

# DEPARTMENT OF TAXATION

## 2022 Fiscal Impact Statement

1. **Patron** J. Chapman Petersen

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax; Increases Standard Deduction

2. **Bill Number** SB 7

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would increase Virginia's standard deduction to an amount equivalent to the federal standard deduction.

This bill would be effective for taxable years beginning on and after January 1, 2022.

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

Item(s): Page 1, Revenue Estimates

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

**7b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2022-23	(\$2.33 billion)	GF
2023-24	(\$1.67 billion)	GF
2024-25	(\$1.74 billion)	GF
2025-26	(\$1.81 billion)	GF
2026-27	(\$1.89 billion)	GF
2027-28	(\$1.98 billion)	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 an estimated negative General Fund revenue impact of \$2.33 billion for Fiscal Year 2023, \$1.67 billion in Fiscal Year 2024, \$1.74 billion in Fiscal Year 2025, \$1.81 billion in Fiscal Year 2026, \$1.89 billion in Fiscal Year 2027, and \$1.98 billion in Fiscal Year 2028.

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

Department of Taxation

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

## 11. Other comments:

### 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 changed the federal income taxation of individuals and businesses. These changes included 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 2019 Session, the General Assembly enacted legislation that increased the amounts of Virginia's standard deduction for Taxable Year 2019 through Taxable Year 2025.

The standard deduction amounts are \$4,500 for single individuals and \$9,000 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:

<b>Year</b>	<b>Virginia Standard Deduction for Single Taxpayers</b>	<b>Virginia Standard Deduction for Married Taxpayers</b>
1987	\$2,000	\$2,000
1988	\$2,700	\$2,700
1989-2004	\$3,000	\$5,000
2005-2018	\$3,000	\$6,000
2019-present	\$4,500	\$9,000

Prior to 1987, the Virginia standard deduction was not a flat amount. Instead, for Taxable Year 1986 for example, the Virginia standard deduction was 15 percent of federal adjusted gross income with a \$1,300 minimum and a \$2,000 maximum.

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

#### Proposed Legislation

This bill would change Virginia's standard deduction to an amount equivalent to the federal standard deduction. Therefore, for Taxable Year 2022, the Virginia standard deduction would increase from \$4,500 to \$12,950 for single individuals and married taxpayers filing separately, and from \$9,000 to \$25,900 for married persons filing joint returns.

The increase in the amount of the federal standard deduction is currently scheduled to sunset after Taxable Year 2025. If this occurs, it would then revert to the amounts set forth in federal law prior to passage of the Tax Cuts and Jobs Act. If the federal increase in the standard deduction is extended beyond Taxable Year 2025, then Virginia would need to adopt such federal law change in its annual conformity legislation.

This bill would be effective for taxable years beginning on and after January 1, 2022.

#### Similar Legislation

**Senate Bill 11** would increase the Virginia standard deduction from \$4,500 to \$9,000 for single individuals and married taxpayers filing separately, and from \$9,000 to \$18,000 for married persons filing joint returns.

**House Bill 472** and **Senate Bill 560** would increase the Virginia standard deduction from \$4,500 to \$9,000 for single individuals and married taxpayers filing separately, and from \$9,000 to \$18,000 for married persons filing joint returns, and would repeal the requirement that, after Taxable Year 2025, the Virginia standard deduction would revert to prior amounts.

**House Bill 1343** would increase the standard deduction to \$6,000 for single individuals and \$12,000 for married persons filing jointly, and would index such amounts annually for inflation.

cc : Secretary of Finance

Date: 1/23/2022 JLOF  
SB7F161