

# DEPARTMENT OF TAXATION

## 2018 Fiscal Impact Statement

1. **Patron** Benjamin L. Cline

3. **Committee** House Finance

4. **Title** Individual income tax; reduction of top marginal rate.

2. **Bill Number** HB 1189

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would reduce the top marginal 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.

This bill would be effective for taxable years beginning on and after January 1, 2019.

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

Page 1, Revenue Estimates

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

#### 7b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2017-18	\$0	GF
2018-19	(\$823.0 million)	GF
2019-20	(\$1.681 billion)	GF
2020-21	(\$1.741 billion)	GF
2021-22	(\$1.826 billion)	GF
2022-23	(\$1.909 billion)	GF
2023-24	(\$1.992 billion)	GF

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills

likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

### Revenue Impact

This bill would have a negative General Fund revenue impact of \$823 million in Fiscal Year 2019; \$1.681 billion Fiscal Year 2020; \$1.741 billion in Fiscal Year 2021; \$1.826 billion in Fiscal Year 2022; \$1.909 billion in Fiscal Year 2023; and \$1.992 billion) in Fiscal Year 2024.

This revenue estimate is based on the most recently available Virginia individual income tax data. Congress recently enacted Public Law 115-97, known as the "Tax Cuts and Jobs Act" ("the TCJA"), which could significantly impact the computation of federal adjusted gross income. Federal adjusted gross income is the first line of the Virginia individual income tax return and is therefore the starting point for calculating a taxpayer's Virginia income tax liability. The TCJA may also increase the number of taxpayers who choose to claim the federal standard deduction. Because taxpayers who choose to claim a standard deduction on their federal return are bound by that choice when they complete their Virginia return, the TCJA may increase the number of taxpayers who claim the Virginia standard deduction. As a result, the revenue impact of this bill could vary once the recent federal changes are taken into account.

### **9. Specific agency or political subdivisions affected:**

Department of Taxation

### **10. Technical amendment necessary: No.**

### **11. Other comments:**

#### Federal Tax Rates and the Federal Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law Public Law 115-97, known as the "Tax Cuts and Jobs Act" ("the TCJA"). The TCJA modifies the current individual income tax rate structure. The current rate structure has seven rates: 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent, and 39.6 percent. Effective beginning in Taxable Year 2018, the TCJA maintains the seven-rate structure, but taxes a taxpayer's income at modified rates: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent.

The following table compares the tax brackets under prior law to those under the TCJA for married taxpayers filing a joint return:

Before the TCJA		Under the TCJA	
Federal Taxable Income	Federal Tax Rates	Federal Taxable Income	Federal Tax Rates
\$0 to \$19,050	10 percent	\$0 to \$19,050	10 percent
\$19,051 to \$77,400	15 percent	\$19,051 to \$77,400	12 percent
\$77,401 to \$156,150	25 percent	\$77,401 to \$165,000	22 percent
\$156,151 to \$237,950	28 percent	\$165,001 to \$315,000	24 percent
\$237,951 to \$424,950	33 percent	\$315,001 to \$400,000	32 percent
\$424,951 to \$480,050	35 percent	\$400,001 to \$600,000	35 percent
\$480,051 or more	39.6 percent	\$600,001 or more	37 percent

Different rate tables apply for those married taxpayers filing a separate return, those filing as head of household, and those filing as individuals.

#### Virginia Individual Income Tax Rates and Tax Brackets

Under current law, the Virginia individual income tax is imposed at the following rates:

Virginia Taxable Income	Virginia Tax Rates
\$3,000 and less	2 percent
\$3,001 to \$5,000	3 percent
\$5,001 to \$17,000	5 percent
\$17,001 or more	5.75 percent

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

The amount of Virginia taxable income subject to Virginia's top marginal tax rate was last modified during the 1987 Session, in response to the 1986 federal tax reform.

Year	Taxable Income Subject to 5.75 percent 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

Since 1990, the General Assembly has not enacted any legislation affecting Virginia individual income tax rates or brackets.

## 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 2017, this included reducing the rate on income between \$40,000 and \$60,000 from 6.75 percent to 6.5 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, to 5.499 percent for Taxable Year 2017 and 2018, and is scheduled to decrease to 5.25 percent for Taxable Year 2019 and thereafter.

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, eventually eliminating the tax for the taxable years beginning on or after January 1, 2021.

## Proposed Legislation

This bill would lower Virginia's top marginal tax rate to five percent, effectively reducing the amount of tax brackets from four to three. As a result, Virginia would have the following individual income tax rates and brackets.

<b>Proposed Change to Virginia Tax Rates and Brackets</b>		
<b>Virginia Tax Rates</b>	<b>1990—2018</b>	<b>2019 and After</b>
2 percent	\$0 to \$3,000	\$0 to \$3,000
3 percent	\$3,001 to \$5,000	\$3,001 to \$5,000
5 percent	\$5,001 to \$17,000	\$5,001 or more
5.75 percent	\$17,001 or more	N/A

This bill would be effective for the taxable years beginning on and after January 1, 2019.

## Similar Bills

**Senate Bill 390** would make substantial changes to Virginia's tax structure.

**Senate Bill 745** would increase Virginia's standard deduction to \$6,350 for single individuals and married persons filing separately, and \$12,700 for married persons filing joint returns for Taxable Year 2019.

**House Bill 1444** would allow individual taxpayers to elect to itemize deductions for state income tax purposes regardless of whether the taxpayer itemized deductions for federal income tax purposes.

**Senate Bill 335** would increase the personal exemptions to \$1,000 and the exemption for the blind or aged to \$900.

**Senate Bill 759** would lower the rate of taxation for each individual income tax bracket by 10 percent.

cc: Secretary of Finance

Date: 1/23/2018 RWC  
HB1189F161