

INCOME TAX

Options to Make Virginia's Income Tax More Progressive, 2022

POLICY OPTIONS

Staff typically propose policy options rather than make recommendations when (i) the action is a policy judgment best made by elected officials—especially the General Assembly, (ii) evidence suggests action could potentially be beneficial, or (iii) a report finding could be addressed in multiple ways.

Increasing progressivity by reducing taxes primarily on low income filers

Increasing portion of EITC that is refundable ► The General Assembly could reduce effective tax rates of low income filers by increasing the amount of the earned income credit that is refundable from 75% to 100%. (Option 1)

Reducing filing threshold ► The General Assembly could reduce effective tax rates of low, lower-middle, and middle income filers by increasing the filing thresholds from \$11,950 to \$27,180 for single filers and \$23,900 to \$54,360 for joint filers. (Option 2)

Increasing progressivity by reducing taxes primarily on lower-middle and middle income filers

Adjusting tax brackets to account for inflation ► The General Assembly could reduce effective tax rates of lower-middle and middle income filers by adjusting income brackets to account for inflation since brackets were last updated in 1990. (Option 3)

Adjusting tax brackets to account for inflation and adopting new rates ► The General Assembly could reduce effective tax rates of lower-middle and middle income filers by (i) adopting new tax rates of 1%, 2%, 4.5%, and 6.5%, and (ii) applying each rate to the existing four bracket structure updated to account for inflation since brackets were last updated in 1990. (Option 4)

Adopting new rates and tax brackets based on income distribution ► The General Assembly could reduce effective tax rates of lower-middle and middle income filers by (i) adopting new tax rates of 1%, 1.5%, 3.5%, 5.5%, 6.5%, and 7.5%, and (ii) applying each rate to a new six bracket structure based on the current income distribution. (Option 5)

Increasing personal exemptions ► The General Assembly could reduce effective tax rates, in particular for lower-middle and middle income families, by increasing the personal exemption for a filer, their spouse, and each dependent from \$930 to \$2,000. (Option 6)

Increasing standard deduction ► The General Assembly could reduce effective tax rates of lower-middle and middle income filers by increasing the standard deduction to the federal amounts (\$8,000 to \$12,950 for single filers and \$16,000 to \$25,900 for joint filers). (Option 7)

Increasing progressivity by raising taxes on higher income filers

Creating new income brackets for higher income filers ► The General Assembly could increase effective tax rates of higher income filers by creating a (i) new \$100,000 to \$1 million income bracket with a tax rate of 6% and (ii) new more than \$1,000,000 income bracket with a tax rate of 6.75%. (Option 8)

Creating new income bracket for higher income filers ► The General Assembly could increase effective tax rates of higher income filers by creating a new \$600,000 or more income bracket with a tax rate of 7%. (Option 9)

Creating new income bracket for higher income filers ► The General Assembly could increase effective tax rates of higher income filers by creating a new \$600,000 or more income bracket with a tax rate of 9%. (Option 10)

Creating new income bracket for higher income filers ► The General Assembly could increase effective tax rates of higher income filers by creating a new more than \$1,000,000 income bracket with a tax rate of 10%. (Option 11)

Maintaining progressivity over time

Indexing income brackets to inflation ► The General Assembly could preserve the progressivity of the individual income tax over time by indexing income brackets to inflation. (Option 12)