DEPARTMENT OF TAXATION
2016 Fiscal Impact Statement

1. Patron Benjamin L. Cline

2. Bill Number HB 843
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Individual Income Tax Rate

5. Summary/Purpose:

This bill would reduce the individual income tax rate for the highest income bracket whenever an income tax credit expires, by an amount equal to the amount of additional annual revenue received in the state treasury as a result of the expiration of such tax credit. The Tax Commissioner would be responsible for determining the amount of the reduction, to be rounded to the nearest 0.01 percent.

The Tax Commissioner would be required to submit a written certification to the General Assembly and to the Governor reporting the adjusted tax rate by July 1 of the first taxable year for which the credit is no longer allowable.

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

6. Budget amendment necessary: No.

7. Fiscal Impact Estimates are: Not available. (See Line 8).

8. Fiscal implications:

Administrative Costs

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

Revenue Impact

This bill would have an unknown General Fund revenue impact. This bill directs the Tax Commissioner to round the new reduced rate to the nearest 0.01 percentage point. The additional revenue anticipated from the expiration of tax credits in a particular year would need to be in excess of $22 million to trigger a 0.01 percent reduction in the tax rate. Because the amount of most credits claimed is significantly less than $22 million, it is unlikely that any expiring tax credits would generate enough revenue to cause a rate decrease under this bill. Below is a chart detailing the annual amount of credits claimed for tax credits currently scheduled to expire in the next five years:

Credit	Sunset Date	FY 2015 Amount Claimed	First Taxable Year Not Available
Coalfield Employment Enhancement Tax Credit	12/31/2016	$28,400,000	TY 2017
International Trade Facility Tax Credit	12/31/2016	$150,000	TY 2017
Barge and Rail Usage Tax Credit	12/31/2016	$4,000	TY 2017
Virginia Port Volume Increase Tax Credit	12/31/2016	$740,000	TY 2017
Telework Expenses Tax Credit	12/31/2016	$110,000	TY 2017
Motion Picture Production Tax Credit	12/31/2018	$7,200,000	TY 2019
Research and Development Expenses Tax Credit	12/31/2018	$4,200,000	TY 2019
Enterprise Zone Business Tax Credit	6/30/2019	$1,200,000	TY 2020
Major Business Facility Job Tax Credit	12/31/2019	$4,100,000	TY 2020

The existence of carryover provisions further limits the revenue impact generated when a tax credit expires. Most unused credits may be carried forward and claimed against tax liabilities in future taxable years. If a credit of sufficient size expires and triggers a rate reduction, the anticipated revenue from the credit's expiration may not materialize for several years as taxpayers continue to claim the credit within the allowable carryover period.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

<u>Current Law</u>

Under current law, the Virginia taxable income of an individual is taxed at the following rates: 2 percent on income not exceeding $3,000; 3 percent on income in excess of $3,000 but not in excess of $5,000; 5 percent on income in excess of $5,000, but not in excess of $17,000; and 5.75 percent on income in excess of $17,000. This bill would decrease the top rate by an amount corresponding to the amount of revenue generated by an expiring tax credit, but would not impact the rates for the lower brackets unless the rate on income in excess of $17,000 is reduced to 0.00 percent. Virginia taxable income has been taxed at these rates since January 1, 1990.

In addition, the majority of Virginia income tax credits allow a carryover period during which taxpayers may continue to claim unused tax credits in future taxable years, until they have used the entire amount of the tax credit that is available to them.

Currently, taxpayers whose incomes fall within the highest tax bracket generate a significant amount of General Fund revenue for Virginia:

Adjusted Gross Income Classes	Total Adjusted Gross Income	Total Taxable Income	Total Tax Liability	Percent of Total Tax Liability
$15,000 - $19,999	$4,435,336,128	$2,357,243,976	$93,789,814	0.89%
$20,000 - $24,999	$5,249,822,321	$2,935,094,759	$125,537,232	1.19%
$25,000 - $29,999	$5,765,010,839	$3,753,865,554	$167,861,074	1.59%
$30,000 - $34,999	$6,158,038,037	$4,120,583,547	$191,835,018	1.82%
$35,000 - $39,999	$6,341,627,681	$4,389,571,279	$209,936,081	1.99%
$40,000 - $44,999	$6,323,958,450	$4,457,050,486	$217,374,409	2.06%
$45,000 - $49,999	$6,271,444,292	$4,517,722,720	$223,299,394	2.12%
$50,000 - $74,999	$30,058,954,297	$22,859,561,213	$1,158,182,854	10.99%
$75,000 - $99,999	$27,926,852,487	$22,434,182,075	$1,170,564,302	11.11%
$100,000 and Up	$145,317,141,775	$126,456,968,067	$6,982,322,551	66.24%
Total	**$243,848,186,307**	**$198,281,843,675**	**$10,540,702,730**	**99.57%**

Proposed Legislation

This bill would reduce the individual income tax rate for the highest income bracket whenever an income tax credit expires, by an amount equal to the amount of additional annual revenue received in the state treasury as a result of the expiration of such tax credit. The Tax Commissioner would be responsible for determining the amount of the reduction, to be rounded to the nearest 0.01 percent.

The Tax Commissioner would be required to submit written certification to the General Assembly and to the Governor reporting the adjusted tax rate by July 1 of the first taxable year for which the credit is no longer allowable.

In the event that the 5.75 percent rate is reduced to a 0 percent rate for a taxable year, then the 5 percent marginal income tax rate would be imposed on all taxable income in excess of $5,000. Currently, the 5 percent marginal income tax rate is imposed only on income in excess of $5,000 but not in excess of $17,000.

This 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 1095 would reduce the top marginal individual income tax rate from 5.75 percent on income in excess of $17,000 to five percent on income in excess of $5,000.

Senate Bill 512 would lower the rate of taxation for each income bracket by one-quarter percent each year for four years beginning in Taxable Year 2017.

Senate Bill 570 would increase the maximum income within each bracket by $1,000 and would phase out the lowest income bracket.

cc : Secretary of Finance

Date: 1/30/2016 CWM
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