AMS
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