

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Individual Income Tax; Sales and Use Tax

2. **Bill Number** HB 2299

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would alter the Virginia taxable income brackets and tax rates for the individual income tax. This bill would increase the 5% income bracket from \$17,000 to \$20,000, and create two new brackets for taxable years beginning on or after January 1, 2012. Taxpayers with a Virginia taxable income between \$20,001 and \$300,000 would be subject to a rate of 5.75%. Taxpayers with a Virginia taxable income of \$300,001 or higher would be subject to a rate of 6.75%. The chart below details the brackets that would be created by this bill.

Virginia Taxable Income	Tax Rate
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$20,000	5%
\$20,001 - \$300,000	5.75%
\$300,001 and up	6.75%

Additionally, this bill would eliminate the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2012. In order to offset the revenue loss to the Transportation Trust Fund and to the General Fund distribution to localities based on school age population resulting from this exemption, this bill would increase the portion of state Retail Sales and Use Tax revenues allocated to the Transportation Trust Fund from 0.5% to 0.575% and increase the portion of state Retail Sales and Use Tax revenues allocated to the General Fund for redistribution to localities based on school age population from 1% to 1.149%. This bill would not affect the 1% local Retail Sales and Use Tax on food for human consumption.

6. **Budget amendment necessary:** Yes. (See Line 8.)

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

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2010-11	\$0	GF
2011-12	\$110,000,000	GF
2012-13	\$5,400,000	GF
2013-14	(\$11,600,000)	GF
2014-15	(\$3,900,000)	GF
2015-16	\$5,400,000	GF
2016-17	\$15,900,000	GF

8. Fiscal implications:

Administrative Impact

The Department of Taxation considers implementation of this bill as “routine,” and does not require additional funding.

Revenue Impact

This bill would result in a net gain in General Fund revenue of approximately \$110 million in Fiscal Year 2012, \$5.4 million in Fiscal Year 2013, \$5.4 million in Fiscal Year 2016, and \$15.9 million in Fiscal Year 2017. The net effect of the bill would reduce General Fund revenue by approximately \$11.6 million in Fiscal Year 2014 and \$3.9 million in Fiscal Year 2015. This impact estimate accounts for significant shifts in revenue from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund.

Individual Income Tax

The individual income tax component of this bill would increase unrestricted General Fund revenue by approximately \$110 million in Fiscal Year 2012, \$220.6 million in Fiscal Year 2013, \$232.5 million in Fiscal Year 2014, \$253.2 million in Fiscal Year 2015, \$275.2 million in Fiscal Year 2016, and \$298.9 million in Fiscal Year 2017.

Retail Sales and Use Tax

The Retail Sales and Use Tax component of this bill would require significant shifts from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund that is used for redistribution to localities based on school age population. Accordingly, this bill would decrease the unrestricted General Fund revenue by approximately \$215.2 million in Fiscal Year 2013, \$244.1 million in Fiscal Year 2014, \$257.1 million in Fiscal Year 2015, \$269.9 million in Fiscal Year 2016, and \$283.1 million in Fiscal Year 2017.

Summary

The following table summarizes the changes to the unrestricted General Fund, the Transportation Trust Fund, and the restricted General Fund.

Tax Reform <i>(Impacts in \$millions)</i>				
Fiscal Year	Individual Income Tax	Sales and Use Tax on Food	Offsetting Allocation	Net Impact by Fund
<u>2012</u>				
GF Unrestricted	\$110.0			\$110.0
GF Restricted				\$0.0
Transportation TF				\$0.0
<u>2013</u>				
GF Unrestricted	\$220.6		(\$215.2)	\$5.4
GF Restricted		(\$143.5)	\$143.5	\$0.0
Transportation TF		(\$71.7)	\$71.7	\$0.0
<u>2014</u>				
GF Unrestricted	\$232.5		(\$244.1)	(\$11.6)
GF Restricted		(\$162.7)	\$162.7	\$0.0
Transportation TF		(\$81.4)	\$81.4	\$0.0
<u>2015</u>				
GF Unrestricted	\$253.2		(\$257.1)	(\$3.9)
GF Restricted		(\$171.4)	\$171.4	\$0.0
Transportation TF		(\$85.7)	\$85.7	\$0.0
<u>2016</u>				
GF Unrestricted	\$275.2		(\$269.9)	\$5.4
GF Restricted		(\$179.9)	\$179.9	\$0.0
Transportation TF		(\$90.0)	\$90.0	\$0.0
<u>2017</u>				
GF Unrestricted	\$298.9		(\$283.1)	\$15.9
GF Restricted		(\$188.7)	\$188.7	\$0.0
Transportation TF		(\$94.4)	\$94.4	\$0.0

The revenue impact of this bill assumes the technical amendments are made to this bill under number 10.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order fully replace the lost revenues to the Transportation Trust Fund and the redistribution to localities based on school age population from the Retail Sales and Use Tax on food, the following amendments are suggested:

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11. Other comments:

Individual Income Tax

The Virginia individual income tax applies to the Virginia taxable income of Virginia residents and nonresident individuals. The tax rate is dependent upon the amount of Virginia taxable income. The table below demonstrates the current tax rates.

Virginia Taxable Income	Tax Rate
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$17,000	5%
\$17,001 and up	5.75%

Retail Sales and Use Tax

The 1999 General Assembly established the Food Tax Reduction Program to reduce the state Retail Sales and Use Tax rate on food for human consumption by 0.5% per year over a four-year period, beginning January 1, 2000 and extending through April 1, 2003, if certain conditions were met. Effective April 1, 2003, when fully implemented, the state Retail Sales and Use Tax rate on food for human consumption would have been 1.5%. However, the conditions required to fully implement were not met, and only the initial 0.5% reduction took effect.

The 2005 General Assembly reduced the state Retail Sales and Use Tax on food purchased for human consumption from 3% to 1.5% effective July 1, 2005. The 1 % local option sales tax, the 1% portion of the state Retail Sales and Use Tax redistributed to localities on the basis of school age population, and the 0.5% portion of the Retail Sales and Use Tax allocated to the Transportation Trust Fund remain in effect.

Proposal

Based upon the above amendments being accepted, this bill would alter the Virginia taxable income brackets and tax rates for the individual income tax. This bill would amend the 5% income bracket by increase the \$17,000 threshold to \$20,000. The highest tax bracket, currently 5.75% on income in excess of \$17,000, would be split into two new brackets with different tax rates for taxable years beginning on or after January 1, 2012. Taxpayers with a Virginia taxable income between \$20,001 and \$300,000 would be subject to the existing rate, 5.75%. Taxpayers with a Virginia taxable income of \$300,001 or higher would be subject to a rate of 6.75%. The chart below details the brackets that would be created by this bill.

Virginia Taxable Income	<u>Tax Rate</u>
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$20,000	5%
\$20,001 - \$300,000	5.75%
\$300,001 and up	6.75%

Additionally, this bill would eliminate the state Retail Sales and Use Tax on food purchased for human consumption effective July 1, 2012. In order to offset the revenue loss to the Transportation Trust Fund and to the General Fund distribution to localities based on school age population resulting from this exemption, this bill would increase the portion of state Retail Sales and Use Tax revenues allocated to the Transportation Trust Fund from 0.5% to 0.575% and increase the portion of state Retail Sales and Use Tax revenues allocated to the General Fund for redistribution to localities based on school age population from 1% to 1.149%. This bill would not affect the 1% local Retail Sales and Use Tax on food for human consumption.

Because the economy is constantly shifting, the percentage of total Retail Sales and Use Tax revenue from the sale of food fluctuates from year to year. During an economic recession, food sales as a percentage of overall sales increase. As a result, the portion of Retail Sales and Use Tax allocated to the Transportation Trust Fund and redistribution to localities would have to be increased in order fully replace the lost revenues from food sales. In order to fully offset lost revenue for Fiscal Year 2013, the portion of state Retail Sales and Use Tax revenues allocated to the Transportation Trust Fund would have to be increased to 0.582% instead of 0.575%. In addition, the state Retail Sales and Use Tax revenues redistributed to localities based on school age population would have to be increased to 1.164% instead of 1.149%.

cc : Secretary of Finance

Date: 1/25/2011 dtm
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