

**DEPARTMENT OF TAXATION  
2024 Fiscal Impact Statement**

1. **Patron** Phil M. Hernandez

2. **Bill Number** HB 865

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Individual Income Tax Brackets

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would create a ten percent individual income tax bracket for individuals with income in excess of \$1 million. The revenue generated from this new tax bracket would be allocated in the following manner:

- Fifty percent to provide additional basic aid funding for public schools;
- Thirty percent to the Child Care Subsidy Program;
- Twenty percent to the Virginia Housing Trust Fund.

This bill would be effective for taxable years beginning on and after January 1, 2024.

**6. Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

**7. Fiscal Impact Estimates are:** Preliminary. (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

This bill would result in an estimated positive revenue impact on the Commonwealth’s revenues of \$1.82 billion in FY 2025, \$1.30 billion in FY 2026, \$1.39 billion in FY 2027, \$1.49 billion in FY 2028, \$1.59 billion in FY 2029, and \$1.70 billion in FY 2030.

Half of these revenues would be used to provide additional funding for public schools in the amounts of \$909 million in FY 2025, \$650 million in FY 2026, \$695 million in FY 2027, \$743 million in FY 2028, \$797 million in FY 2029, and \$850 million in FY 2030.

Thirty percent of these revenues would be dedicated to the Child Care Subsidy Program in the amounts of \$545 million in FY 2025, \$390 million in FY 2026, \$417 million in FY 2027, \$446 million in FY 2028, \$477 million in FY 2029, and \$510 million in FY 2030.

Twenty percent of these revenues would be dedicated to the Virginia Housing Trust Fund in the amounts of \$363 million in FY 2025, \$260 million in FY 2026, \$278 million in FY 2027, \$297 million in FY 2028, \$319 million in FY 2029, and \$340 million in FY 2030.

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

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

Virginia’s Individual Income Tax

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

<b>Virginia Taxable Income</b>	<b>Virginia Tax Rates</b>
\$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.

<b>Year</b>	<b>Taxable Income Subject to 5.75 percent Tax Rate</b>
1972—1986	\$12,001 or more
1987	\$14,001 or more
1988	\$15,001 or more
1989	\$16,001 or more
1990—Present	\$17,001 or more

Since the changes adopted during the 1987 Session adjusting the top bracket to the current income level for Taxable Year 1990 and thereafter, the General Assembly has not enacted

any legislation affecting Virginia individual income tax rates or brackets and the brackets are not currently indexed for inflation. The federal individual income tax rate brackets are indexed for inflation.

Proposed Legislation

This bill would create a ten percent individual income tax bracket for individuals with income in excess of \$1 million. The revenue generated from this new tax bracket would be allocated in the following manner:

- Fifty percent to provide additional basic aid funding for public schools;
- Thirty percent to the Child Care Subsidy Program;
- Twenty percent to the Virginia Housing Trust Fund.

This additional funding would supplement, not supplant any funds currently provided by Virginia to basic aid funding for public schools, the Child Care Subsidy Program, and the Virginia Housing Trust Fund.

This bill would be effective for taxable years beginning on and after January 1, 2024.

Similar Legislation

**House Bill 887** would add a seven percent income tax bracket for individuals with income in excess of \$600,000 and make certain other changes.

cc : Secretary of Finance

Date: 2/2/2024 JLOF  
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