

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** Karen Keys-Gamarra

3. **Committee** House Finance

4. **Title** Individual Income Tax Deduction;
Union Dues

2. **Bill Number** HB 1470

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide an individual income tax deduction for the amount paid by an individual for union dues for participation in a labor organization.

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

6. Budget amendment necessary: Yes.

7. Fiscal Impact Estimates are: Unknown (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 unknown, but likely significant, loss to General Fund revenue beginning in Fiscal Year 2025. As defined in the bill, a labor organization would be defined as any organization of any kind, or any agency or employee representation committee or plan,

- In which employees participate and
- That exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work.

Accordingly, this bill would appear to apply to labor unions and other organizations that may represent employees in employment-related matters. According to the Bureau of Labor Statistics, there were 146,000 union members in Virginia in 2022. Assuming that the average dues are 1.5 percent of the gross earnings of members, it is estimated that this bill would result in a deduction of approximately \$144 million, resulting in an estimated revenue loss of

approximately \$7.7 million annually. The actual impact would depend on the amount of dues paid and deducted by such individuals.

To the extent that this bill applies to non-labor unions that represent employees in employment-related matters, the unknown revenue loss would be greater. The number of employees represented by non-labor unions in employment-related matters and the dues paid by them is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Law

For federal income tax purposes, union dues were traditionally considered tax-deductible as unreimbursed employee expenses when taxpayers itemize deductions on their federal income tax return. However, the Tax Cuts and Jobs Act (Public Law 115-97) eliminated the deduction for union dues and all employee expenses for those who choose to itemize deductions for Taxable Years 2018 through 2025.

Virginia currently conforms to federal law regarding most itemized tax deductions. As a result, Virginia taxpayers are not able to deduct union dues from their income for tax purposes, even if they itemize deductions on their Virginia return. However, Virginia does deconform from the federal itemized deduction rules in certain instances including the lower federal medical expense itemized deduction threshold and the federal suspension of the overall limit on itemized deduction known as the “Pease limitation.”

Virginia’s Individual Income Tax Modifications

Federal Adjusted Gross Income

Virginia’s Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income (“FAGI”) as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

Virginia Adjusted Gross Income

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates Virginia adjusted gross income by making two types of adjustments: (1) “additions” which increase the amount of income taxable by Virginia and (2) “subtractions” which reduce such amount. These adjustments are made only to the extent that they have not already been included or excluded from FAGI.

Virginia Taxable Income

The taxpayer calculates his Virginia taxable income by making another type of modification referred to as “deductions,” which further reduce the amount of income taxable by Virginia. These modifications are made regardless of federal treatment unless specifically stated otherwise in the provision.

Please find below an illustration of how taxable income is computed for federal and Virginia income tax purposes and how they interrelate:

Federal Income Tax	Virginia Income Tax
+Wages and Other Income	= <i>Federal Adjusted Gross Income</i> (“FAGI”)
+Federal Adjustments	+Virginia Additions (only if not included in FAGI)
-Federal Adjustments	-Virginia Subtractions (only if not excluded from FAGI)
= <i>Federal Adjusted Gross Income</i> (“FAGI”)	= <i>Virginia Adjusted Gross Income</i> (“VAGI”)
-Federal Standard Deduction or Itemized Deductions	-Virginia Standard Deduction or Federal Itemized Deductions (depends on federal election)
-QBI Deduction	-Deduction for Virginia Exemptions
	-Virginia Deductions (regardless of federal treatment)
= <i>Federal Taxable Income</i>	= <i>Virginia Taxable Income</i>

Because this bill would establish a new Virginia deduction, the amount allowed under this bill could be taken regardless of if the taxpayer chose to take the Virginia standard deduction or itemized their deductions.

Proposed Legislation

This bill would provide an income tax deduction for the amount paid by an individual for required union dues for participation in a labor organization.

"Labor organization" would be defined as any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and that exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work.

"Union dues" would be defined as the total amount of dues, fees, assessments, or other charges or expenses required of members of, or public employees represented by, a labor organization.

This bill would be effective January 1, 2024.

Similar Legislation

HB 165 is identical to this bill.

cc : Secretary of Finance

Date: 1/27/2024 RWC
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