

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Siobhan S. Dunnavant

3. **Committee** Senate Finance

4. **Title** Individual Income Tax; Increases Deduction for Personal Exemptions

2. **Bill Number** SB 335

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would increase the individual income tax personal exemption amount from \$930 to \$1,000. This bill would also increase the additional personal exemption for age or blindness from \$800 to \$900.

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

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>
2017-18	\$0	GF
2018-19	(\$13.9 million)	GF
2019-20	(\$27.6 million)	GF
2020-21	(\$27.3 million)	GF
2021-22	(\$27.4 million)	GF
2022-23	(\$27.5 million)	GF
2023-24	(\$27.6 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 \$13.9 million in FY 2019, \$27.6 million in FY 2020, \$27.3 million in FY 2021, \$27.4 million in FY 2022, \$27.5 million in FY 2023, and \$27.6 million in FY 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 could significantly impact the computation of federal adjusted gross income. As a result, the revenue impact of this bill could increase 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:

Federal Personal Exemptions

Until recent changes under the Tax Cuts and Jobs Act ("TCJA"), federal taxpayers could claim personal exemptions for each person filing a return (for married couples, each spouse is entitled to an exemption) and for each person who could be claimed as the taxpayer's dependent. For Taxable Year 2017, a \$4,050 federal personal exemption may be claimed for both taxpayers and dependents. This exemption begins to phase out for single filers with \$261,500 of federal adjusted gross income ("FAGI") and is completely phased out for single filers with an FAGI of \$384,000 or more. For the Taxable Year 2018 and subsequent tax years the federal personal exemption has been eliminated. The federal standard deduction has been increased by the following amounts to help offset taxpayers' loss of the personal exemption.

Filing Status	2017 Federal Standard Deduction	2018 Federal Standard Deduction
Single	\$6,350	\$12,000
Married Separate		
Married	\$12,700	\$24,000
Head of Household	\$9,350	\$18,000

Current federal law does not allow for additional personal exemptions for age or blindness. From 1948 through 1986, federal law allowed for an additional personal exemption for such individuals. However, for taxable years beginning on or after January 1, 1987, the additional personal exemption for age or blindness was replaced with an additional standard deduction for such individuals. The additional federal standard deduction is subject to annual adjustments for inflation, using the U.S. Department of Labor Consumer Price Index for Urban Consumers. 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 in Taxable Year 2018.

Virginia Personal Exemptions

Currently, a \$930 personal exemption may be claimed for each person filing a return (for married couples, each spouse is entitled to an exemption) and for each dependent claimed on a federal income tax return. Because Virginia's personal exemption is based on the number of dependents

that a taxpayer may claim on the federal return, which was not changed in the TCJA and not on the amount of the federal personal exemption, the TCJA will not affect Virginia's personal exemption. Virginia's personal exemptions were originally modeled after the federal personal exemptions. In 1971, when Virginia studied conforming to federal income tax law, Virginia's personal exemptions were originally intended to be the same as the federal personal exemptions. However, by 1972, when Virginia voted to conform to federal income tax law, Virginia's personal exemption amount was less than the federal amount because Virginia did not conform to the 1972 federal increase. Virginia's personal exemption amounts have changed over the years, as shown below:

Year(s)	Virginia Personal Exemption
1972	\$600
1973-1986	\$600
1987	\$700
1988-2005	\$800
2006-2007	\$900
2008-present	\$930

In addition to the \$930 personal exemption, an \$800 personal exemption for age or blindness may be claimed for each filer who is blind or who has attained the age of 65 before the close of the taxable year. Virginia's additional personal exemptions for age or blindness have changed over the years, as shown below:

Year(s)	Personal Exemption for Blindness/Age
1972	\$600
1973-1986	\$600 for blindness \$1,000 for age
1987	\$900
1988-present	\$800

Beginning in Taxable Year 1973, the General Assembly allowed an additional \$400 personal exemption for taxpayers who claimed the additional federal personal exemption for age. Therefore, for Taxable Years 1973 through 1986, the total Virginia additional personal exemption for age was \$1,000. There was no additional amount allowed for blindness. Thus, taxpayers who claimed the federal personal exemption for blindness were entitled to only a \$600 additional personal exemption on Virginia returns filed from 1973 through 1986.

Proposed Legislation

This bill would increase the individual income tax personal exemption amount from \$930 to \$1,000. This bill would also increase the additional personal exemption for age or blindness from \$800 to \$900.

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

Similar Bills

House Bill 972 would increase the Virginia age deduction from \$12,000 to \$13,000. The bill would also index to inflation the income restrictions that limit the deduction for certain taxpayers born after January 1, 1939.

Senate Bill 745 would increase Virginia's standard deduction to \$6,350 for single individuals and married persons filing separately, and \$12,700 for married persons filing joint returns for Taxable Year 2019.

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.

cc: Secretary of Finance

Date: 1/27/2018 RWC
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