

# INCOME TAX

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

### POLICY OPTIONS

#### **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)