

# DEPARTMENT OF TAXATION

## 2015 Fiscal Impact Statement

1. **Patron** Richard H. Stuart

3. **Committee** Senate Finance

4. **Title** Median Income Tax Credit

2. **Bill Number** SB 1147

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would allow any individual or married couple filing a joint return to claim an individual income tax credit in an amount equal to \$250 for the taxable year if such taxpayers:

- Have one or more dependents under the age of 18; and
- Have a family Virginia adjusted gross income within 25 percent, above or below, of the median household income.

The credit would only be allowed to be claimed on one income tax return for a married couple that files separately. The credit would not be allowed to be claimed by a dependent of an individual or married couple who claims the credit.

This bill would be effective for taxable years beginning on or after January 1, 2016, but before January 1, 2021.

6. **Budget amendment necessary:** No.

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

#### 7a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2014-15	\$0	0	GF
2015-16	\$0	0	GF
2016-17	\$183,957	1	GF
2017-18	\$95,323	1	GF
2018-19	\$94,570	1	GF
2019-20	\$96,733	1	GF
2020-21	\$98,899	1	GF

## **8. Fiscal implications:**

### Administrative Costs

The Department would incur administrative costs of \$183,957 in Fiscal Year 2017, \$95,323 in Fiscal Year 2018, \$94,570 in Fiscal Year 2019, \$96,733 in Fiscal Year 2020, and \$98,899 in Fiscal Year 2021 for the computer systems and forms changes necessary to implement this bill. This also includes the cost of hiring one full-time employee for compliance purposes.

### Revenue Impact

Because the credit provided in this bill would be uncapped and a large number of Virginia taxpayers would qualify for the credit, this bill would have an unknown, but potentially significant negative General Fund revenue impact beginning in Fiscal Year 2016. For example, the Department estimates that the statewide median family income for Virginia for 2016 will be \$84,300. Therefore, every Virginia individual or married couple who has at least one dependent under the age of 18 and whose family Virginia adjusted gross income is between \$63,200 and \$105,400 would be eligible for the credit provided in this bill.

## **9. Specific agency or political subdivisions affected:**

Department of Taxation

## **10. Technical amendment necessary: Yes.**

This bill would define “median household income” as statewide median income as determined by the federal government pursuant to Internal Revenue Code (“IRC”) § 143. However, the term used in IRC § 143 is “statewide median family income,” not “statewide median income.” Therefore, the following technical amendment is suggested:

Page 1, Line 18, After statewide median  
Insert: family

## **11. Other comments:**

### Current Law

Virginia does not currently provide any specific tax preferences to taxpayers with incomes at this level. Such taxpayers may claim any credit, subtraction, or deduction provided by Virginia to the extent they qualify for such tax preference.

Virginia does provide two credits specifically for low-income taxpayers, the Tax Credit for Low-Income Individuals and a credit equal to 20 percent of the federal Earned Income Tax Credit (“EITC”) that was claimed for the taxable year:

- The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual’s spouse, and any person

claimed as a dependent on such individual's or married person's income tax return for the taxable year.

- Virginia also allows a nonrefundable individual income tax credit equal to 20 percent of the federal EITC claimed by an individual for the taxable year. The credit is for any individual or married persons that are eligible for the federal earned income tax credit for the taxable year and claimed such credit.

No household may claim both credits in the same taxable year. For purposes of these credits, "household" means an individual or married persons, regardless of whether such married persons file joint or separate Virginia individual income tax returns.

#### *Virginia Tax Credit for Low-Income Individuals*

For an individual or married persons filing a joint return to be eligible for the Tax Credit for Low-Income Individuals, their family Virginia adjusted gross income may not exceed 100 percent of the poverty guideline amount corresponding to a household of an equal number of persons as listed in the poverty guidelines published during the taxable year. For purposes of the credit, "poverty guidelines" means the poverty guidelines for the 48 contiguous states and the District of Columbia that are updated annually in the Federal Register by the U.S. Department of Health and Human Services. The federal poverty guideline amounts are adjusted based on how many persons live in a household. The following table shows the federal poverty guideline amounts that correspond to a given number of persons living in a household for 2014:

<b>Persons in Household</b>	<b>Poverty Guideline Amounts</b>
1	\$11,670
2	\$15,730
3	\$19,790
4	\$23,850
5	\$27,910
6	\$31,970
7	\$36,030
8	\$40,090

For households with more than 8 persons, the poverty guideline amounts increase by \$4,060 for each additional person.

#### Proposed Legislation

This bill would allow any individual or married couple filing a joint return to claim an individual income tax credit in an amount equal to \$250 for the taxable year if such taxpayers:

- Have one or more dependents under the age of 18; and
- Have a family Virginia adjusted gross income within 25 percent, above or below, of the median household income.

Based on the projected Virginia statewide median family income for 2016, taxpayers with at least one dependent under the age of 18 with a family Virginia adjusted gross income between \$63,200 and \$105,400 would qualify for this credit for Taxable Year 2016.

The credit would only be allowed to be claimed on one income tax return for a married couple that files separately. The credit would not be allowed to be claimed by a dependent of an individual or married couple who claims the credit.

“Family adjusted gross income” would be defined as the combined Virginia adjusted gross income of an individual, the individual’s spouse, and any person claimed as a dependent on the individual’s or the individual’s spouse’s income tax return for the taxable year.

“Median household income” would be defined as the statewide median income as determined by the federal government pursuant to IRC § 143.

“Virginia adjusted gross income” would be defined as a taxpayer’s federal adjusted gross income modified by any additions and subtractions required for Virginia income tax purposes.

The amount of credit claimed would not be allowed to exceed the individual’s or married person’s Virginia income tax liability.

The credit would not be allowed for any taxable year in which the individual, the individual’s spouse, or both, or any person claimed as a dependent on such individual’s or married couple’s income tax return claims any of the following on his or her income tax return:

- The subtraction for wages or salaries received by any person for active and inactive service in the National Guard of the Commonwealth of Virginia;
- The subtraction for military basic pay for military service personnel on extended active duty for periods in excess of 90 days;
- The subtraction for federal and state employees whose total annual salary from all employment is not greater than \$15,000;
- The additional personal exemption deduction for blind or aged taxpayers; or
- The Virginia age deduction.

This bill would be effective for taxable years beginning on or after January 1, 2016, but before January 1, 2021.

cc : Secretary of Finance

Date: 1/27/2015 MTH  
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