

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Brenda L. Pogge

3. **Committee** House Finance

4. **Title** Individual Income Tax; Itemization

2. **Bill Number** HB 1444

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

The bill would provide that a taxpayer may elect either to claim the standard deduction or to itemize deductions on his or her Virginia income tax return, regardless of whether the taxpayer elected for the taxable year to itemize deductions on his or her federal income tax return.

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

6. Budget amendment necessary: Yes.

Item(s): Page 1, Revenue Estimates
273 and 275, Department of Taxation

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2017-18	\$21,200	0	GF
2018-19	\$302,670	0	GF
2019-20	\$111,200	0	GF
2020-21	\$81,200	0	GF
2021-22	\$81,200	0	GF
2022-23	\$81,200	0	GF
2023-24	\$81,200	0	GF

8. Fiscal implications:

Administrative Costs

This bill would result in administrative costs to the Department of Taxation ("the Department") of \$21,200 for Fiscal Year 2018; \$302,670 for Fiscal Year 2019; \$111,200 for Fiscal Year 2020; \$81,200 for Fiscal Year 2021; \$81,200 for Fiscal Year 2022; \$81,200 for Fiscal Year 2023; and \$81,200 for Fiscal Year 2024. This includes the costs associated with updating the Department's systems for processing returns, developing and distributing revised tax forms; updating the Department's website; and making changes to the Department's compliance programs.

Revenue Impact

This bill would result in an unknown and likely significant negative General Fund revenue impact beginning in Fiscal Year 2019. 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 currently bound by that choice when they complete their Virginia return, the TCJA may increase the number of taxpayers who claim the Virginia standard deduction by an unknown amount. Therefore, it is currently unknown how many taxpayers would elect to claim their deductions using a different method for Virginia purposes, as would be allowed under this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Law

When completing their federal income tax return, taxpayers are generally allowed to elect to claim either the amount of the standard deduction or the total amount of their itemized deductions. Typically, taxpayers will choose to deduct the greater of the two amounts.

Federal Standard Deduction

The standard deduction is a fixed dollar amount that reduces taxable income. A taxpayer's standard deduction varies according to their filing status. For Taxable Year 2017, the standard deduction amounts were as follows:

- \$12,700 for married taxpayers filing jointly;
- \$9,350 for heads of household; and
- \$6,350 for single taxpayers and married taxpayers filing separately.

Federal Itemized Deductions

Itemized deductions also reduce taxable income. Unlike the standard deduction which is a fixed dollar amount, taxpayers who itemize are allowed to list all of their deductible expenses on federal Schedule A. Some of the most common expenses that may be claimed as an itemized deduction include:

- Home mortgage interest;
- State and local income taxes or sales taxes (but not both);
- Real estate and personal property taxes;
- Gifts to charities;
- Casualty or theft losses;
- Unreimbursed medical expenses; and
- Unreimbursed employee business expenses.

The Federal Tax Cuts and Jobs Act

On December 22, 2017, the TCJA was signed into law. This federal tax reform legislation substantially changes the federal income taxation of individuals and businesses. These changes include substantially increasing the federal standard deduction beginning with Taxable Year 2018 as follows:

- From \$12,700 for married taxpayers filing jointly to \$24,000;
- From \$9,350 for heads of household to \$18,000; and
- From \$6,350 for single taxpayers and married taxpayers filing separately to \$12,000.

While substantially increasing the amount of the federal standard deduction, the TCJA includes a number of provisions that greatly limit or repeal federal itemized deductions.

Like most other individual provisions of the TCJA, these changes are currently scheduled to sunset after December 31, 2025, and revert to its pre-2018 form. Future legislation would be required to make such increase effective beyond Taxable Year 2025.

Virginia Law

When completing their Virginia income tax return, taxpayers are bound by the election they made for federal purposes. Therefore, if they claimed the standard deduction on their federal income tax return, they are not allowed to claim itemized deductions on their Virginia return. In contrast, if they claimed itemized deductions on their federal income tax return, they are not allowed to claim the standard deduction on their Virginia return.

Virginia's Standard Deduction

Taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. The standard deduction amounts are \$3,000 for single individuals and \$6,000 for married couples. Virginia's standard deduction amounts have changed over the years. The history of such changes from Taxable Year 1987 to the present is shown below:

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Taxpayers
1987	\$2,000	\$2,000
1988	\$2,700	\$2,700
1989-2004	\$3,000	\$5,000
2005-present	\$3,000	\$6,000

Prior to 1987, the Virginia standard deduction was not a flat amount. Instead, for Taxable Year 1986 for example, the Virginia standard deduction was 15 percent of federal adjusted gross income with a \$1,300 minimum and a \$2,000 maximum.

Virginia Itemized Deductions

Taxpayers that elect to itemize their deductions for federal purposes are permitted to claim such deductions on their Virginia income tax return as well. The amount of itemized deductions that may be claimed on such return is equal to the:

- Federally allowable amount of itemized deductions, *minus*
- Amount claimed as a federal deduction for income taxes paid to Virginia or any other state, locality, foreign country, or other taxing jurisdiction, *plus*
- Amount needed to increase the amount deducted federally for charitable contribution transportation to 18¢ per mile.

Proposed Legislation

The bill would provide that a taxpayer may elect either to claim the Virginia standard deduction or to itemize his or her deductions, regardless of whether the taxpayer elected for the taxable year to itemize deductions on his or her federal return.

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

Similar Bills

House Bill 966 and **Senate Bill 390** would make numerous changes to Virginia's tax structure.

House Bill 1189 would lower Virginia's top marginal individual income tax rate to five percent, effectively reducing the number of tax brackets from four to three.

Senate Bill 759 would reduce the rate of taxation for each of Virginia's individual income tax brackets by up to ten percent of the current rate over a three-year period.