

DEPARTMENT OF TAXATION

2017 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 2226

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, 2018.

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

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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>
2016-17	\$0	GF
2017-18	(\$817.7 million)	GF
2018-19	(\$1.708 billion)	GF
2019-20	(\$1.778 billion)	GF
2020-21	(\$1.876 billion)	GF
2021-22	(\$1.973 billion)	GF
2022-23	(\$2.068 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 \$817.7 million in Fiscal Year 2018, \$1.708 billion in Fiscal Year 2019, \$1.778 billion in Fiscal Year 2020, \$1.876 billion in Fiscal Year 2021, \$1.973 billion in Fiscal Year 2022, and \$2.068 billion in Fiscal Year 2023.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Other States

Several neighboring states have recently made structural changes to their individual income tax rates and bracket structures. For example, the District of Columbia enacted budget provisions that created individual income tax relief contingent upon meeting certain revenue goals. For Taxable Year 2016, these changes included reducing the rate on income between \$40,000 and \$60,000 from 7 percent to 6.75 percent and creating a new individual income tax bracket for income between \$350,000 to \$1 million, subject to a lower rate of 8.75 percent.

North Carolina recently reformed its individual income tax by enacting a flat individual income tax rate and gradually decreasing this rate over a period of several years. Prior to Taxable Year 2014, North Carolina had three individual income tax rates of 6 percent, 7 percent, and 7.75 percent. For Taxable Year 2014, North Carolina replaced its tiered tax structure with a flat individual income tax rate of 5.8 percent. This rate decreased to 5.75 percent for Taxable Years 2015 and 2016 and to 5.499 percent for Taxable Year 2017.

Tennessee only taxes individuals on interest and dividends. Tennessee enacted legislation that reduces the rate for this tax from six percent to five percent in Taxable Year 2016, and continues to reduce the rate by one percent annually until the tax is eliminated in 2022.

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, 2018.

Similar Bills

Senate Bill 788 would lower the rate of taxation for each income bracket by one-quarter percent each year for four years.

Senate Bill 1029 would increase the personal exemption amount from \$930 to \$1,000, and would increase the additional personal exemption for blindness or age from \$800 to \$900.

Senate Bill 1386 would impose lower individual income tax rates on income attributable to certain small businesses.

cc : Secretary of Finance

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