

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** Mark L. Cole

3. **Committee** House Finance

4. **Title** Individual Income Tax: Adjusted for Inflation

2. **Bill Number** HB 1402

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would index the individual income tax brackets, filing thresholds, standard deduction, and personal exemptions using the Consumer Price Index for All Urban Consumers (CPI-U). These amounts would be indexed annually by an amount equal to the percentage increase in the index for all items from the 24-month period ending September 30 of the calendar year immediately preceding the affected calendar year.

This bill would be effective for taxable years beginning in calendar year 2015 and for all taxable years beginning in every two calendar years thereafter.

6. **Budget amendment necessary:** Yes.

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7. **Fiscal Impact Estimates are:** Available. (See Line 8.)

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2012-13	\$0	GF
2013-14	\$0	GF
2014-15	(\$26.5 million)	GF
2015-16	(\$52.5 million)	GF
2016-17	(\$82.8 million)	GF
2017-18	(\$113.3 million)	GF
2018-19	(\$147.2 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and is not requesting additional funding.

Revenue Impact

This bill would have a negative revenue impact of \$26.5 million for Fiscal Year 2015, \$52.5 million in Fiscal Year 2016, \$82.8 million in Fiscal Year 2017, \$113.3 million in Fiscal Year 2018, and \$147.2 million in Fiscal Year 2019.

The following table shows expected inflation and expected income tax parameter amounts.

Schedule of Indexed Parameters, beginning TY 2014.												
Taxable Year	CPI-U for Preceding 24 months	Filing Threshold		Brackets					Exemptions		Standard Deduction	
		Single	Married						Pers/Dep	Blind/Age	Single	Married
2014	0.0%	11,950	23,300	0	3,000	5,000	17,000	and up	930	800	3,000	6,000
2015	3.1%	12,322	24,026	0	3,093	5,156	17,530	and up	959	825	3,093	6,187
2016	0.0%	12,322	24,026	0	3,093	5,156	17,530	and up	959	825	3,093	6,187
2017	3.5%	12,748	24,857	0	3,200	5,334	18,136	and up	992	853	3,200	6,401
2018	0.0%	12,748	24,857	0	3,200	5,334	18,136	and up	992	853	3,200	6,401
2019	3.9%	13,250	25,835	0	3,326	5,544	18,849	and up	1,031	887	3,326	6,653

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

This bill would index the relevant amounts for the 24-period ending September 30 of the calendar year immediately preceding the affected calendar year. Data for the period ending September 30 is generally available by the third week of October. To allow the Department adequate time to update its forms to reflect the indexed amounts, the Department suggests the following technical amendments:

Line 42, after ending on
Strike: September 30
Insert: June 30

Line 89, after ending on
Strike: September 30
Insert: June 30

Line 283, after ending on
Strike: September 30
Insert: June 30

Line 300, after ending on
Strike: September 30
Insert: June 30

Line 312, after ending on
Strike: September 30
Insert: June 30

The inflation data resource that the Department relies on for its official forecast is only available in a quarterly format. Accordingly, to allow the Department to accurately forecast the revenue loss that would result from this bill, the relevant 24-month period should start at the beginning of a calendar quarter and end at the conclusion of a calendar quarter.

11. Other comments:

Consumer Price Index for All Urban Consumers (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 percent 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.

Federal Indexing for Inflation

The federal individual income tax brackets, standard deduction, and personal exemptions are all indexed using CPI-U. The federal filing thresholds are not indexed for inflation.

State Indexing for Inflation

The individual income tax brackets in eleven states (Arkansas, California, Idaho, Maine, New York, North Dakota, Oregon, Rhode Island, Michigan, Vermont, and Wisconsin), the standard deduction in six states (Arizona, California, Iowa, Kentucky, New York, and Wisconsin), and personal exemptions in four states (Arkansas, California, Michigan, and Oregon) are indexed to account for inflation. No states index their filing thresholds for inflation.

Current Law

Under current law, the Virginia taxable income of an individual is taxed at the following rates: 2 percent on income not exceeding \$3,000; 3 percent on income in excess of \$3,000, but not in excess of \$5,000; 5 percent on income in excess of \$5,000, but not in excess of \$17,000; and 5.75 percent on income in excess of \$17,000.

A taxpayer with Virginia adjusted gross income below a specified threshold is not required to file an income tax return for that taxable year. The filing threshold for Taxable Years 2012 and thereafter is \$11,950 for a single individual and \$23,900 for a married couple.

Taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. The standard deduction amounts are \$3,000 for single individuals and \$6,000 for married couples.

All taxpayers are permitted to claim a personal exemption in the amount of \$930 for each personal exemption allowable for federal income tax purposes. In addition, each blind or aged taxpayer is permitted to an additional exemption in the amount of \$800.

Proposed Legislation

This bill would index the individual income tax brackets, filing thresholds, standard deduction, and personal exemptions using the Consumer Price Index for All Urban Consumers (CPI-U). These amounts would be indexed annually by an amount equal to the percentage increase in the index for all items from the 24-month period ending September 30 of the calendar year immediately preceding the affected calendar year.

This bill would be effective for taxable years beginning in calendar year 2015 and for all taxable years beginning in every two calendar years thereafter.

Similar Legislation

House Bill 1438 would index the Motor Fuels Tax rate.

House Bill 1888 would index the Individual Income Tax and Motor Fuels Tax rates.

House Bill 1930 would index the Individual Income Tax brackets, the Individual Income Tax return filing thresholds, the standard deduction, and personal exemptions.

cc : Secretary of Finance

Date: 1/12/2013 mth
HB1402F161