DEPARTMENT OF TAXATION
2007 Fiscal Impact Statement

1. Patron Stephen C. Shannon

2. Bill Number HB 2577

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

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

5. Summary/Purpose:

This bill 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.

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:

Fiscal Year	***Dollars***	***Fund***
2006-07	$0	GF
2007-08	$0	GF
2008-09	($5.6 million)	GF
2009-10	($4.8 million	GF
2010-11	($4.2 million)	GF
2011-12	($3.8 million)	GF
2012-13	($3.4 million)	GF

7. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs

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.

Revenue Impact

The negative revenue impact of this bill would be to reduce General Fund revenue by $5.6 million for FY 2009, $4.8 million for FY 2010, $4.2 million for FY 2011, $3.8 million for FY 2012, and $3.4 million for FY 2013. The revenue loss decreases over the years because the number of taxpayers who would be subject to the $6,000 threshold decreases over time. The income of this age group also decreases over time and, because of that, fewer of them would have an age deduction of less than $6,000 even without the threshold.

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 $6,000 age deduction is no longer available. 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 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. These are the taxpayers who continued to receive the $6,000 age deduction in 2004 and 2005.

Similar Legislation

House Bill 1821 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.

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 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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