

TAX REFORM

Federal tax changes for 2018-2024 are significant. The most significant for individuals is eliminating or capping major itemized deductions in order to raise the federal Standard Deduction to \$24,000_{Jt} / \$12,000_{Sgl}. This is double what it was and made Virginia's \$6,000/\$3,000 Std D even more puny in comparison.

AS YOU ARE DOING YOUR TAXES

Standard Deduction –

Although the 2019 General Assembly raised Virginia's Std D to \$9,000 / \$4,500, it couldn't apply to 2018 taxes. Therefore, you will still only get \$6,000/\$3,000 when you pay your taxes.

To make up for that, late this summer, everyone who had to pay Virginia taxes will get a check for up to \$220_{Jt} / \$110_{Sgl} of what they had to pay. This \$220/\$110 rebate is more than equal to the tax savings you will get next year when the \$3000/\$1500 increase in Virginia's Std D will be in effect.

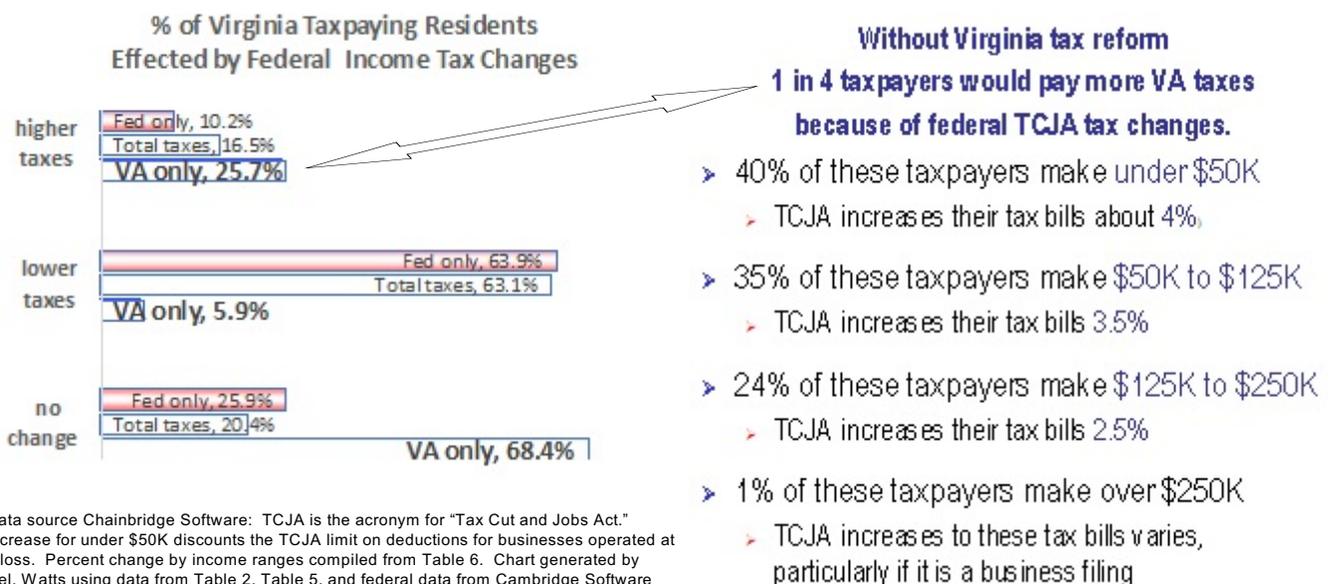
Itemized Deductions –

Many taxpayers who used to itemize will find that the much higher \$24,000/\$12,000 federal Std D is more than the remaining itemized deductions they are still allowed to take. However, if you take the Std D on your federal taxes, you cannot itemize on your Virginia taxes.

BACKGROUND

Why didn't the General Assembly change the law and allow people to itemize on their Virginia taxes, if they take the Standard Deduction on their federal taxes?

1. It would have taken close to the same amount of money to allow taxpayers to itemize on Virginia taxes if they don't on their federal as it would to raise Virginia's Std D.
2. We couldn't do both. Virginia has to balance its budget (we can't print money like the federal government.)
3. Our focus was to target tax relief to the taxpayers whose Virginia taxes went up the most because of the federal tax changes – as shown in this chart:



Data source Chainbridge Software: TCJA is the acronym for "Tax Cut and Jobs Act." Increase for under \$50K discounts the TCJA limit on deductions for businesses operated at a loss. Percent change by income ranges compiled from Table 6. Chart generated by Del. Watts using data from Table 2, Table 5, and federal data from Cambridge Software included in Sec Layne's 9/30/18 handout.

4. Allowing taxpayers to itemize on their Virginia taxes if they don't on their federal only provided relief to less than 20% of those under \$50,000, even though their taxes went up the most and they make up 40% of the taxpayers whose Virginia taxes increased because of the federal changes.
5. **Therefore, the tax reform bill that passed**
 - ▶ **Raised Virginia's standard deduction** by 50% to \$9,000_{Jt} / \$4,500_{Sgl};
 - ▶ Estimated **Annual Tax Relief: \$225 million**
 - ▶ Half will help those under \$60,000.
 - ▶ **Removed the \$10,000 cap on the deduction for Property taxes;**
 - ▶ Estimated **Annual Tax Relief: \$58 million**
 - ▶ Almost all will help those over \$50,000.
 - ▶ Modified two **business** changes (will allow 20% of business interest and GILTI)
 - ▶ Estimated **Annual Tax Relief: \$23 million**
 - ▶ Restores about 10% of expected Virginia business tax increases due to federal tax changes.
 - ▶ Kept the \$313,800_{Jt} / \$156,900_{Sgl} cap on total deductions that federal tax changes eliminated
 - ▶ Virginia **regained \$78 million by eliminating this federal tax break to millionaires**
 - ▶ Regaining this \$78 million allowed us to remove the \$10,000 cap on deducting local property taxes paid (\$58 million) and have the \$23 million for the business tax changes.

FUTURE VIRGINIA TAX REFORM

It may well be that there will be more reforms. There are almost 4 million Virginia taxpayers dealing with how hundreds of fine print federal changes play out in the taxes they will pay. Quite honestly, we're operating on very broad estimates of what taxpayers will do.

Extra tax revenues will be placed in a "Taxpayers Relief Fund." This will allow us continue to look at needed reforms with a much clearer picture of who actually paid more taxes. I'm also focused on making Virginia's tax system more equitable.

While the bill I introduced (HB2086) never got a hearing, **I was very active behind the scenes and 2 of the 4 provisions in my bill got into the final bill:**

1. Raising the Standard Deduction to \$9000/\$4500
 - ▶ A provision in my bill that was not adopted was to continue to increase the Std D annually by inflation so that Virginia never again becomes so out of step with the value of the dollar. (Virginia's \$6000/\$4500 was set way back in 2005.) My bill also tyed the personal deduction and tax brackets to inflation.)
2. Restoring the cap on total deductions
 - ▶ This mostly effects taxpayers with incomes over a \$1 million. Shifting \$78 million back into tax relief across all other income brackets keeps Virginia's taxes from becoming more regressive. My bill was the only bill to have this provision.

The other provision that was not adopted in my bill would have helped low income working families and involved the Earned Income Tax Credit (EITC.) The EITC has been a fixture of federal income taxes for almost 50 years. It provides a targeted tax credit for low income working families based on family size and income. The federal government and many states refund the credit if it is more than the taxes due. Virginia does not – shorting these families an average of \$270, which at their marginal incomes is significant