

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

3. **Committee** Senate Finance

4. **Title** Income Tax; Lowers Individual Income Tax
Rate For Each Tax Bracket

2. **Bill Number** SB 788

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would lower the rate of taxation for each individual income tax bracket by one-quarter percent each year for four years. Therefore, for Taxable Year 2021 and each taxable year thereafter, the rate of taxation for each individual income tax bracket would be one percent lower than the rate under current law.

This bill would be effective for taxable years beginning and after January 1, 2018.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2016-17	\$0	GF
2017-18	(\$492.6 million)	GF
2018-19	(\$1.208 billion)	GF
2019-20	(\$1.985 billion)	GF
2020-21	(\$2.838 billion)	GF
2021-22	(\$3.165 billion)	GF
2022-23	(\$3.302 billion)	GF

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 a negative General Fund revenue impact of \$492.6 million in FY

2018, \$1.208 billion in FY 2019, \$1.985 billion in FY 2020, \$2.838 billion in FY 2021, \$3.165 billion in FY 2022, and \$3.302 billion in FY 2023.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Virginia Individual Income Tax Rates and Tax Brackets

Under current law, the Virginia taxable income of an individual is taxed at the following rates:

Virginia Taxable Income	Virginia Tax Rate
\$0 to \$3,000	2%
\$3,001 to \$5,000	3%
\$5,001 to \$17,000	5%
\$17,001 or more	5.75%

In 1971, when Virginia studied conforming to the federal income tax law, Virginia originally considered having the first three tax brackets shown above. As a result, the top marginal tax rate would have been 5%, applicable to Virginia taxable income of \$5,001 or more. However, by 1972, when Virginia voted to conform to federal income tax law, Virginia enacted four tax brackets at the same tax rates as under current law.

The amount of Virginia taxable income that is subject to Virginia's top marginal tax rate has changed over the years. The history of the changes, beginning in Taxable Year 1972, is below.

Year	Taxable Income Subject to 5.75% of Tax Rate
1972 – 1986	\$12,001 or more
1987	\$14,001 or more
1988	\$15,001 or more
1989	\$16,001 or more
1990 – Present	\$17,001 or more

Other States

Several neighboring states have recently made structural changes to their individual income tax rates and bracket structures. For example, the District of Columbia enacted budget provisions that created individual income tax relief contingent upon meeting certain revenue goals. For Taxable Year 2016, these changes included reducing the rate on income between \$40,000 and \$60,000 from 7 percent to 6.75 percent and creating a

new individual income tax bracket for income between \$350,000 to \$1 million, subject to a lower rate of 8.75 percent.

North Carolina recently reformed its individual income tax by enacting a flat individual income tax rate and gradually decreasing this rate over a period of several years. Prior to Taxable Year 2014, North Carolina had three individual income tax rates of 6 percent, 7 percent, and 7.75 percent. For Taxable Year 2014, North Carolina replaced its tiered tax structure with a flat individual income tax rate of 5.8 percent. This rate decreased to 5.75 percent for Taxable Years 2015 and 2016 and to 5.499 percent for Taxable Year 2017.

Tennessee only taxes individuals on interest and dividends. Tennessee enacted legislation that reduces the rate for this tax from six percent to five percent in Taxable Year 2016, and continues to reduce the rate by one percent annually until the tax is eliminated in 2022.

Proposed Legislation

This bill would lower the rate of taxation for each individual income tax bracket by one-quarter percent each year for four years. As a result, Virginia would have the following tax rates:

Virginia Taxable Income	Tax Rates				
	2017 and Prior	2018	2019	2020	2021 and After
\$0 to \$3,000	2%	1.75%	1.5%	1.25%	1%
\$3,001 to \$5,000	3%	2.75%	2.5%	2.25%	2%
\$5,001 to \$17,000	5%	4.75%	4.5%	4.25%	4%
\$17,001 or more	5.75%	5.5%	5.25%	5%	4.75%

This bill would be effective for taxable years beginning and after January 1, 2018.

Similar Bills

House Bill 2226 would decrease the maximum individual income tax rate from 5.75 percent on income in excess of \$17,000 to 5 percent on income in excess of \$5,000.

Senate Bill 1029 would increase the personal exemption amount from \$930 to \$1,000, and would increase the additional personal exemption for blindness or age from \$800 to \$900.

Senate Bill 1386 would impose lower individual income tax rates on income attributable to certain small businesses.

cc: Secretary of Finance

Date: 1/17/2017 NM
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