

DEPARTMENT OF TAXATION 2025 Fiscal Impact Statement

1. **Patron** David R. Suetterlein

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax; Increases Standard Deduction; Refundable Virginia Earned Income Tax Credit

2. **Bill Number** SB 782

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would remove the sunset provision, which applies to the current standard deduction amounts of \$8,500 for single individuals and \$17,000 for married individuals filing jointly. As a result, the current higher standard deduction amounts would apply permanently and would not revert to \$3,000 for single individuals and \$6,000 for married individuals filing jointly after Taxable Year 2025.

This bill would also remove the sunset provision, which applies to the refundable Virginia Earned Income Tax Credit ("Virginia EITC"). Under current law, the refundable Virginia EITC, which is equal to 15 percent of the federal earned income tax credit ("EITC") amount claimed on the taxpayer's federal return, is set to expire after Taxable Year 2025.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

6. **Budget amendment necessary:** No.

7. **No Fiscal Impact.** (See Line 8.)

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

Because the Official General Fund revenue forecast assumes the extension of these expiring provisions, removing the sunset provision on the increased standard deduction and the refundable Virginia EITC would have no General Fund revenue impact.

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 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 filers and from \$6,000 to \$9,000 for married filers 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 filers 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 standard deduction history from Taxable Year 1987 to the present is shown below:

Year	Single Filers	Joint Filers
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 after	\$3,000	\$6,000

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker's family, as well as the amount of the worker's federal adjusted gross income ("AGI") and earned income. Taxpayers are required to provide a valid Social Security number for themselves and each dependent they are claiming in the calculation of the EITC.

For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC for Taxable Year 2024, an individual's AGI and earned income must be less than:

- \$59,899 (\$66,819 for married filing jointly) if they have three or more qualifying children;
- \$55,768 (\$62,688 for married filing jointly) if they have two qualifying children;
- \$49,084 (\$56,004 for married filing jointly) if they have one qualifying child; or
- \$18,591 (\$25,511 for married filing jointly) if they do not have a qualifying child.

The maximum federal EITC for Taxable Year 2024 is \$7,830 for an individual with three or more qualifying children, \$6,960 for an individual with two qualifying children, \$4,213 for an individual with one qualifying child, and \$632 for an individual with no qualifying children.

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either:

- The Tax Credit for Low-Income Individuals or
- The Virginia EITC.

The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married individual's income tax return for the taxable year.

The nonrefundable Virginia EITC is equal to 20 percent of the federal EITC. In 2022, Virginia introduced an option for filers to select a refundable EITC that is 15 percent of the federal EITC. This refundable Virginia EITC option is set to expire after Taxable Year 2025.

To the extent that a Virginia resident wishes to claim the Virginia EITC on a refundable basis, their credit is limited 15 percent of the federal EITC rather than 20 percent. Because Virginia residents claiming the credit on a refundable basis do not receive the full 20 percent, the Virginia EITC is sometimes referred to as "partially refundable."

Proposal

This bill would remove the sunset provision which applies to the increased standard deduction amounts. As a result, the current higher standard deduction amounts of \$8,500 for single individuals and \$17,000 for married individuals filing jointly would apply permanently and not expire after Taxable Year 2025.

Under current law, the standard deduction is currently set to revert to \$3,000 for single individuals and \$6,000 for married individuals filing jointly after Taxable Year 2025.

This bill would also remove the sunset provision which applies to the refundable Virginia EITC.

Under current law, the refundable Virginia EITC, which is equal to 15 percent of the federal EITC amount claimed on the taxpayer's federal return, is set to expire after Taxable Year 2025. The nonrefundable Virginia EITC, which is equal to 20 percent of the federal EITC amount claimed on the taxpayer's federal return, does not have a sunset.

This bill would also make some technical changes to the language in the amended code sections.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

Similar Bills

HB 1551 & SB 845 would remove the sunset provisions which currently apply to the standard deduction amounts of \$8,500/ \$17,000.

HB 1717 & SB 810 would make the Virginia EITC fully refundable without a sunset provision and expand the credit to include individuals and families who lack a valid Social Security number.

HB 1754 would create a new tax bracket of 7% for income over \$600,000 and increase the standard deduction to \$12,000/ \$24,000 indexed to inflation.

SB 951 would remove the sunsets which currently apply to the standard deduction amounts of \$8,500/ \$17,000, the refundable Virginia EITC, and the elective pass-through entity tax.

cc : Secretary of Finance

Date: 01/18/2025 ALS
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