

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** A.C. Cordoza

3. **Committee** House Finance

4. **Title** Income Tax; Deduction for Elderly and Disabled Individuals

2. **Bill Number** HB 2261

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax deduction of \$20,000 for individuals that are 65 years of age or older, permanently and totally disabled, and were born after January 1, 1939.

This bill would be effective for taxable years beginning on and after January 1, 2023.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impacts

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2024. It is unknown how many individuals who currently claim the age deduction are also permanently and totally disabled. It is also unknown how many individuals currently claim the disability income subtraction are age 65 or older. Because the new deduction would be equal to the maximum amount of the disability income subtraction, it is unknown how many taxpayers would claim the deduction authorized by this bill instead of the disability subtraction. In addition, because the bill is limited to those born after January 1, 1939, the amount of permanently and totally disabled individuals born after January 1, 1939 and who have attained the age of 65 is also unknown.

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

10. Technical amendment necessary: Yes.

If the intent of this bill is for the deduction to apply to taxpayers born on or before January 1, 1939 as well as those born after such date, the Department recommends the following technical amendment:

Lines 49, 186, 338, and 490 after “provided by this subdivision”
Insert: and subdivision 5.a.

11. Other comments:

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 2022, the additional standard deduction amount for the aged or the blind is \$1,750 for taxpayers filing as single or head of household. The additional standard deduction amount is decreased to \$1,400 if the taxpayer is married and or a surviving spouse. The additional standard deduction increased to \$1,500 and \$1,850 respectively for Taxable Year 2023.

Virginia’s Age and Disability Tax Preferences

Virginia currently 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 federal adjusted gross income (“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.

Also under current Virginia law, taxpayers who are totally and permanently disabled may subtract up to \$20,000 of disability income, as defined under federal law, in calculating Virginia taxable income. Taxpayers may claim either an age deduction or a disability subtraction, but not both.

Proposed Legislation

This bill would provide an individual income tax deduction of \$20,000 for individuals that are 65 years of age or older, permanently and totally disabled, and were born after January 1, 1939. Under current law, such taxpayers may claim either the age deduction of \$12,000 or a subtraction for up to \$20,000 of disability income. As a result, this bill would allow such taxpayers to choose between:

- Virginia's existing disability income subtraction of up to a \$20,000 subtraction, which is only subtracted from disability income as defined under federal law; or,
- This bill's deduction of up to \$20,000, which can apply against any kind of income taxable by Virginia.

This bill would be effective for taxable years beginning on and after January 1, 2023.

cc : Secretary of Finance

Date: 1/22/2023 JLOF
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