

**OPTIONS FOR MAKING THE AGE DEDUCTION
DEPENDENT ON INCOME LEVEL COUPLED
WITH INCREASING THE PERSONAL AND
DEPENDENT EXEMPTIONS**

**Virginia Department of Taxation
August 26, 2002**

Option #1

PHASING OUT THE AGE DEDUCTION BASED ON FAGI & INCREASING EXEMPTION AMOUNTS

Revenue Impact (in Millions)

| Personal & Dependent Exemption | Fiscal Year | | | |
|--------------------------------|-------------|----------|----------|----------|
| | 2004 | 2005 | 2006 | 2007 |
| \$800 | \$94.6 | \$194.6 | \$203.4 | \$216.3 |
| \$1,600 | -\$52.3 | -\$107.6 | -\$112.4 | -\$119.6 |
| \$2,400 | -\$194.0 | -\$399.1 | -\$417.0 | -\$443.5 |

- ◆ The above estimate shows the effects of income testing the current age deduction coupled with either leaving personal and dependent exemption levels at the current \$800 or increasing them to either \$1,600 or \$2,400. In fiscal year 2002, the age deduction is projected to decrease General Fund revenues by approximately \$273 million.
- ◆ The phase-out of the age deduction would be based on the taxpayer's Federal Adjusted Gross Income (FAGI). For the purposes of the above estimate, it was assumed that:
 - Single filers would reduce their age deduction by \$1 for every \$2 in FAGI above \$17,000; and,
 - Joint filers would reduce their age deduction by \$1 for every \$2 in FAGI above \$34,000.
 - The point at which a taxpayer's age deduction would be completely phased out would of course depend on the amount of the age deduction that the taxpayer claimed. The following chart illustrates the income levels at which the age deduction would be phased out for single and joint filers:

| Total Amount of Age Deduction Claimed | FAGI at which the Deduction would be Completely Phased-out for Single filers | FAGI at which the Deduction would be Completely Phased-out for Joint filers |
|---------------------------------------|--|---|
| \$6,000 | \$29,000 | \$46,000 |
| \$12,000 | \$41,000 | \$58,000 |
| \$18,000 | N/A | \$70,000 |
| \$24,000 | N/A | \$82,000 |

- ◆ The assumed effective date is Taxable Year 2004.

Option #2

PHASING OUT THE AGE DEDUCTION BASED ON ADJUSTED FAGI & INCREASING EXEMPTION AMOUNTS

| Revenue Impact (in Millions) | | | | |
|--------------------------------|-------------|----------|----------|----------|
| Personal & Dependent Exemption | Fiscal Year | | | |
| | 2004 | 2005 | 2006 | 2007 |
| \$800 | \$105.5 | \$217.1 | \$226.8 | \$241.2 |
| \$1,600 | -\$42.6 | -\$87.6 | -\$91.5 | -\$97.3 |
| \$2,400 | -\$185.3 | -\$381.3 | -\$398.4 | -\$423.7 |

- ◆ The above estimate shows the effects of income testing the current age deduction amounts coupled with either leaving personal and dependent exemption levels at the current \$800 or increasing them to either \$1,600 or \$2,400. In fiscal year 2002, the age deduction is projected to decrease General Fund revenues by approximately \$273 million.
- ◆ The phase-out of the age deduction would be based on the taxpayer's adjusted FAGI. Adjusted FAGI would be computed by adding each taxpayer's untaxed social security benefits to their FAGI. For the purposes of the above estimate, it was assumed that:
 - Single filers would reduce their age deduction by \$1 for every \$2 in adjusted FAGI above \$17,000; and,
 - Joint filers would reduce their age deduction by \$1 for every \$2 in adjusted FAGI above \$34,000.
 - The point at which a taxpayer's age deduction would be completely phased out would of course depend on the amount of the age deduction that the taxpayer claimed. The following chart illustrates the income levels at which the age deduction would be phased out for single and joint filers:

| Total Amount of Age Deduction Claimed | <u>Adjusted</u> FAGI at which the Deduction would be Completely Phased-out for Single filers | <u>Adjusted</u> FAGI at which the Deduction would be Completely Phased-out for Joint filers |
|---------------------------------------|--|---|
| \$6,000 | \$29,000 | \$46,000 |
| \$12,000 | \$41,000 | \$58,000 |
| \$18,000 | N/A | \$70,000 |
| \$24,000 | N/A | \$82,000 |

- ◆ The assumed effective date is Taxable Year 2004.