

**DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement**

1. **Patron** Robert G. Marshall

2. **Bill Number** HB 163

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** 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 to 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 October 1 through September 30 for the year immediately preceding the affected taxable year.

The bill would be effective for taxable years beginning on or after January 1, 2016.

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	(\$18.1 million)	GF
2017-18	(\$19.8 million)	GF
2018-19	(\$23.6 million)	GF
2019-20	(\$28.0 million)	GF
2020-21	(\$32.3 million)	GF
2021-22	(\$36.6 million)	GF

8. Fiscal implications:

Administrative Costs

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

Revenue Impact

This bill would have a negative General Fund revenue impact of \$18.1 million in Fiscal Year 2017; \$19.8 million in Fiscal Year 2018; \$23.6 million in Fiscal Year 2019; \$28.0 million in Fiscal Year 2020; \$32.3 million in Fiscal Year 2021; and \$36.6 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 240, after from
Strike: October 1 through September 30
Insert: September 1 through August 31

11. Other comments:

Current Law

Originally enacted by the 1990 General Assembly, the age deduction was modified during its 2004 session effective for taxable years beginning on and after January 1, 2004. The maximum \$12,000 age deduction is subject to a reduction based on income. Individuals eligible to receive the maximum \$12,000 age deduction prior to Taxable Year 2004 continue to receive the full \$12,000 age deduction without reduction. Those not eligible to receive the \$12,000 age deduction prior to Taxable Year 2004 receive a \$12,000 age deduction subject to a reduction based upon income.

Those individuals who receive a \$12,000 income-related age deduction are required to reduce their age deduction by \$1 for every \$1 of adjusted federal adjusted gross income above \$50,000. Married individuals must reduce their \$12,000 income-related age deduction by \$1 for every \$1 of their total combined adjusted federal adjusted gross income above \$75,000. For married taxpayers filing separately, the \$12,000 income-related age deduction is reduced by \$1 for every \$1 the total combined adjusted federal adjusted gross income of both spouses exceeds \$75,000.

“Adjusted federal adjusted gross income” is defined as federal adjusted gross income minus any benefits received under Title II of the Social Security Act and other benefits subject to federal taxation solely under Internal Revenue Code (“IRC”) § 86.

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 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 this amount based on the percentage change in the Consumer Price Index for Urban Consumers for the preceding calendar year. For Taxable Year 2015, 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. The additional standard deduction will remain at the same amounts for Taxable Year 2016.

Proposed Legislation

This bill 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. 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 October 1 through September 30 for the year immediately preceding the affected taxable year.

The bill would be effective for taxable years beginning on or after January 1, 2016.

Similar Bills

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.

House Bill 693 and Senate Bill 618 would index the individual income tax standard deduction using the Consumer Price Index for All Urban Consumers (CPI-U).

House Bill 1035 would establish elderly care savings trust accounts to facilitate the saving of private funds to defray the medical and health-related expenses of the elderly.

cc : Secretary of Finance

Date: 1/24/2016 JJS
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