

# DEPARTMENT OF TAXATION

## 2013 Fiscal Impact Statement

1. **Patron** Barbara J. Comstock

3. **Committee** House Finance

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

2. **Bill Number** HB 1930

**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.

This bill would be effective for taxable years beginning on and after January 1, 2014.

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

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

#### 7b. **Revenue Impact:**

| <i><b>Fiscal Year</b></i> | <i><b>Dollars</b></i> | <i><b>Fund</b></i> |
|---------------------------|-----------------------|--------------------|
| 2012-13                   | \$0                   | GF                 |
| 2013-14                   | (\$12.7 million)      | GF                 |
| 2014-15                   | (\$38.4 million)      | GF                 |
| 2015-16                   | (\$66.8 million)      | GF                 |
| 2016-17                   | (\$97.6 million)      | GF                 |
| 2017-18                   | (\$130.0 million)     | GF                 |
| 2018-19                   | (\$164.5 million)     | GF                 |

### 8. **Fiscal implications:**

#### Administrative Costs

The Department 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, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department 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, the Department will identify the costs at that time.

### Revenue Impact

This bill would have a negative revenue impact of \$12.7 million in Fiscal Year 2014, \$38.4 million in 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.

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

### **9. Specific agency or political subdivisions affected:**

Department of Taxation

### **10. Technical amendment necessary: Yes.**

This bill would index the relevant amounts for the October 1 through September 30 period of the year immediately preceding the affected taxable 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 41, after from  
Strike: October 1 through September 30  
Insert: July 1 through June 30

Line 85, after from  
Strike: October 1 through September 30  
Insert: July 1 through June 30

Line 276, after from  
Strike: October 1 through September 30  
Insert: July 1 through June 30

Line 290, after from  
Strike: October 1 through September 30  
Insert: July 1 through June 30

Line 299, after from  
Strike: October 1 through September 30  
Insert: July 1 through 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 12-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 October 1 through September 30 of the year immediately preceding the affected taxable year.

This bill would be effective for taxable years on and after January 1, 2014.

#### Similar Legislation

**House Bill 1402** is identical to this bill except that it would index the individual income tax brackets, filing thresholds, standard deduction, and personal exemptions every two years instead of every year.

**House Bill 1438** would index the Motor Fuels Tax rate.

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

cc : Secretary of Finance

Date: 1/12/2013 MTH  
HB1930F161