

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Timothy D. Hugo

2. **Bill Number** HB 2133

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax; Indexing the Tax Rates, Filing Thresholds, Personal Exemptions, and the Standard Deduction

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would annually index the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions using the Consumer Price Index for All Urban Consumers (CPI-U). These amounts 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.

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

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
2007-08	\$96,000	GF
2008-09	\$94,430	GF
2009-10	\$40,819	GF
2010-11	\$41,908	GF
2011-12	\$43,029	GF
2012-13	\$44,183	GF

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
2007-08	(\$14.1 million)	GF
2008-09	(\$42.0 million)	GF
2009-10	(\$69.4 million)	GF
2010-11	(\$97.5 million)	GF
2011-12	(\$127.5 million)	GF
2012-13	(\$159.9 million)	GF

7. Budget amendment necessary: Yes.

ITEM(S): Page 1, Revenue Estimates
264 and 269, Department of Taxation

8. Fiscal implications:

Administrative Costs

TAX would incur costs of \$96,000 for FY 2008, \$94,430 for FY 2009, \$40,819 for FY 2010, \$41,908 for FY 2011, \$43,029 for FY 2012, and \$44,183 for FY 2013 for the annual updates and modifications to the individual income tax forms, withholding tables, and systems that would be required under this bill.

Revenue Impact

This bill would have a negative revenue impact of \$14.1 million for FY 2008, \$42 million for FY 2009, \$69.4 million for FY 2010, \$97.5 million for FY 2011, \$127.5 million for FY 2012, and \$159.9 million for FY 2013.

This estimate assumes passage of the Governor's proposal to increase the filing thresholds for the individual income tax from \$7,000 to \$12,000 for individual taxpayers and from \$14,000 to \$24,000 for taxpayers who are married and filing jointly.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to conform to the indexing period used by the Internal Revenue Service, the following technical amendments are suggested:

Page 1, Line 41, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

Page 2, Line 69, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

Page 5, Line 250, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

Page 5, Line 263, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

Consumer Price Index for All Urban Customers (CPI-U)

The Consumer Price Index for All Urban Consumers (CPI-U) is a measure calculated by the Bureau of Labor Statistics (BLS) that is used to track changes in the prices paid by urban consumers for common goods and services over time. This represents approximately 87% of the total population of the United States. The Index produces monthly data on these changes. Typically, the Index for a given month is released approximately two or three weeks after the month ends.

Proposal

This bill would annually index the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions using the Consumer Price Index for All Urban Consumers (CPI-U). These amounts 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.

Technical Amendments Suggested

This bill would require the amount of income used to determine the income tax rates, the filing thresholds, the \$800 and \$900 personal exemptions, and the standard deductions to be indexed using data from October through September. However, the Internal Revenue Code requires exemptions and deduction amounts to be indexed using a September through August period. Using a similar period would fit into TAX's schedule for printing individual income tax forms and instructions. Thus, several technical amendments have been suggested to adopt the same indexing period as under the Internal Revenue Code.

cc : Secretary of Finance

Date: 1/23/2007 AMS
HB2133F161