DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement

1. Patron Vivian E. Watts

2. Bill Number HB 1754

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Income Tax: Imposition of Tax and Standard Deduction

5. Summary/Purpose:

This bill would make changes to individual income tax brackets and standard deduction.

The bill would create a seven percent income tax bracket for individual taxpayers with income in excess of $600,000.

This bill would increase the standard deduction from $8,500 to $12,000 for single individuals and married taxpayers filing separately and from $17,000 to $24,000 for married persons filing jointly.

The bill would also adjust the amount of the standard deduction to the annual change in the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) for taxable years beginning on and after January 1, 2026.

This bill would be effective for taxable years beginning on and after January 1, 2025.

6. Budget amendment necessary: Yes.
Item(s): Page 1, Revenue Estimates

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

Fiscal Year	*Dollars*	*Fund*
2025-26	($795.5 million)	GF
2026-27	($284.5 million)	GF
2027-28	($293.1 million)	GF
2028-29	($318.6 million)	GF
2029-30	($344.8 million)	GF
2030-31	($372.0 million)	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 net negative General Fund revenue impact as on Line 7b. The breakdown of the revenue impact of each of the bill's proposed tax policy changes is shown below:

Fiscal Year	**Revenue Loss From Increasing Standard Deduction Amount and Indexing It to Inflation**	**Revenue Gain from Seven Percent Bracket for Those With Income Over $600,000**	**Total Revenue Impact**
2026	($999.48)	$204.02	($795.47)
2027	($814.45)	$529.98	($284.47)
2028	($877.54)	$584.40	($293.14)
2029	($943.73)	$625.11	($318.62)
2030	($1013.21)	$668.43	($344.77)
2031	($1086.45)	$714.47	($371.98)

Please note that the Department’s estimates take into account the interactions and the stacking order of the two tax policy changes above.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. The bill currently refers to “the Bureau of Labor Statistics for the Department of Law.” The Bureau of Labor Statistics is part of and within the Department of Labor.

Line 68, after “Department of”
Strike: Law
Insert: *Labor*

11. Other comments:

Virginia’s Individual Income Tax

Under current law, the Virginia individual income tax is imposed at the following rates:

Virginia Taxable Income	**Virginia Tax Rates**
$3,000 and less	2 percent
$3,001 to $5,000	3 percent
$5,001 to $17,000	5 percent

$17,001 or more	5.75 percent

In 1971, when Virginia studied conforming to the federal income tax law, Virginia originally considered having only the first three tax brackets shown above. Therefore, the top marginal tax rate would have been 5 percent, applicable to Virginia taxable income of $5,001 or more. However, by 1972, when the General Assembly voted to conform to federal income tax law, it enacted four tax brackets at the same tax rates as under current law.

The amount of Virginia taxable income subject to Virginia's top marginal tax rate was last modified during the 1987 Session, in response to the 1986 federal tax reform.

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 include substantially increasing the federal standard deduction and indexed the federal standard deduction for inflation. For Taxable Year 2024, the amount of the federal standard deduction, after indexing, is as follows:

- $29,200 for married taxpayers filing jointly;
- $21,900 for heads of household; and
- $14,600 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 History

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. Virginia's standard deduction amounts have changed over the years.

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. In 1988, it increased to $2,700 for both single individuals and married couples. From 1989 to 2004, the standard deduction for single taxpayers remained at $3,000, while for married taxpayers, it increased to $5,000 during this period. 2004 Special Session I increased the standard deduction for married individuals from $5,000 to $6,000 for Taxable Years beginning on or after January 1, 2005.

During the 2019 Session, the General Assembly enacted legislation that increased the amounts of Virginia's standard deduction from $3,000 to $4,500 for single individuals and from $6,000 to $9,000 for married couples filing jointly for Taxable Year 2019 through

Taxable Year 2025. The sixth enactment clause of the 2022 Appropriation Act increased the standard deduction from $4,500 to $8,000 for single and from $9,000 to $16,000 for married filers filing jointly for Taxable Years beginning on or after January 1, 2022 but before January 1, 2026.

Virginia's Current Standard Deduction

The twentieth enactment clause of the 2023 Special Session I Amendments to the 2023 Appropriation Act increased the standard deduction from $8,000 to $8,500 for single filers and from $16,000 to $17,000 for married filers filing jointly for taxable years beginning on or after January 1, 2024, but before January 1, 2026.

Virginia's current standard deduction amount is scheduled to sunset after Taxable Year 2025 and revert to the standard deduction amounts that applied prior to Taxable Year 2019: $3,000 for single filers and $6,000 for married couples filing jointly.

Virginia's standard deduction history from Taxable Year 1987 to the present is shown below:

Year	**Virginia Standard Deduction for Single Taxpayers**	**Virginia Standard Deduction for Married Taxpayers Filing Jointly**
1987	$2,000	$2,000
1988	$2,700	$2,700
1989-2004	$3,000	$5,000
2005-2018	$3,000	$6,000
2019-2021	$4,500	$9,000
2022-2023	$8,000	$16,000
2024-2025	$8,500	$17,000
2026 and following	$3,000	$6,000

Federal Indexing

Effective in 1985, 1986, and all taxable years after 1989, the federal individual income tax brackets, standard deduction, and personal exemptions were all indexed using CPI-U. CPI-U is a measure calculated by the Bureau of Labor Statistics that is used to track changes in the prices paid by urban consumers for common goods and services over time. This represents approximately 87 percent of the total population of the United States. The index produces monthly data on these changes. Typically, the Index for a given month is released approximately two or three weeks after the month ends.

The TCJA requires the use of chained CPI-U, instead of CPI-U, in indexing various federal tax provisions for inflation, including the standard deduction. Chained CPI-U, like CPI-U, is a measure of the average change over time in prices paid by urban consumers, but the chained CPI-U differs from the CPI-U in that it accounts for the ability of individuals to alter their consumption patterns in response to relative price changes. Chained CPI-U reflects people's ability to lessen the impact of inflation by buying fewer goods or services that have risen in price and buying more goods and services whose price have risen less, or not at all. Therefore, chained CPI-U is a slower-growing method of calculating cost-of-living adjustments.

The change to chained CPI-U for inflation indexing is effective for taxable years beginning after 2017 and will remain in effect after 2025, because it is not subject to the same sunset provision that applies to other individual income tax provisions of the TCJA.

Proposal

This bill would make changes to individual income tax brackets and standard deduction.

Create a New Individual Income Tax Bracket

The bill would create a seven percent income tax bracket for individual taxpayers with income in excess of $600,000.

Increase Standard Deduction

For taxable years beginning on and after January 1, 2025, this bill would increase the standard deduction from $8,500 to $12,000 for single individuals and married taxpayers filing separately and from $17,000 to $24,000 for married persons filing jointly.

Index Standard Deduction

This bill would index the Virginia standard deduction for taxable years beginning on and after January 1, 2026 annually based on the preceding change in the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), as published by the Bureau of Labor Statistics for the Department of Labor or any successor index for the previous year.

This bill would be effective for taxable years beginning on and after January 1, 2025.

Similar Bills

HB 1551 and **SB 845** would remove the sunset provision which currently applies to the current standard deduction amounts. As a result, the current standard deduction amounts would apply permanently and not expire after Taxable Year 2025.

SB 782 would remove the sunset provisions which currently apply to the current standard deduction amounts and the refundable earned income tax credit. As a result, the current standard deduction amounts would apply permanently and not expire after Taxable Year 2025.

SB 951 would remove the sunset provisions which currently apply to the current standard deduction amounts, the refundable earned income tax credit, and the elective pass-through entity tax ("PTET"). As a result, the current standard deduction amounts would apply permanently and not expire after Taxable Year 2025.

cc : Secretary of Finance

Date: 01/18/2025 JLOF
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