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HOUSE JOINT RESOLUTION NO. 567

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Directing the Joint Legislative Audit and Review Commission to study increasing the progressivity of Virginia's individual income tax system. Report.

Patrons—Watts, Carr, Keam and Levine

Referred to Committee on Rules

WHEREAS, the individual income tax should be based on the fundamental principles of fairness and progressivity; and

WHEREAS, the Virginia individual income tax made up 69 percent of the general fund revenues for fiscal years 2020 through 2022, and changes to it can have major budgetary impacts; and

WHEREAS, Virginia does not collect any tax from taxpayers whose Virginia adjusted gross income is less than $11,950 for an individual and $23,900 for joint filers, and these zero tax bracket amounts have not changed since 2012; and

WHEREAS, after subtracting personal exemptions, deductions, and credits, the taxable income that remains above the zero tax bracket threshold is taxed at rates of two percent of the amount that is $3,000 or less; three percent of the amount in excess of $3,000 but no more than $5,000; five percent of the amount in excess of $5,000 but no more than $17,000; and 5.75 percent of any taxable income over $17,000, and these dollar thresholds and rates have not changed since 1990; and

WHEREAS, Virginia provides personal exemptions to reduce the taxable income for state income tax purposes, including those for dependent children and for seniors and blind taxpayers, while other states have moved away from income tax exemptions to avoid choosing who among a wide variety of taxpayers deserves such a tax break; and

WHEREAS, the standard deduction primarily results in alleviating tax liabilities of low-income and moderate-income individuals who do not have the necessary income to make expenditures on items that could be deducted; and

WHEREAS, as the federal standard deduction has grown to be much greater than Virginia's, a number of middle-income taxpayers must pay more in Virginia taxes to achieve the lowest combined federal and state tax total bill because Virginia is one of 13 jurisdictions that does not allow taxpayers to claim the standard deduction on their state returns if they itemize deductions on their federal returns; and

WHEREAS, a tax credit is a dollar-for-dollar subtraction from the taxes owed by a taxpayer, notwithstanding the income tax bracket in which the taxpayer falls, while a deduction reduces the amount of income on which taxes are calculated, which results in a higher dollar benefit the higher the tax rate; and

WHEREAS, many businesses, such as pass-through entities, S corporations, limited liability companies, partnerships, and sole proprietorships, are subject to the Virginia individual income tax, rather than the Virginia corporate tax, and almost all of the more than 25 individual income tax credits available to taxpayers focus on economic incentives, rather than progressivity; and

WHEREAS, only three tax credits for research and development, agricultural best management practices, and motion picture production are refundable tax credits; however, for most businesses, the value of a nonrefundable tax credit is not lost because almost all business tax credits may be carried over to future tax years; and

WHEREAS, Virginia's earned income tax credit is a principal element of progressivity and it is not refundable, which results in the lowest-income families not receiving the same dollar benefit as other qualifying taxpayers; and

WHEREAS, graduated rates assume that the higher the income, the more taxpayers can pay in taxes without undercutting basic living expenses; however, in Virginia, determination of the dollar amounts to which graduated rates apply is complicated by the fact that Virginia has the second-highest cost of living spread in the nation and basic living expenses differ greatly in different areas of the Commonwealth; and

WHEREAS, basic living expenses and the consumer price index are largely driven by the housing index, and the lower the income, the less flexibility there is to reduce housing costs; and

WHEREAS for all income levels, since the 1940s, the cost of housing has increased more than any other category of household spending and nationally now approaches twice the amount spent on either food or transportation; nevertheless, since tax year 2018, federal tax deductions are severely reduced for local real estate taxes which, in Virginia, are the major source for funding local government services; and

WHEREAS, 16 other states and the federal government adjust tax bracket dollar amounts, zero tax thresholds, the standard deduction, and personal exemptions annually for inflation to counter their income tax structure from becoming incrementally more regressive; and

WHEREAS, numerous legislative proposals are made annually to change Virginia's income tax structure and modify its application; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to study increasing the progressivity of Virginia's individual income tax system. In conducting its study, the Joint Legislative Audit and Review Commission (JLARC) shall evaluate the fiscal impact of amendments to tax brackets, tax rates, credits, deductions, and exemptions, as well as any other factors it deems relevant to making Virginia's individual income tax system more progressive and fair in response to economic dynamics. JLARC shall recommend whether the General Assembly should amend the Code of Virginia or administrative regulations of the Department of Taxation and shall make any other appropriate recommendations.

Technical assistance shall be provided to JLARC by the Department of Taxation. JLARC shall consult with staff of the House Committee on Finance, the House Committee on Appropriations, the Senate Committee on Finance and Appropriations, and any other stakeholders deemed appropriate. All agencies of the Commonwealth shall provide assistance to JLARC for this study, upon request.

The Joint Legislative Audit and Review Commission shall complete its meetings by November 30, 2021, and the chairman shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the 2022 Regular Session of the General Assembly. The executive summary shall state whether JLARC intends to submit to the General Assembly and the Governor a report of its findings and recommendations for publication as a House or Senate document. The executive summary and report shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.