DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** Kannan Srinivasan

2. **Bill Number** SB 702
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual income tax; brackets, deductions, and exemptions; inflation indexing.

5. **Summary/Purpose:**

This bill would adjust certain individual income tax provisions annually for inflation by making an indexing modification to the amount of:

- The individual income tax brackets,
- The standard deduction,
- The personal and other individual exemptions,
- The deductions for foster care and those age 65 or older, and
- The individual income tax filing threshold.

The bill would direct the Department of Taxation ("the Department") to annually publish on its website the individual income tax inflation adjustments. This bill would also make technical amendments.

If enacted during the regular session of the 2026 General Assembly, the provisions of this bill requiring publication of indexed amounts would become effective July 1, 2026, while the rest of the provisions would be effective for taxable years beginning on and after January 1, 2026.

6. **Budget amendment necessary:**
Page 1 Revenue Estimates

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

Fiscal Year	***Dollars***	***Fund***
2026-27	($39.71 million)	GF
2027-28	($124.61 million)	GF
2028-29	($209.93 million)	GF
2029-30	($301.22 million)	GF
2030-31	($396.99 million)	GF
2031-32	($494.57 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department considers this bill as routine and does not require additional funding.

Because of the implementation and release schedule for the Integrated Revenue Management System ("IRMS") replacement project, this legislation will not be impacted by such project if enacted during the 2026 Regular Session of the General Assembly. For more information on the new system implementation releases, see the 2025 Status Report on the Replacement of the Integrated Revenue Management System (IRMS).

Revenue Impact

This bill would have an estimated negative General Fund revenue impact as shown on Line 7b. These estimates assume the technical amendments on Line 10 are made, including the extension of the increased standard deduction amounts.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** Yes.

To ensure that the publication requirement points to the statute that governs Virginia's individual income tax rates and brackets, the following amendment is suggested:

Page 1
Line 17 after "*each tax bracket pursuant to*"
Strike: "§ 58.1-302"
Insert: "§ 58.1-320"

While the "Indexing modification" is defined as the year-over-year percentage increase in the Chained CPI-U, the bill does not specify the "base year" or the specific monthly data that will be used to calculate the adjustment for Taxable Year 2026 and after. Without this, the Department cannot actually calculate the first year's adjustment. The Internal Revenue Service generally uses an August-to-August time period. To address this and conform to federal practice, the following technical amendment is suggested:

Page 2
Line 77 after "*successor index*"
Insert: "for the 12-month period ending August 31 of the preceding calendar year over the 12-month period ending August 31 of the second preceding calendar year beginning with calendar year 2027"

Amendments are needed to ensure that all indexing becomes effective for Taxable Year 2026 and continues thereafter for the tax brackets and deductions, which appears to be the intent of the bill as that is how the indexing on the other provisions is drafted. To accomplish this, the following technical amendments are suggested:

Page 3
Line 143 at the end of the line
Insert: “Two percent on income not in excess of $3,000;
Three percent on income in excess of $3,000 but not in excess of $5,000;
Five percent on income in excess of $5,000 but not in excess of $17,000; and
Five and three quarters percent on income in excess of $17,000.
The brackets in this section shall be annually adjusted by the indexing modification for taxable years beginning on and after January 1, 2026.”

Line 144 at the beginning of the line
Strike: all of lines 144 through 151

Line 160 at the beginning of the line
Strike: all of lines 160 through 163

Line 172 at the beginning of the line
Strike: all of lines 172 through 175

It appears that the intent of the Patron may be to index the current standard deduction amount and make the indexed amount permanent instead of sunsetting on January 1, 2027. If that is the Patron’s intent the Department recommends the following technical amendment:

Page 4
Line 225 after “2025”
Strike: “but before January 1, 2027,”

11. Other comments:

<u>Virginia’s Individual Income Tax</u>

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

VA Taxable Income	**VA 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 July 4, 2025, H.R. 1 ("2025 H.R. 1") (Public Law 119-21) was signed into law making permanent the increased federal standard deduction amounts originally established by the 2017 Tax Cuts and Jobs Act ("TCJA") (Public Law 115-97). Like most other individual provisions of the TCJA, the increase in the amount of the federal standard deduction was scheduled to sunset after December 31, 2025.

The federal standard deduction for Taxable Year 2025 is as follows:

- $31,500 for married taxpayers filing jointly;
- $23,625 for heads of household; and
- $15,750 for single taxpayers and married taxpayers filing separately.

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.

After the TCJA increased the federal standard deduction through Taxable Year 2025, Virginia also increased the Commonwealth's standard deduction amount several times. Each of these increases expired at the end of 2025, the same date as the federal increases to the standard deduction. The Virginia standard deduction was increased in:

- 2019 to $4,500 for single filers and $9,000 for joint filers;
- 2022 to $8,000 for single filers and $16,000 for joint filers; and
- 2023 to $8,500 for single filers and $17,000 for joint filers.

Virginia's Current Standard Deduction

The eleventh enactment clause of the 2025 Appropriation Act (House Bill 1600, Chapter 725) increased the standard deduction from $8,500 to $8,750 for single filers and $17,000 to $17,500 for joint filers for taxable years beginning on and after January 1, 2025, but before January 1, 2027. This extended the Virginia increases to the Commonwealth's standard deduction amounts to one year beyond the expiration date then applicable to the federal increases to the federal standard deduction. A few months after the 2025

Appropriations Act was enacted, federal legislation, 2025 H.R. 1, made the increases to the federal standard deduction permanent.

Virginia's current standard deduction amount is scheduled to sunset after Taxable Year 2026 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	$8,500	$17,000
2025-2026	$8,750	$17,500
2027 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 prices 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.

Virginia Personal and Other Individual Exemptions

Taxpayers may claim a deduction of $930 each for themselves and each dependent claimed on the return. An additional deduction of $800 may be claimed for each blind taxpayer or a taxpayer aged 65 or over.

Virginia Deductions for Foster Care and those Age 65 or Older

Taxpayers are allowed a $1,000 deduction for each child residing for the entire taxable year in a home under permanent foster care placement provided that the taxpayer can also claim the child as a personal exemption on their federal return.

Taxpayers who are aged 65 or over may claim a $12,000 deduction. However, if born after January 1, 1939, the deduction is reduced by $1 for every $1 that the taxpayer's adjusted federal adjusted gross income exceeds $50,000 for single taxpayers or $75,000 for married taxpayers. For married taxpayers filing separately, the deduction is reduced by $1 for every $1 that the total combined adjusted federal adjusted gross income of both spouses exceeds $75,000.

Virginia Individual Income Tax Filing Threshold

No Virginia income tax return is required if Virginia adjusted gross income (federal adjusted gross income plus additions and minus subtractions), adjusted by the age deduction, is less than $11,950 for single individuals or $23,900 for married couples (one-half of such amount in the case of a married individual filing a separate return).

Proposal

This bill would adjust certain individual income tax provisions annually for inflation by making an indexing modification to the amount of:

- The individual income tax brackets,
- The standard deduction,
- The personal and other individual exemptions,
- The deductions for foster care and those age 65 or older, and
- The individual income tax filing threshold.

The bill would direct the Department to annually publish on its website the individual income tax inflation adjustments. This bill would also make technical amendments.

“Indexing modification” would mean the year-over-year percentage increase, if any, in the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), as published by the Bureau of Labor Statistics of the U.S. Department of Labor, or any predecessor or successor index. If no percentage increase occurs, the indexing modification shall be zero.

If enacted during the regular session of the 2026 General Assembly, the provisions of this bill requiring publication of indexed amounts would become effective July 1, 2026, while the rest of the provisions would be effective for taxable years beginning on and after January 1, 2026.

cc : Secretary of Finance

Date: 02/02/2026 JPJ
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