DEPARTMENT OF TAXATION
2023 Fiscal Impact Statement

1. **Patron** Joseph P. McNamara

2. **Bill Number** HB 2319
   House of Origin:
   _____ **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

3. **Committee** Senate Finance and Appropriations

4. **Title** Income Tax; Rates and Deductions

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

5. **Summary/Purpose:**

   This bill would decrease the top individual income tax rate from 5.75 percent to 5.5 percent.

   This bill would also increase the standard deduction from $8,000 to $9,000 for single individuals and married taxpayers filing separately, and from $16,000 to $18,000 for married persons filing jointly.

   The portion of this bill decreasing the top individual income tax rate would be effective for taxable years beginning on and after January 1, 2024. The portion of this bill increasing the standard deduction would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2026.

   This is an Executive Bill.

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

7. **No Fiscal Impact.** (See Line 8.)

8. **Fiscal implications:**

   Administrative Costs

   The Department of Taxation considers implementation of this bill as routine, and does not require additional funding.

   Revenue Impact

   This bill would have an estimated negative General Fund revenue impact of $428.2 million in Fiscal Year 2024, $916.5 million in Fiscal Year 2025, $952.9 million in Fiscal Year 2026, $998 million in Fiscal Year 2027, and $1,045.1 million in Fiscal Year 2028. No budget amendment is needed because the General Fund revenue impact is assumed in the Introduced Executive Budget. These estimates assume extension of both the federal

increased standard deduction amounts under the Tax Cuts and Jobs Act and Virginia's increased standard deduction amounts beyond Taxable Year 2025.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

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.

Federal Standard Deduction

On December 22, 2017, the Tax Cuts and Jobs Act (Public Law 115-97) was signed into law. This federal tax reform legislation substantially changes the federal income taxation of individuals and businesses. These changes include substantially increasing the federal standard deduction beginning with Taxable Year 2018 as follows:

- From $12,700 for married taxpayers filing jointly to $24,000;
- From $9,350 for heads of household to $18,000; and
- From $6,350 for single taxpayers and married taxpayers filing separately to $12,000.

In addition, beginning with Taxable Year 2019, these amounts have been indexed for inflation based on chained CPI-U. Therefore, for Taxable Year 2022, the amount of the federal standard deduction, after indexing, is as follows:

- $25,900 for married taxpayers filing jointly;
- $19,400 for heads of household; and

- $12,950 for single taxpayers and married taxpayers filing separately.

Like most other individual provisions of the TCJA, the increase in the amount of the federal standard deduction is currently scheduled to sunset after December 31, 2025, and revert to the amounts in the law prior to passage of the Tax Cuts and Jobs Act. Additional federal legislation would be required to make such increase effective beyond Taxable Year 2025.

Virginia's Standard Deduction

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. During the 2022 Session, the General Assembly enacted legislation that increased the amounts of Virginia's standard deduction for Taxable Year 2022 through Taxable Year 2025. The increase for Taxable Year 2022 is contingent on annual revenue growth of at least five percent for the six-month period of July 2022 through December 2022. The increase for Taxable Year 2023 is contingent on annual revenue growth of at least five percent for the twelve-month period of July 2022 through June 2023. If the five percent growth rate is not met for either taxable year, the standard deduction for that taxable year will be $7,500 for single individuals and $15,000 for married persons.

The increased standard deduction amounts are $8,000 for single individuals and $16,000 for married couples. Virginia's standard deduction amounts have changed over the years. The history of such changes from Taxable Year 1987 to the present is shown below:

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Taxpayers
1987	$2,000	$2,000
1988	$2,700	$2,700
1989-2004	$3,000	$5,000
2005-2018	$3,000	$6,000
2019-2021	$4,500	$9,000
2022-2025*	$8,000	$16,000

* *The increased standard deduction for Taxable Years 2022 and 2023 are contingent on the specific revenue growth amounts detailed above. If the revenue growth rate is not met for either taxable year, the standard deduction for that taxable year will be $7,500 for single individuals and $15,000 for married persons.*

For taxable years beginning on or after January 1, 2026, the Virginia standard deduction is scheduled to revert to its pre-2019 form ($3,000 for single filers and to $6,000 for married couples filing jointly). In addition, the amounts of the Virginia standard deduction are not currently indexed for inflation.

Proposed Legislation

This bill would decrease the top individual income tax rate from 5.75 percent to 5.5 percent.

This bill would also increase the standard deduction from $8,000 to $9,000 for single individuals and married taxpayers filing separately, and from $16,000 to $18,000 for married persons filing jointly.

This bill would also clarify the standard deduction amounts for Taxable Year 2023 by repealing a contingency clause contained in the 2022 Appropriation Act. Under current law, the standard deduction amounts for Taxable Year 2023 are contingent on annual revenue growth of at least five percent for the twelve-month period of July 2022 through June 2023. If such revenue growth is not met, the standard deduction would be reduced to $7,500 for single individuals and $15,000 for married persons filing jointly. This bill would clarify that the Taxable Year 2023 standard deduction amounts would be at $8,000 for single individuals and $16,000 for married persons regardless of whether the revenue contingency is met.

The portion of this bill decreasing the top individual income tax rate would be effective for taxable years beginning on and after January 1, 2024. The portion of this bill increasing the standard deduction would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2026.

cc : Secretary of Finance

Date: 2/6/2023 JLOF
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