

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** David R. Suetterlein

3. **Committee** Senate Finance and Appropriations

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

2. **Bill Number** SB 851

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the Virginia standard deduction from \$8,000 to \$12,500 for single individuals and married taxpayers filing separately, and from \$16,000 to \$25,000 for married persons filing joint returns.

This bill would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2026.

6. **Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

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

7a. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2023-24	(\$1.3 billion)	GF
2024-25	(\$891 million)	GF
2025-26	(\$903 million)	GF
2026-27	(\$916 million)	GF
2027-28	(\$929 million)	GF
2028-29	(\$945 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an estimated negative General Fund revenue impact of \$1.3 billion in Fiscal Year 2024, \$891 million in Fiscal Year 2025, \$903 million in Fiscal Year 2026, \$916

million in Fiscal Year 2027, \$929 million in Fiscal Year 2028, and \$945 million in Fiscal Year 2029. These estimates assume extension of both the federal increased standard deduction amounts under the Tax Cuts and Jobs Act and Virginia's increased standard deduction amount beyond Taxable Year 2025. As the Introduced Executive Budget assumes the revenue impact of increasing the standard deduction to \$9,000 for single individuals and \$18,000 for married persons filing joint returns, a budget adjustment of approximately \$1.24 billion would be required in Fiscal Year 2024.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Standard Deduction

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 have been indexed for inflation based on chained CPI-U. Therefore, for Taxable Year 2022, the amount of the federal standard deduction, after indexing, is as follows:

- \$25,900 for married taxpayers filing jointly;
- \$19,400 for heads of household; and
- \$12,950 for single taxpayers and married taxpayers filing separately.

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 the amounts in the law prior to passage of the Tax Cuts and Jobs Act. Additional federal legislation would be required to make such increase effective beyond Taxable Year 2025.

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. During the

2022 Session, the General Assembly enacted legislation that increased the amounts of Virginia's standard deduction for Taxable Year 2022 through Taxable Year 2025. The increase for Taxable Year 2022 is contingent on annual revenue growth of at least five percent for the six-month period of July 2022 through December 2022. The increase for Taxable Year 2023 is contingent on annual revenue growth of at least five percent for the twelve-month period of July 2022 through June 2023. If the five percent growth rate is not met for either taxable year, the standard deduction for that taxable year will be \$7,500 for single individuals and \$15,000 for married persons.

If the five percent growth rate is met, the standard deduction amounts would be \$8,000 for single individuals and \$16,000 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
2005-2018	\$3,000	\$6,000
2019-2021	\$4,500	\$9,000
2022-2025*	\$8,000	\$16,000

** The increased standard deduction for Taxable Years 2022 and 2023 is contingent on the specific revenue growth amounts detailed above. If the revenue growth rate is not met for either taxable year, the standard deduction for that taxable year will be \$7,500 for single individuals and \$15,000 for married persons.*

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.

For taxable years beginning on or after January 1, 2026, the Virginia standard deduction is scheduled to revert to its pre-2019 form. Therefore, the Virginia standard deduction will be \$3,000 for single filers and to \$6,000 for married couples. In addition, the amounts of the Virginia standard deduction are not currently indexed for inflation.

Proposed Legislation

This bill would increase the Virginia standard deduction from \$8,000 to \$12,500 for single individuals and married taxpayers filing separately, and from \$16,000 to \$25,000 for married persons filing joint returns.

This bill would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2026.

cc : Secretary of Finance

Date: 1/19/2023 JLOF
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