DEPARTMENT OF TAXATION
2018 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

2. **Bill Number** SB 745
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** Senate Finance

4. **Title** Individual Income Tax; Increased Standard Deduction

5. **Summary/Purpose:**

This bill would increase Virginia's standard deduction for Taxable Year 2019 and thereafter from $3,000 to $6,350 for single individuals and married persons filing separately, and from $6,000 to $12,700 for married persons filing joint returns. For Taxable Years 2020 and thereafter, these amounts would be indexed by the percentage by which the Consumer Price Index for All Urban Consumers (CPI-U) for the most recent calendar year differs from the CPI-U published at the close of the twelve month period ending on December 31, 2019.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.
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7. **Fiscal Impact Estimates are:** Preliminary (See Line 8).
7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2017-18	$0	GF
2018-19	($193 million)	GF
2019-20	($386 million)	GF
2020-21	($394 million)	GF
2021-22	($428 million)	GF
2022-23	($480 million)	GF
2023-24	($556 million)	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 Impacts

This bill would have a negative General Fund revenue impact of $193 million in Fiscal Year 2019, $386 million in Fiscal Year 2020, $394 million in Fiscal Year 2021, $428 million in Fiscal Year 2022, $480 million in Fiscal Year 2023, and $556 million 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 (“FAGI”). FAGI 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 increase 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 Standard Deduction and the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (Public Law 115-97) 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.

In addition, beginning with Taxable Year 2019, these amounts will be indexed for inflation based on chained CPI-U.

Like most other individual provisions of the TCJA, the increase in the amount of the federal standard deduction is 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.

Federal Indexing and the Tax Cuts and Jobs Act

Effective in 1985, 1986, and all taxable years after 1989, the federal individual income tax brackets, standard deduction, and personal exemptions were all indexed using CPI-U. CPI-U is a measure calculated by the Bureau of Labor Statistics that is used to track changes in the prices paid by urban consumers for common goods and services over time. This represents approximately 87 percent of the total population of the United States. The index produces monthly data on these changes. Typically, the Index for a given month is released approximately two or three weeks after the month ends.

The TCJA requires the use of chained CPI-U, instead of CPI-U, in indexing various federal tax provisions for inflation, including the standard deduction. Chained CPI-U, like CPI-U, is a measure of the average change over time in prices paid by urban consumers, but the chained CPI-U differs from the CPI-U in that it accounts for the ability of individuals to alter their consumption patterns in response to relative price changes. Chained CPI-U U reflects people's ability to lessen the impact of inflation by buying fewer goods or services that have risen in price and buying more goods and services whose price have risen less, or not at all. Therefore, chained CPI-U is a slower-growing method of calculating cost-of-living adjustments.

The change to chained CPI-U for inflation indexing is effective for taxable years beginning after 2017 and will remain in effect after 2025, because it is not subject to the same sunset provision that applies to other individual income tax provisions of the TCJA.

Virginia's Standard Deduction

Under current law, 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.

Proposed Legislation

This bill would increase Virginia's standard deduction for Taxable Year 2019 and thereafter from:

- $3,000 for single individuals and married persons filing separately to $6,350, and

- $6,000 for married persons filing joint returns to $12,700 for married persons filing joint returns for Taxable Year 2019.

For Taxable Years 2020 and thereafter, these amounts would be indexed by the percentage, if any, by which the CPI-U, as published by the U.S. Department of Labor or any successor index, for the most recent calendar year differs from the CPI-U published at the close of the twelve month period ending on December 31, 2019. In no case would the amount of the adjusted deduction be less than the amounts provided for Taxable Year 2018.

The effective date of this bill is not specified.

Similar Bills

House Bill 1444 would permit a taxpayer who claimed the federal standard deduction to claim either the Virginia standard deduction or federal itemized deductions on their Virginia income tax returns.

House Bill 972 would increase the Virginia age deduction from $12,000 to $13,000. The bill would also index to inflation the income restrictions that limit the deduction for certain taxpayers born after January 1, 1939.

Senate Bill 335 would increase the individual income tax personal exemption amount from $930 to $1,000 and increase the additional personal exemption for age or blindness from $800 to $900.

cc: Secretary of Finance

Date: 1/27/2018 JLOF
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