

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Elizabeth R. Guzman

2. **Bill Number** HB 972

3. **Committee** House Finance

House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Individual Income Tax; Increasing the Age Deduction

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would increase the Virginia age deduction from \$12,000 to \$13,000. The bill would also index for inflation the income restrictions that limit the deduction for certain taxpayers born after January 1, 1939. Such income restrictions would be indexed annually by an amount equal to the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U), for all items, from September 1 through August 31 for the year immediately preceding the affected taxable year.

The bill would be effective for taxable years beginning on or after January 1, 2019.

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

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

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017-18	\$0	GF
2018-19	\$0	GF
2019-20	(\$19.5 million)	GF
2020-21	(\$23.2 million)	GF
2021-22	(28.0 million)	GF
2022-23	(\$32.7 million)	GF
2023-24	(\$37.3 million)	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“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 General Fund revenue impact of \$19.5 million in Fiscal Year 2020; \$23.2 million in Fiscal Year 2021; \$28.0 million in Fiscal Year 2022; \$32.7 million in Fiscal Year 2023; and \$37.3 million in Fiscal Year 2024.

This revenue estimate is based on the most recently available Virginia individual income tax data. Congress recently enacted Public Law 115-97, known as the "Tax Cuts and Jobs Act" ("the TCJA"), which modified the federal individual income tax structure. Although the TCJA does not modify Virginia's age deduction, it could significantly impact the computation of federal adjusted gross income ("FAGI"). As a result, the revenue impact of this bill could vary once the recent federal changes are taken into account

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Age Deduction

Virginia provides an age deduction in an amount equal to \$12,000 for taxpayers who have attained age 65. During the 2004 Session, the General Assembly modified the age deduction for taxpayers born after January 1, 1939 by requiring a reduction based on income. Such individuals are required to reduce their \$12,000 age deduction by \$1 for every \$1 of adjusted FAGI above \$50,000. Married individuals are required to reduce their \$12,000 age deduction by \$1 for every \$1 of their total combined adjusted FAGI above \$75,000. For married taxpayers filing separately, the \$12,000 age deduction is required to be reduced by \$1 for every \$1 the total combined adjusted FAGI of both spouses exceeds \$75,000. "Adjusted federal adjusted gross income" is defined as federal adjusted gross income modified for any fixed date conformity adjustments and reduced by any taxable Social Security and Tier 1 Railroad Benefits.

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 89 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 Additional Standard Deduction

For federal tax purposes, taxpayers who are age 65 and older and/or are blind receive an additional standard deduction amount that is added to the basic standard deduction. Since 1989, the Internal Revenue Service has adjusted the standard deduction amount based on the percentage change in the Consumer Price Index for Urban Consumers for the preceding calendar year. For Taxable Year 2017, the additional standard deduction amount for the aged or the blind is \$1,550 for taxpayers filing as single or head of household. The additional standard deduction

amount is decreased to \$1,250 if the taxpayer is married and or a surviving spouse. The additional standard deduction will increase to \$1,600 and \$1,300 respectively for Taxable Year 2018.

The TCJA modifies the current federal individual income tax structure, including significantly increasing the federal standard deduction. This legislation did not modify the additional standard deduction for taxpayers who are age 65 and older and/or are blind. However, it may increase the number of taxpayers who claim the standard deduction and, thereby, the increased additional standard deduction for age and/or blindness.

Proposed Legislation

This bill would increase the Virginia age deduction from \$12,000 to \$13,000. The bill would also index for inflation the income restrictions that limit the deduction for certain taxpayers born after January 1, 1939. Such income restrictions would be indexed annually by an amount equal to the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U), for all items, from September 1 through August 31 for the year immediately preceding the affected taxable year.

This bill would require the Department to calculate, by December 15, 2018, the indexed limits on FAGI that would be in effect for Taxable Year 2019. The Department would be required to post the indexed limits prominently on its website. Thereafter, the Department would be required to post annually by December 15 the indexed limits that would be in effect for the next taxable year, beginning on and after January 1.

The bill would be effective for taxable years beginning on or after January 1, 2019.

Similar Bills

House Bill 1444 would permit a taxpayer who claimed the federal standard deduction to claim either the Virginia standard deduction or federal itemized deductions on their Virginia income tax returns.

Senate Bill 335 would increase Virginia's personal exemption from \$930 to \$1,000, and the additional personal exemption for blind or aged taxpayers from \$800 to \$900.

Senate Bill 745 would increase Virginia's standard deduction from \$3,000 to \$6,350 for single individuals and married persons filing separately, and from \$6,000 to \$12,700 for married persons filing joint returns.

cc: Secretary of Finance

Date: 1/25/2018 RWC
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