

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** L. Louise Lucas

3. **Committee** Senate Finance

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

2. **Bill Number** SB 618

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would index the individual income tax standard deduction. This amount would be indexed annually by an amount equal to the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) for all items from July 1 through June 30 of the year immediately preceding the affected taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2017.

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

Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015-16	\$0	GF
2016-17	(\$1.4 million)	GF
2017-18	(\$6.7 million)	GF
2018-19	(\$15.4 million)	GF
2019-20	(\$25.2 million)	GF
2020-21	(\$35.3 million)	GF
2021-22	(\$45.7 million)	GF

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would have an overall negative General Fund revenue impact of \$1.4 million in Fiscal Year 2017; \$6.7 million in Fiscal Year 2018; \$15.4 million in Fiscal Year 2019;

\$25.2 million in Fiscal Year 2020; \$35.3 million in Fiscal Year 2021; and \$45.7 million in Fiscal Year 2022.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to conform to the indexing period used by the Internal Revenue Service, the following technical amendment is suggested:

Page 4, Line 219, after from

Strike: July 1 through June 30

Insert: September 1 through August 31

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

Effective in 1985, 1986, and all taxable years after 1989, the federal standard deduction, the individual income tax brackets, and personal exemptions are all indexed using CPI-U. For Taxable Years 2015 and 2016, the standard deduction amounts are as follows:

Filing Status	Standard Deduction	
	2015	2016
Married Individuals Filing Joint Returns and Surviving Spouses	\$12,600	\$12,600
Heads of Households	\$9,250	\$9,300
Unmarried Individuals (other than Surviving Spouses and Heads of Households)	\$6,300	\$6,300
Married Individuals Filing Separate	\$6,300	\$6,300

Federal law also allows an additional standard deduction for the aged or the blind. These amounts are indexed using CPI-U. For Taxable Years 2015 and 2016, the additional standard deduction amount for the aged or the blind is \$1,250. The additional standard deduction amount is increased to \$1,550 if the individual is also unmarried and not a surviving spouse.

State Indexing for Inflation

The standard deduction in twenty states (Arizona, California, Colorado, Idaho, Iowa, Kentucky, Maine, Minnesota, Missouri, Montana, Nebraska, New Mexico, New York, North Dakota, Oklahoma, Oregon, Rhode Island, South Carolina, Vermont, Wisconsin) and the District of Columbia is indexed to account for inflation.

Current Law

Under current law, 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.

Virginia's standard deduction was originally modeled after the federal standard deduction. In 1972, when Virginia voted to conform to federal income tax law, Virginia's standard deduction was the same as the federal standard deduction. However, in 1975, when Congress increased the federal standard deduction \$1,300 to \$1,600, Virginia voted to keep its standard deduction at \$1,300.

Virginia's standard deduction amounts have changed over the years. The history of such changes from Taxable Year 1972 to the present is shown below.

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Taxpayers
1972-1980	\$1,300	\$1,300
1981-1986	15% of federal adjusted gross income with a \$1,300 minimum deduction and a \$2,000 maximum deduction	15% of federal adjusted gross income with a \$1,300 minimum deduction and a \$2,000 maximum deduction
1987	\$2,000	\$2,000
1988	\$2,700	\$2,700
1989-2004	\$3,000	\$5,000
2005-present	\$3,000	\$6,000

Proposed Legislation

This bill would index the individual income tax standard deduction. This amount would be indexed annually by an amount equal to the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) for all items from July 1 through June 30 of the year immediately preceding the affected taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2017.

Similar Bills

House Bill 693 is identical to this bill.

House Bill 163 would increase the age deduction from \$12,000 to \$13,000, and would index the income restrictions that limit the deduction for certain taxpayers.

House Bill 215 would index the individual income tax brackets, standard deduction, and personal exemptions using the Consumer Price Index for All Urban Consumers (CPI-U).

House Bill 540, Senate Bill 289, and Senate Bill 685 would increase the individual income tax personal exemption amount from \$930 to \$1,000. The bill would also increase the additional personal exemption for age or blindness from \$800 to \$900.

cc : Secretary of Finance

Date: 2/1/2016 JJS
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