

**DEPARTMENT OF TAXATION  
2016 Fiscal Impact Statement**

1. **Patron** Mark D. Obenshain

2. **Bill Number** SB 757

3. **Committee** Senate Finance

**House of Origin:**  
 **Introduced**  
 **Substitute**  
 **Engrossed**

4. **Title** Income Tax; Replaces Virginia's Four Tax Brackets with One Tax Bracket

**Second House:**  
 **In Committee**  
 **Substitute**  
 **Enrolled**

**5. Summary/Purpose:**

This bill would replace Virginia's four individual income tax brackets with one tax bracket, which would apply a 5.75 percent tax rate to all Virginia taxable income. This 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.

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

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>
2015-16	\$0	GF
2016-17	(\$243.5 million)	GF
2017-18	(\$489.4 million)	GF
2018-19	(\$477.2 million)	GF
2019-20	(\$472.3 million)	GF
2020-21	(\$468.7 million)	GF
2021-22	(\$465.7 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 a negative General Fund revenue impact of \$243.5 million in Fiscal Year 2017, \$489.4 million in Fiscal Year 2018, \$477.2 million in Fiscal Year 2019, \$472.3 million in Fiscal Year 2020, \$468.7 million in Fiscal Year 2021, and \$465.7 million in Fiscal Year 2022. This bill would have a negative revenue impact because it increases the individual standard deduction amounts. However, such negative revenue impact would be partially offset by eliminating the three lowest individual income tax brackets. The Department’s revenue estimates represent the net impact of this bill, taking into account both the negative General Fund revenue impact of the increased standard deduction and the positive General Fund revenue impact of eliminating the three lowest individual income tax brackets.

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

Department of Taxation

### **10. Technical amendment necessary:** No.

### **11. Other comments:**

#### Federal Individual Income Tax Rates and the Federal Standard Deduction

Effective in 1985, 1986, and all taxable years after 1989, the federal individual income tax brackets, standard deduction, and several other tax provisions are all indexed using the Consumer Price Index for All Urban Consumers (“CPI-U”). For Taxable Year 2015, the federal tax brackets for married individuals filing joint returns and surviving spouses are as follows:

<b>Married Filing Jointly or Surviving Spouse</b>	
<b>Taxable Income</b>	<b>Tax Rate</b>
\$0 to \$18,450	10%
\$18,451 to \$74,900	15%
\$74,901 to \$151,200	25%
\$151,201 to \$230,450	28%
\$230,451 to \$411,500	33%
\$411,501 to \$464,850	35%
\$464,851 or more	39.6%

For Taxable Year 2015, the federal tax brackets for unmarried individuals (other than Surviving Spouses and Heads of Households) are as follows:

<b>Unmarried Individuals</b>	
<b>Taxable Income</b>	<b>Tax Rate</b>
\$0 to \$9,225	10%
\$9,226 to \$37,450	15%
\$37,451 to \$90,750	25%
\$90,751 to \$189,300	28%
\$189,301 to \$411,500	33%
\$411,501 to \$413,200	35%
\$413,201 or more	39.6%

Different tax brackets apply to those who are heads of household or are married individuals filing separate returns.

For Taxable Year 2015, the standard deduction amounts are as follows:

<b>Filing Status</b>	<b>Standard Deduction</b>
Married Individuals Filing Joint Returns and Surviving Spouses	\$12,600
Heads of Households	\$9,250
Unmarried Individuals (other than Surviving Spouses and Heads of Households)	\$6,300
Married Individuals Filing Separate	\$6,300

Federal law also allows an additional standard deduction for the aged or the blind. These amounts are indexed using CPI-U. For Taxable Year 2015, the additional standard deduction amount for the aged or the blind is \$1,250. The additional standard deduction amount is increased to \$1,550 if the individual is also unmarried and not a surviving spouse.

#### Virginia's Individual Income Tax Rates and Virginia's Standard Deduction

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

<b>Virginia Taxable Income</b>	<b>Virginia Tax Rate</b>
\$0 to \$3,000	2%
\$3,001 to \$5,000	3%
\$5,001 to \$17,000	5%
\$17,001 or more	5.75%

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:

<b>Year</b>	<b>Taxable Income Subject to 5.75% Tax Rate</b>
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

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. The standard deduction amounts are \$3,000 for single individuals and married individuals filing a separate return and \$6,000 for married persons filing jointly.

Virginia's standard deduction amounts have changed over the years. The history of such changes from Taxable Year 1972 to the present is shown below.

<b>Year</b>	<b>Virginia Standard Deduction for Single Taxpayers</b>	<b>Virginia Standard Deduction for Married Taxpayers</b>
1972-1980	\$1,300	\$1,300
1981-1986	15% of federal adjusted gross income with a \$1,300 minimum deduction and a \$2,000 maximum deduction	15% of federal adjusted gross income with a \$1,300 minimum deduction and a \$2,000 maximum deduction
1987	\$2,000	\$2,000
1988	\$2,700	\$2,700
1989-2004	\$3,000	\$5,000
2005-present	\$3,000	\$6,000

Proposed Legislation

This bill would replace Virginia's four individual income tax brackets with one tax bracket, which would apply a 5.75 percent tax rate to all Virginia taxable income. This 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.

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).

**House Bill 1095** 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.

**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.

cc : Secretary of Finance

Date: 2/1/2016 JJS  
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