DEPARTMENT OF TAXATION
2019 Fiscal Impact Statement

1. Patron Ryan T. McDougle

2. Bill Number SB 1657

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee Senate Finance

4. Title Individual Income Tax; Taxpayer Relief Tax Credit

5. Summary/Purpose:

This bill would provide a nonrefundable individual income tax credit in an amount equal to $250 for an individual or $500 for married persons filing a joint return. The amount of the credit would be limited to the individual or married person's tax liability. The credit would only be available to taxpayers that did not itemize deductions for such taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2018, but before January 1, 2026.

This bill contains an emergency clause which states that it would be in force from its passage.

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:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2018-19	$246,306	0	GF
2019-20	$1,711,700	0	GF

7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2018-19	($616.7 million)	GF
2019-20	($695.2 million)	GF
2020-21	($698.0 million)	GF
2021-22	($700.5 million)	GF
2022-23	($704.2 million)	GF
2023-24	($710.5 million)	GF
2024-25	($715.6 million)	GF

8. Fiscal implications:

Administrative Costs

In order to implement the proposed credit in the middle of tax filing season, the Department of Taxation ("the Department") would incur costs of $246,306 in FY 2019 and $1,711,700 in FY 2020. These costs include the costs of adjusting returns to issue the proposed credit and mailing letters explaining such credit payments, as well as hiring additional wage employees to adjust returns and respond to questions regarding credits issued for Taxable Year 2018.

Revenue Impact

This bill would result in a negative General Fund revenue impact of $616.7 million in Fiscal Year 2019; $695.2 million in Fiscal Year 2020; $698.0 million in Fiscal Year 2021; $700.5 million in Fiscal Year 2022; $704.2 million in Fiscal Year 2023; $710.5 million in Fiscal Year 2024; and $715.6 million in Fiscal Year 2025. If this bill is enacted, the budget would need to be adjusted to reduce the revenue estimate by $616.7 million in Fiscal Year 2019 and $695.2 million in Fiscal Year 2020.

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 total amount of their itemized deductions or the flat amount of their standard deduction. Taxpayers will generally choose to deduct the greater of the two amounts.

Federal Standard Deduction

The standard deduction is a fixed dollar amount that reduces a taxpayer's taxable income and varies according to their filing status. The current amount of the federal standard deduction is $12,000 for single taxpayers; $18,000 for heads of household; and $24,000 for married taxpayers filing jointly.

The federal standard deduction amounts have increased significantly since 1988. The federal Tax Reform Act of 1986 increased the standard deduction amount for Taxable Year 1988 to $3,000 for individuals; $4,400 for heads of household; and $5,000 for married taxpayers filing jointly. The Act also required, beginning in Taxable Year 1989, the Internal Revenue Service to adjust the amount of such deduction annually for inflation based on the percentage change in the Consumer Price Index for Urban Consumers ("CPI-U") for the preceding calendar year. Because of these inflation adjustments, the federal standard deduction increased annually from Taxable Year 1988 through Taxable Year 2002. For Taxable Year 2002, the standard deduction amounts were $4,700 for individuals; $6,900 for heads of household; and $7,850 for married taxpayers filing jointly.

The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the standard deduction for married couples filing jointly to $9,500, which was equal to twice the standard deduction for single taxpayers. This was intended to eliminate the standard deduction marriage penalty. From 2003 until 2017, the federal standard deduction continued to increase annually due to inflation adjustments. For Taxable Year 2017, the standard deduction amounts were $6,350 for individuals; $9,350 for heads of household; and $12,700 for married taxpayers filing jointly.

On December 22, 2017, Congress enacted the TCJA, which substantially increased the federal standard deduction amounts beginning with Taxable Year 2018 as follows:

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

In addition, beginning with Taxable Year 2019, the Internal Revenue Service is required to adjust the standard deduction amount based upon a new inflation measure, chained CPI-U.

Like the majority of the individual provisions of the TCJA, the increase in the federal standard deduction is currently scheduled to sunset after December 31, 2025, and revert to its pre-2018 amounts. Future legislation would be required to make such increases effective beyond Taxable Year 2025. However, the 2025 sunset date does not apply to the TCJA's substitution of a new inflation measure for indexing the federal standard deduction and other provisions.

Federal Itemized Deductions

In lieu of deducting the standard deduction amount, taxpayers may elect to claim up to approximately a dozen separate deductions, referred to as "itemized deductions," on their federal return to the extent that they qualify for such deductions. The rationale for each itemized deduction is generally to take account of large or unusual personal expenditures that affect a taxpayer's ability to pay. Certain itemized deductions are also provided as a way of encouraging certain desired behaviors and activities. 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 TCJA included a number of provisions that greatly limit or repeal certain federal itemized deductions.

<u>Virginia Law</u>

When completing their Virginia income tax returns, taxpayers are bound by the election they made for federal purposes regarding whether to claim a standard deduction or to itemize their deductions. 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 current amount of the Virginia standard deduction is $3,000 for single individuals and $6,000 for married persons filing jointly. Virginia's standard deduction amounts increased from Taxable Year 1988 to the present, as shown below:

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

During the 2005 Session, the General Assembly increased the standard deduction for married persons filing jointly from $5,000 to $6,000. This was intended to eliminate the standard deduction marriage penalty at the state level, similar to how this issue was addressed at the federal level. Since 2005, the Virginia standard deduction amounts have remained at $3,000 for single taxpayers and $6,000 for married taxpayers filing jointly.

Prior to 1987, the Virginia standard deduction was not a fixed amount. For example, in Taxable Year 1986, the Virginia standard deduction was 15 percent of a taxpayer's 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

This bill would provide a nonrefundable individual income tax credit in an amount equal to $250 for an individual or $500 for married persons filing a joint return. The amount of the credit would be limited to the individual or married person's tax liability. The credit would only be available to taxpayers that did not itemize deductions for such taxable year.

This bill would be effective for taxable years beginning on and after January 1, 2018, but before January 1, 2026.

This bill contains an emergency clause which states that it would be in force from its passage.

Similar Bills

Senate Bill 1630 would provide a refund for Taxable Year 2018 through Taxable Year 2025 in an amount equal to $150 for individuals with tax liability in excess of $150 and $300 for married persons filing joint returns with tax liability in excess of $300.

cc : Secretary of Finance

Date: 1/20/2019 JJS
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