

DEPARTMENT OF TAXATION

2016 Fiscal Impact Statement

1. **Patron** Benjamin L. Cline

3. **Committee** House Finance

4. **Title** Income Tax; Reduces Top Marginal
Individual Income Tax Rate

2. **Bill Number** HB 1095

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reduce the top marginal individual income tax rate from 5.75 percent on income in excess of \$17,000 to five percent on income in excess of \$5,000.

This bill would be effective for taxable years beginning on and after January 1, 2017.

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

Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015-16	\$0	GF
2016-17	(\$749.9 million)	GF
2017-18	(\$1.554 billion)	GF
2018-19	(\$1.619 billion)	GF
2019-20	(\$1.711 billion)	GF
2020-21	(\$1.806 billion)	GF
2021-22	(\$1.907 billion)	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 a negative General Fund revenue impact of \$749.9 million in Fiscal Year 2017, \$1.554 billion in Fiscal Year 2018, \$1.619 billion in Fiscal Year 2019, \$1.711

billion in Fiscal Year 2020; \$1.806 billion in Fiscal Year 2021, and \$1.907 billion in Fiscal Year 2022.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Individual Income Tax Rates and Tax Brackets

Under current law, the Virginia taxable income of an individual is taxed at the following rates:

Virginia Taxable Income	Virginia Tax Rate
\$0 to \$3,000	2%
\$3,001 to \$5,000	\$60 and 3% of excess over \$3,000
\$5,001 to \$17,000	\$120 and 5% of excess over \$5,000
\$17,001 or more	\$720 and 5.75% of excess over \$17,000

In 1971, when Virginia studied conforming to federal income tax law, Virginia originally considered having only the first three tax brackets shown above. Therefore, the top marginal tax rate would have been 5%, applicable to Virginia taxable income of \$5,001 or more. However, by 1972, when Virginia voted to conform to federal income tax law, Virginia enacted four tax brackets at the same tax rates as under current law.

The amount of Virginia taxable income subject to Virginia's top marginal tax rate has changed over the years. The history of such changes from Taxable Year 1972 to the present is shown below.

Year	Taxable Income Subject to 5.75% Tax Rate
1972-1986	\$12,001 or more
1987	\$14,001 or more
1988	\$15,001 or more
1989	\$16,001 or more
1990-Present	\$17,001 or more

Proposed Legislation

This bill would reduce the top marginal individual income tax rate from 5.75 percent on income in excess of \$17,000 to five percent on income in excess of \$5,000. Therefore, Virginia would have three tax brackets, as shown below:

Virginia Taxable Income	Virginia Tax Rate
\$0 to \$3,000	2%
\$3,001 to \$5,000	\$60 and 3% of excess over \$3,000
\$5,001 or more	\$120 and 5% of excess over \$5,000

This bill would be effective for taxable years beginning on and after January 1, 2017.

Similar Bills

House Bill 215 and **Senate Bill 733** would index the individual income tax brackets, standard deduction, and personal exemptions using the Consumer Price Index for All Urban Consumers (CPI-U).

Senate Bill 512 would lower the rate of taxation for each individual income tax bracket by one-quarter percent each year for four years beginning in Taxable Year 2017.

Senate Bill 570 would increase the maximum income within each individual income tax bracket by \$1,000 and would reduce the rate of taxation for the lowest individual income tax bracket to zero percent.

Senate Bill 757 would replace Virginia's four individual income tax brackets with one tax bracket, which would apply a 5.75% tax rate to all Virginia taxable income. The bill would also increase the standard deduction from \$6,000 to \$15,000 for married persons and from \$3,000 to \$7,500 for single individuals and for married individuals filing separate returns.

cc : Secretary of Finance

Date: 2/1/2016 JJS
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