

DEPARTMENT OF TAXATION

2021 Fiscal Impact Statement

1. **Patron** R. Creigh Deeds

2. **Bill Number** SB 1286

3. **Committee** Senate Finance and Appropriations

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax; New Tax Bracket

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a new top individual income tax bracket of 5.9 percent on taxable income in excess of \$150,000.

This bill would require that the income tax revenue generated by the rate increase this bill would impose be appropriated as follows:

- 45 percent to provide grants to school divisions for certain nonrecurring expenditures by the relevant school division; and
- 55 percent to provide salary increases for state and state-supported law-enforcement officers.

The portion of this bill that would impose an individual income tax rate increase would be effective for taxable years beginning on and after January 1, 2021. The use of generated revenue toward certain school expenditures and to provide salary increases for certain law-enforcement officers would be effective beginning with Fiscal Year 2022.

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

Item(s): Page 1, Revenue Estimates
282 and 284, Department of Taxation

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

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2021-22	\$142,963	0	GF
2022-23	Routine	0	GF
2023-24	Routine	0	GF
2024-25	Routine	0	GF
2025-26	Routine	0	GF
2026-27	Routine	0	GF

8. Fiscal implications:

Administrative Costs

This bill would result in administrative costs to the Department of Taxation (“the Department”) of \$142,963 in Fiscal Year 2022. Such costs would primarily consist of updating the Department’s systems to account for the new appropriation of revenues required by this bill. Any costs thereafter would be considered routine.

Fiscal Impact

This bill would result in a positive General Fund revenue impact of \$211 million in Fiscal Year 2022, \$148 million in Fiscal Year 2023, \$155 million in Fiscal Year 2024, \$164 million in Fiscal Year 2025, \$173 million in Fiscal Year 2026, and \$181 million in Fiscal Year 2027. This bill would then require an offsetting appropriation to provide grants to school divisions and salary increases for law enforcement officers. The Department estimates that such revenue would be distributed as follows:

Fiscal Year	Total Revenue (in millions)	Law Enforcement (in millions)	Grants to Schools (in millions)
2022	\$211	\$116	\$95
2023	\$148	\$81	\$67
2024	\$155	\$85	\$70
2025	\$164	\$90	\$74
2026	\$173	\$95	\$78
2027	\$181	\$100	\$82

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Virginia’s Individual Income Tax

Under current law, the Virginia individual income tax is imposed at the following rates:

Virginia Taxable Income	Virginia Tax Rates
\$3,000 and less	2 percent
\$3,001 to \$5,000	3 percent
\$5,001 to \$17,000	5 percent
\$17,001 or more	5.75 percent

In 1971, when Virginia studied conforming to the federal income tax law, Virginia originally considered having on the first three tax brackets shown above. Therefore, the top

marginal tax rate would have been 5 percent, applicable to Virginia taxable income of \$5,001 or more. However, by 1972, when the General Assembly voted to conform to federal income tax law, it 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 was last modified during the 1987 Session, in response to the 1986 federal tax reform.

State Taxation of Individual Income

Nine states (Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming) do not impose an individual income tax.

Certain neighboring states have recently made structural changes to their tax rates and bracket structures. For example, Both North Carolina and Kentucky have recently reformed their individual income taxes by enacting a flat individual income tax rate. Kentucky enacted a 5 percent flat tax rate for Taxable Year 2018 and thereafter, over several years North Carolina gradually reduced its tax rate to 5.25 percent effective Taxable Year 2019 and thereafter.

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, eventually eliminating the tax for the taxable years beginning on or after January 1, 2021.

Below is a summary of how Virginia's current income tax rates and brackets compare to the surrounding state and Washington D.C.

Jurisdiction	Brackets	Rates
Virginia	\$3,000 and less >\$3,000 up to \$5,000 >\$5,000 up to \$17,000 >\$17,000	2 percent 3 percent 5 percent 5.75 percent
Kentucky	Flat Tax	5 percent
Maryland	\$1,000 and less >\$1,000 up to \$2,000 >\$2,000 up to \$3,000 >\$3,000 up to \$150,000 >\$150,000 up to \$175,000 >\$175,000 up to \$225,000 >\$225,000 up to \$300,000 >\$300,00	2 percent 3 percent 4 percent 4.75 percent 5 percent 6 percent 5.5 percent 5.75 percent
North Carolina	Flat Tax	5.25 percent
Pennsylvania	Flat Tax	3.07 percent
Tennessee	No Income Tax	0 percent
West Virginia	Less than \$10,000 \$10,000 up to \$24,999 \$25,000 up to \$39,999 \$40,000 up to \$59,999 \$60,000 and greater	3 percent 4 percent 4.5 percent 6 percent 6.5 percent
Washington D.C.	\$10,000 and less >\$10,000 up to \$40,000 >\$40,000 up to \$60,000 >\$60,000 up to \$350,000 >\$350,000 up to \$1,000,000 >\$1,000,000	4 percent 6 percent 6.5 percent 8.5 percent 8.75 percent 8.95 percent

Proposed Legislation

This bill would impose a new top individual income tax bracket of 5.9 percent on taxable income in excess of \$150,000.

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cc : Secretary of Finance

Date: 1/24/2021 RWC
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