

DEPARTMENT OF TAXATION

2009 Fiscal Impact Statement

1. **Patron** Kenneth R. Plum

3. **Committee** House Finance

4. **Title** Income Tax; Age Deduction Income Indexing.

2. **Bill Number** HB 1934

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require the income thresholds used to determine the age deduction for individual income taxes to be indexed using the Consumer Price Index for All Urban Consumers (CPI-U). The 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.

The current thresholds are \$50,000 for single taxpayers and \$75,000 for married taxpayers. The amount of the deduction allowed for these taxpayers whose income exceeds these thresholds is reduced by \$1 for every \$1 that the taxpayer's adjusted federal adjusted gross income exceeds \$50,000 for single taxpayers or \$75,000 for married taxpayers. For married taxpayers filing separately, the deduction is reduced by \$1 for every \$1 the total combined adjusted federal adjusted gross income of both spouses exceeds \$75,000.

This bill would be effective for taxable years beginning on and after January 1, 2010.

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

6b. **Revenue Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|---------------------------|-----------------------|--------------------|
| 2008-09 | \$0 | GF |
| 2009-10 | \$0 | GF |
| 2010-11 | (\$0.9 million) | GF |
| 2011-12 | (\$2.1 million) | GF |
| 2012-13 | (\$3.9 million) | GF |
| 2013-14 | (\$5.9 million) | GF |
| 2014-15 | (\$8.2 million) | GF |

7. Budget amendment necessary: Yes

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

This bill would not reduce General Fund revenues until Fiscal Year 2011. At that point, General Fund Revenues will be reduced by \$0.9 million in Fiscal Year 2011, \$2.1 million in Fiscal Year 2012, \$3.9 million in Fiscal Year 2013, \$5.9 million in Fiscal Year 2014, and \$8.2 million in Fiscal Year 2015.

The impact would grow quickly in future years for at least two reasons. First, a higher threshold exempts more income from the phase-out of the age deduction. Second, each year the number of taxpayers that benefit from the higher thresholds grows. The table below outlines the projected amount of the single and married thresholds by taxable year for Taxable Years 2009 through 2015.

| Threshold for Age Deduction Phase-out | | | |
|---------------------------------------|------------------|-----------------|----------------|
| Taxable Year | Single Threshold | Joint Threshold | Forecast CPI-U |
| 2009 | 50,000 | 75,000 | - |
| 2010 | 50,782 | 76,172 | 0.01563 |
| 2011 | 51,750 | 77,625 | 0.01907 |
| 2012 | 52,927 | 79,391 | 0.02275 |
| 2013 | 54,064 | 81,096 | 0.02148 |
| 2014 | 55,160 | 82,741 | 0.02028 |
| 2015 | 56,140 | 84,211 | 0.01777 |

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

This bill would require the amounts of income used to determine the age deduction for individual income taxes, \$50,000 and \$75,000, 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. It would be less confusing for taxpayers if Virginia used the same time period. Therefore, the following technical amendment is suggested:

Page 4, Line 228, after for all items, from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

Current Law

The age deduction was modified during the 2004 session effective for taxable years beginning on and after January 1, 2004. The maximum \$12,000 age deduction is subjected to a reduction based on income. Individuals eligible to receive the maximum \$12,000 age deduction prior to taxable year 2004 continue to receive the full \$12,000 age deduction without reduction. Those not eligible to receive the \$12,000 age deduction prior to taxable year 2004 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, which relates to social security and tier 1 railroad retirement benefits.

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 is produced with monthly data to demonstrating these changes. Typically, the Index for a given month is released approximately two or three weeks after the month ends.

Proposal

This bill would require the amounts of income used to determine the income-related age deduction for individual income taxes to be indexed using the Consumer Price Index for All Urban Consumers (CPI-U). The 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, 2010.

cc : Secretary of Finance

Date: 1/16/2009 JKL
HB1934F161