

DEPARTMENT OF TAXATION

2013 Fiscal Impact Statement

1. **Patron** James M. LeMunyon

3. **Committee** House Finance

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

2. **Bill Number** HB 1888

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 October 1 through September 30 of the year immediately preceding the affected taxable year. These provisions would be effective for taxable years beginning on and after January 1, 2014.

This bill would also index the motor fuels tax rate based on the Producer Price Index for Other Nonresidential Construction – Land Transportation. The tax rate would be indexed annually by an amount equal to the percentage change in the index from May 1 through April 30 immediately preceding the affected July 1. The rate would be indexed beginning July 1, 2013.

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

Page 1, Revenue Estimates

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	-
2013-14	(\$12.7 million)	GF
2013-14	10.6 million	HMOF
2014-15	(\$38.4 million)	GF
2014-15	\$19.0 million	HMOF
2015-16	(\$66.8 million)	GF
2015-16	\$34.5 million	HMOF
2016-17	(\$97.6 million)	GF
2016-17	\$55.8 million	HMOF
2017-18	(\$130.0 million)	GF
2017-18	\$80.4 million	HMOF
2018-19	(\$164.5 million)	GF
2018-19	\$106.2 million	HMOF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) and the Department of Motor Vehicles (“DMV”) consider implementation of this bill as routine, and are not requesting additional funding.

Revenue Impact

The income tax provisions of this bill would have a negative General Fund revenue impact of \$12.7 million in Fiscal Year 2014, \$38.4 million for Fiscal Year 2015, \$66.8 million in Fiscal Year 2016, \$97.6 million in Fiscal Year 2017, \$130 million in Fiscal Year 2018, and \$164.5 million in Fiscal Year 2019. The following table shows expected inflation and expected income tax parameter amounts as a result of indexing the income tax.

Schedule of Indexed Parameters, beginning TY 2013 (indexing begins in TY 2014)												
Taxable Year	CPI-U for Preceding 12 months	Filing Threshold		Brackets					Exemptions		Standard Deduction	
		Single	Married						Pers/Dep	Blind/Age	Single	Married
2013	N/A	11,950	23,300	0	3,000	5,000	17,000	and up	930	800	3,000	6,000
2014	1.5%	12,129	23,650	0	3,045	5,075	17,255	and up	944	812	3,045	6,090
2015	1.5%	12,311	24,004	0	3,091	5,151	17,514	and up	958	824	3,091	6,181
2016	1.8%	12,533	24,436	0	3,146	5,244	17,829	and up	975	839	3,146	6,293
2017	1.7%	12,746	24,852	0	3,200	5,333	18,132	and up	992	853	3,200	6,400
2018	2.0%	13,001	25,349	0	3,264	5,440	18,495	and up	1,012	870	3,264	6,528
2019	1.9%	13,248	25,830	0	3,326	5,543	18,846	and up	1,031	887	3,326	6,652

The motor fuels tax provisions of this bill would have a positive revenue impact on the Highway Maintenance and Operating Fund (“HMOF”) of \$10.6 million in Fiscal Year 2014, \$19 million for Fiscal Year 2015, \$34.5 million in Fiscal Year 2016, \$55.8 million in Fiscal Year 2017, \$80.4 million in Fiscal Year 2018, and \$106.2 million in Fiscal Year 2019. The following table shows the estimates for expected inflation and expected revenues generated as a result of indexing the motor fuels tax rate.

Index the Motor Fuels Tax Rate to PPI - Other Nonresidential Construction-Land Transportation						
Fiscal Year	PPI Nonresidential Preceding 12 months	Taxable Gallons (millions)	Current Rate(\$)	Indexed Rate(\$)	Indexed Revenue (\$ millions)	Revenue Impact to HMOF (\$ millions)
2014	1.3%	5,024.1	\$0.175	\$0.177	\$889.8	\$10.6
2015	0.9%	5,132.1	\$0.175	\$0.179	\$917.1	\$19.0
2016	1.7%	5,238.4	\$0.175	\$0.182	\$951.2	\$34.5
2017	2.2%	5,328.7	\$0.175	\$0.186	\$988.3	\$55.8
2018	2.4%	5,421.3	\$0.175	\$0.190	\$1,029.1	\$80.4
2019	2.5%	5,421.3	\$0.175	\$0.195	\$1,055.0	\$106.2

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles

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 44, after ending on
Strike: September 30
Insert: June 30

Line 88, after ending on
Strike: September 30
Insert: June 30

Line 279, after ending on
Strike: September 30
Insert: June 30

Line 293, after ending on
Strike: September 30
Insert: June 30

Line 302, 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.

The Department understands that the intent of this bill is to index the motor fuels tax rate, not change the existing rate structure. Accordingly, the Department suggests the following technical amendment:

Line 601, after subsection
Strike: B
Insert: A

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.

Producer Price Index (PPI)

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller, as opposed to measuring price changes from the purchaser's perspective, as is done with the CPI-U. Prices may differ under these two methodologies due to government subsidies, sales and excise taxes, and distribution costs.

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 who 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 October 1 through September 30 of the year immediately preceding the affected taxable year. These provisions would be effective for taxable years beginning on and after January 1, 2014.

This bill would also index the motor fuels tax rate based on the Producer Price Index for Other Nonresidential Construction – Land Transportation. The tax rate would be indexed annually by an amount equal to the percentage change in PPI – Other Nonresidential Construction from May 1 through April 30 immediately preceding the affected July 1. The rate would be indexed beginning July 1, 2013. Under this bill, the Department of Motor Vehicles would be required to publish updated motor fuels tax rates periodically.

Similar Legislation

House Bill 1438 would index the motor fuels tax rate.

House Bill 1402 and **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: 1/17/2013 KLC
HB1888F161