

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

3. **Committee** Senate Finance

4. **Title** Individual Income Tax; Rate of Taxation Imposed

2. **Bill Number** SB 759

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reduce the rate of taxation for each of the individual income tax brackets by 3.33 percent (one third of 10 percent) for each taxable year in which the Virginia Gross Domestic Product grows by at least three percent over the preceding year. These rate reductions would be phased in over three, not necessarily consecutive, taxable years and would potentially lead to reductions in the rate of taxation for each of the rate brackets of up to 10 percent per bracket.

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>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017-18	\$0	GF
2018-19	(\$737 million)	GF
2019-20	(\$778 million)	GF
2020-21	(\$1.355 billion)	GF
2021-22	(\$1.678 billion)	GF
2022-23	(\$1.733 billion)	GF
2023-24	(\$1.798 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 \$737 million in FY 2019, \$778 million FY 2020, \$1.355 billion in FY 2021, \$1.678 billion in FY 2022, \$1.733 billion in FY 2023, and \$1.798 billion in FY 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. As a result, the estimated revenue impact of this bill could change.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department understands that the Patron’s intent is to allow for potential reductions to the rate of taxation for each of the individual income tax brackets for taxable years beginning on or after January 1, 2019. As currently drafted, the language of this bill appears to inadvertently repeal the individual income tax by imposing no rate of taxation for each of the tax brackets. Accordingly, the Department of Taxation suggests the following technical amendments:

Page 1, Line 15 after \$3,000

Strike: for taxable years beginning before January 1, 2018

Page 1, Line 20 after \$5,000

Strike: for taxable years beginning before January 1, 2018

Page 1, Line 35 after 1990

Strike: , through December 31, 2018

Page 1, Line 49 after 1990

Strike: , through December 31, 2018

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 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-bracket 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 reduce the rate of taxation for each of the individual income tax brackets by 3.33 percent (one third of 10 percent) for each taxable year in which the Virginia Gross Domestic Product grows by at least three percent over the preceding year. These rate reductions would be phased in over three, not necessarily consecutive, taxable years and would potentially lead to reductions in the rate of taxation for each of the rate brackets of up to 10 percent per bracket. The tax rates that would potentially result in each of the three reduction years is provided in the following table:

Virginia Tax Brackets	Proposed Virginia Tax Rates				Reduction Per Year
	2017 and Prior	1 st Year Reduction	2 nd Year Reduction	3 rd Year Reduction	
\$0 to \$3,000	2%	1.93%	1.86%	1.8%	0.0667%
\$3,001 to \$5,000	3%	2.9%	2.8%	2.7%	0.1%
\$5,001 to \$17,000	5%	4.83%	4.67%	4.5%	0.167%
\$17,001 or more	5.75%	5.558%	5.367%	5.175%	0.19167%

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 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.

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

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.

House Bill 966 would establish a sales tax on all services, except those specifically exempted, eliminate the individual income tax on income of \$5,000 or less, and create a refundable individual income tax credit for certain business taxes.

cc: Secretary of Finance

Date: 1/27/2018 RWC
DLAS SB759F161