

Policy Options: Options to Make Virginia's Individual Income Tax More Progressive

JLARC staff typically make recommendations to address findings during reviews. Staff also sometimes propose policy options rather than recommendations. The three most common reasons staff propose policy options rather than recommendations are: (1) the action proposed is a policy judgment best made by the General Assembly or other elected officials, (2) the evidence indicates that addressing a report finding is not necessarily required, but doing so could be beneficial, or (3) there are multiple ways in which a report finding could be addressed and there is insufficient evidence of a single best way to address the finding.

This report only includes policy options because changes to the individual income tax are a policy judgment best made by the General Assembly and governor.

Increasing progressivity by reducing taxes primarily on low income filers

POLICY OPTION 1

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%. (Chapter 3)

POLICY OPTION 2

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. (Chapter 3)

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

POLICY OPTION 3

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. (Chapter 4)

POLICY OPTION 4

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. (Chapter 4)

POLICY OPTION 5

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. (Chapter 4)

POLICY OPTION 6

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. (Chapter 4)

POLICY OPTION 7

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). (Chapter 4)

Increasing progressivity by raising taxes on higher income filers

POLICY OPTION 8

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%. (Chapter 5)

POLICY OPTION 9

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%. (Chapter 5)

POLICY OPTION 10

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%. (Chapter 5)

POLICY OPTION 11

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%. (Chapter 5)

Maintaining progressivity over time

POLICY OPTION 12

The General Assembly could preserve the progressivity of the individual income tax over time by indexing income brackets to inflation. (Chapter 6)
