DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement

1. **Patron** T. Travis Hackworth

2. **Bill Number** SB 564
   House of Origin:
   ______ **Introduced**
   __X__ **Substitute**
   ______ **Engrossed**

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

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax Subtraction for Income Earned in Qualified Virginia Counties

5. **Summary/Purpose:**

The Department of Taxation understands that the Patron intends to introduce a substitute. This fiscal impact statement is based upon the substitute.

This bill would establish an individual income tax subtraction for income received by a resident of an eligible double distressed locality. The amount of the subtraction would be $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

6. **Budget amendment necessary:** Yes.
   Item(s): Page 1, Revenue Estimates

7. **Fiscal Impact is Preliminary:** See Line 8.
   7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2024-25	($8.76 million)	GF
2025-26	($24.96 million)	GF
2026-27	($38.74 million)	GF
2027-28	($45.10 million)	GF
2028-29	($45.10 million)	GF
2029-30	($45.10 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 result in an estimated negative General Fund revenue impact of $8.76 million in FY 2025, $24.96 million in FY 2026, $38.74 million in FY 2027, and $45.10 million in FY 2028 through 2030.

Based upon the requirements of the bill, the ten localities that would qualify are: Brunswick, Buchanan, Charles City, Dickenson, Lee, Russell, Smyth, Sussex, Tazewell, and Wise. The following table shows the criteria by which these counties qualify:

County	Population % Change Over Last 10 Years	Unemployment Rate	Poverty Rate
Buchanan	-17.7%	4.7	26.9
Lee	-15.8%	3.8	24.4
Sussex	-15.0%	4.2	23.5
Brunswick	-13.6%	4.6	20.8
Dickenson	-13.2%	4.4	23.4
Tazewell	-12.1%	4.2	17.6
Russell	-12.1%	3.6	18.4
Wise	-11.6%	4.1	22.2
Charles City	-10.6%	3.1	11.8
Smyth	-9.8%	3.2	19.7
Virginia	**8.8%**	**2.9**	**10.6**

The Department's estimates are based upon residents of the above counties being eligible for the subtraction provided by this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Individual Income Tax Modifications

Federal Adjusted Gross Income

Virginia's Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income ("FAGI") as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

Virginia Adjusted Gross Income

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates Virginia adjusted gross income by making two types of adjustments: (1) “additions” which increase the amount of income taxable by Virginia and (2) “subtractions” which reduce such amount. These adjustments are made only to the extent that they have not already been included or excluded from FAGI.

Virginia Taxable Income

The taxpayer calculates his Virginia taxable income by making another type of modification referred to as “deductions,” which further reduce the amount of income taxable by Virginia. These modifications are made regardless of federal treatment unless specifically stated otherwise in the provision.

Please find below an illustration of how taxable income is computed for federal and Virginia income tax purposes and how they interrelate:

Federal Income Tax	Virginia Income Tax
+Wages and Other Income	*=Federal Adjusted Gross Income (“FAGI”)*
+Federal Adjustments	+Virginia Additions (only if not included in FAGI)
-Federal Adjustments	-Virginia Subtractions (only if not excluded from FAGI)
=Federal Adjusted Gross Income (“FAGI”)	*=Virginia Adjusted Gross Income (“VAGI”)*
-Federal Standard Deduction or Itemized Deductions	-Virginia Standard Deduction or Federal Itemized Deductions (depends on federal election)
-QBI Deduction	-Deduction for Virginia Exemptions -Virginia Deductions (regardless of federal treatment)
=Federal Taxable Income	*=Virginia Taxable Income*

Because this bill would establish a new Virginia subtraction, the amount allowed under this bill could be taken whether the taxpayer choses to take the Virginia standard deduction or itemized their deductions.

<u>Distressed and Double Distressed Localities</u>

“Distressed” localities are localities (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year or (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

“Double distressed” localities are localities (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year and (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

<u>Proposed Legislation</u>

This bill would establish an individual income tax subtraction for income received by a resident of an eligible double distressed locality. The amount of the subtraction would be $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029.

An “eligible double distressed locality” would be defined as a locality:

- Located in Planning Districts 1, 2, 3, 13, 15, or 19;
- That has an annual unemployment rate for the most recent calendar year for which such data is available as of December 31, 2023 that is greater than the final statewide average unemployment rate for that calendar year;
- That has a poverty rate for the most recent calendar year for which such data is available as of December 31, 2023 that exceeds the statewide average poverty rate for that year; and
- That has an aggerated population loss of at least 9.8 percent during the ten-year period ending December 31, 2023 based on the population estimates made by the Weldon Cooper Center for Public Service of the University of Virginia.

The ten localities that would qualify for the subtraction under those criteria are: Brunswick, Buchanan, Charles City, Dickenson, Lee, Russell, Smyth, Sussex, Tazewell, and Wise.

No subtraction would be allowed if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to any other provision of Virginia or federal law.

This bill would require the Department to develop guidelines, exempt from the provisions of the Administrative Process Act, for claiming the subtraction. Those guidelines would, among other things, specify all localities that meet the “eligible double distressed locality” definition in the bill.

If any provision of the bill were held to be invalid or unconstitutional by a court of competent jurisdiction, that provision would not be deemed severable.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

cc : Secretary of Finance

Date: 2/6/2024 JLOF
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