

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

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

3. **Committee** House Finance

4. **Title** Virginia Individual Income Tax: Disability
Income Subtraction & Age Deduction

2. **Bill Number** HB 2580

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow eligible taxpayers to take both the Virginia disability income subtraction and the Virginia age deduction for taxpayers age 65 or older (“the age deduction”) in the same taxable year. Current law allows eligible taxpayers to choose to take the more favorable of the disability income subtraction or the age deduction, but not both.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective January 1, 2025.

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

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation (“the Department”) considers implementation of this bill to be routine and does not require additional funding.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2026 and each year thereafter. Based on Taxable Year 2022 individual income tax data, about 5,500 returns were filed by taxpayers who claimed a disability income subtraction. Out of these 5,500 returns, approximately 1,100 returns were filed where at least one taxpayer was aged 65 and older. If all such taxpayers claiming a disability income subtraction were able to benefit from the full \$12,000 age deduction because of this bill, this could result in a negative General Fund revenue impact of around \$700,000 annually.

However, many taxpayers who would newly qualify under this bill would likely not be able to benefit from a full \$12,000 age deduction, either because:

- They had insufficient tax liability to receive the full benefit of the deduction or
- Their deduction was limited based upon income.

Similarly, it is unknown how many taxpayers currently claiming the age deduction would now begin claiming the disability retirement subtraction. As a result, the actual negative revenue impact of this bill is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Individual Income Tax Modifications

Federal Adjusted Gross Income

Virginia's Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income ("FAGI") as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

Virginia Adjusted Gross Income

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates Virginia adjusted gross income by making two types of adjustments: (1) "additions" which increase the amount of income taxable by Virginia and (2) "subtractions" which reduce such amount. These adjustments are made only to the extent that they have not already been included or excluded from FAGI.

Virginia Taxable Income

The taxpayer calculates his Virginia taxable income by making another type of modification referred to as "deductions," which further reduce the amount of income taxable by Virginia. These modifications are made regardless of federal treatment unless specifically stated otherwise in the provision.

Please find below an illustration of how taxable income is computed for federal and Virginia income tax purposes and how they interrelate:

Federal Income Tax	Virginia Income Tax
+Wages and Other Income	= <i>Federal Adjusted Gross Income ("FAGI")</i>
+Federal Adjustments	+Virginia Additions (only if not included in FAGI)
-Federal Adjustments	-Virginia Subtractions (only if not excluded from FAGI)
= <i>Federal Adjusted Gross Income ("FAGI")</i>	= <i>Virginia Adjusted Gross Income ("VAGI")</i>
-Federal Standard Deduction or Itemized Deductions	-Virginia Standard Deduction or Federal Itemized Deductions (depends on federal election)
-QBI Deduction	-Deduction for Virginia Exemptions
	-Virginia Deductions (regardless of federal treatment)
= <i>Federal Taxable Income</i>	= <i>Virginia Taxable Income</i>

Because this bill would allow taxpayers to take both the disability income subtraction and the age deduction, the amount allowed under this bill could be taken whether the taxpayer chooses to take the Virginia standard deduction or itemized their deductions.

Subtraction for Disability Income

Virginia allows for a subtraction in computing Virginia taxable income up to \$20,000 of disability income to the extent included in federal adjusted gross income. Disability income is any income included in federal gross income constituting wages for the period during which the individual is absent from work on account of permanent and total disability. Generally, this income includes:

- Annuity payments exceeding a taxpayer's investment in an annuity, endowment, or life insurance contract; or
- Amounts received by an employee through accident or health insurance for personal injuries or sickness that are attributable to contributions by the employer which were not includible in the gross income of the employee or are paid by the employer.

To constitute wages, the income must be received in connection with remuneration for services performed by an employee for an employer. Furthermore, to constitute wages, the income must be received before the minimum retirement age, which is generally defined as the earliest age in which a taxpayer could first receive the payments if not for becoming permanently and totally disabled.

Virginia Deduction for Taxpayers 65 and Older

Virginia allows an age deduction from Virginia adjusted gross income of \$12,000. For individuals born after January 1, 1939, who have attained the age of 65 this \$12,000

amount is subject to an income phaseouts. For single taxpayers, the deduction phases out by \$1 for every \$1 that the taxpayer's adjusted federal adjusted gross income ("AFAGI") exceeds \$50,000. For married taxpayers, the deduction phases out by \$1 for every \$1 that the AFAGI exceeds \$75,000. AFAGI is FAGI reduced by Social Security benefits taxed on the federal return.

Current Law

Eligible taxpayers can choose to take the more favorable of the disability income subtraction or the age deduction, but not both. For married individuals, this choice is independently determined for each spouse.

Proposal

This bill would allow eligible taxpayers to take both the Virginia disability income subtraction and the Virginia age deduction in the same taxable year.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective January 1, 2025.

cc : Secretary of Finance

Date: 01/26/2025 AO
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