

JOINT SUBCOMMITTEE WORKPLAN AND OVERVIEW OF VIRGINIA'S REVENUE

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Appropriations Committee



Jt. Subcommittee on Tax Policy

- The Appropriation Act directs the Joint Subcommittee to explore options to modernize the income and sales and use taxes during the 2024 interim.
- The goals and objectives include:
 - Evaluating existing sales and use tax exemptions;
 - Applying sales and use tax to digital goods and services, including transactions involving businesses;
 - Evaluating efforts to increase the progressivity of the income tax; and
 - Long-term revenue growth to maintain core government services.



Workplan

Proposed Meeting Dates and Goals

August Meeting

- **Goal 1:** Provide background on Virginia's taxation system and revenues.
- Presentations by Tax and SFAC/HAC staff.
- Report by JLARC staff related to income tax progressivity.

October Meeting

- **Goal 2:** Evaluation of existing sales and use tax exemptions; applying sales and use tax to digital goods and services, including transactions involving businesses; and a comparison of other states.

November Meeting

- **Goal 3:** Review of long-term revenue growth to maintain core government services.
- Report on revenue projections.
- Discussion of legislation referred to the Joint Subcommittee (committees of origin must act on continued legislation by November 18th).

Bills Referred to Joint Subcommittee on Tax Policy

Bill	Patron	Title
SB61	Craig	Income tax, state; establishes a subtraction for firefighter benefits.
SB108	Suetterlein	Income tax, state; standard deduction.
SB183	Rouse	Income tax, state; eligible low-income taxpayers to claim a refundable tax credit.
SB192	Subramanyam	Sales and use tax exemption; data centers.
SB251	Hashmi	Content manufacturing tax credit; removes sunset for the motion picture credit, redesignates credit.
SB451	Marsden	Income tax, corporate; distribution of revenues to state parks.
SB459	Marsden	Income tax, state; rolling conformity.
SB632	Stuart	Income tax, state; decreases certain taxes, increases amount of tax credit.
SB662	Peake	Income tax, state; subtraction for state police retirement benefits.
HB88	McNamara	Income tax, state; removes sunset on elevated standard deduction amounts.
HB240	McQuinn	Income tax, state; contributions to Virginia College Savings Plan accounts, report.
HB261	McNamara	Income tax, state; conformity to Internal Revenue Code.
HB621	Price	Income tax, state; eligible low-income taxpayers to claim a refundable tax credit.
HB865	Hernandez	Income tax, state; establishes a new tax bracket beginning on and after January 1, 2024.
HB887	Watts	Income tax, state; creates a new tax bracket.

Bills Referred to Joint Subcommittee on Tax Policy: Continued

Bill	Patron	Title
HB969	Tran	Child tax credit; creates a credit for taxable years 2024 through 2028.
HB1078	Rasoul	Family caregiver; creates a nonrefundable income tax credit for taxable years 2024 through 2028.
HB1096	Thomas	Housing opportunity; increases tax credit.
HB1281	Fowler	Income tax, state; decreases certain taxes, increases amount of tax credit.
HB1414	Bennett-Parker	Estate tax; reinstates tax for persons dying on and after July 1, 2024.
HB60	Wright	Sales and use tax, local; construction or renovation of schools in Prince Edward County.
HB193	Cole	Stafford County; authorized to impose an additional local sales tax for schools.
HB458	Callsen	Sales and use tax, local; additional tax authorized in all counties & cities to support schools.
HB600	Kilgore	Sales and use tax, local; additional tax authorized in all counties & cities to support schools.
HB616	Price	Sales tax, local; add'l local tax in City of Newport News for construction or renovation of schools.
HB805	Rasoul	Sales and use tax, local; additional tax authorized in counties & cities to support schools.
HB889	Watts	Retail Sales and Use Tax; levies tax on following services: admissions, charges for recreation, etc.
HB1159	Sickles	Income tax, state; distribution of revenues to localities, funds for local school construction.
HB1437	Hayes	Sales tax; school construction.



Revenue

Sources of Revenues for Virginia's Budget

State revenues are defined as either general fund or nongeneral fund.

General Fund (GF) Revenues

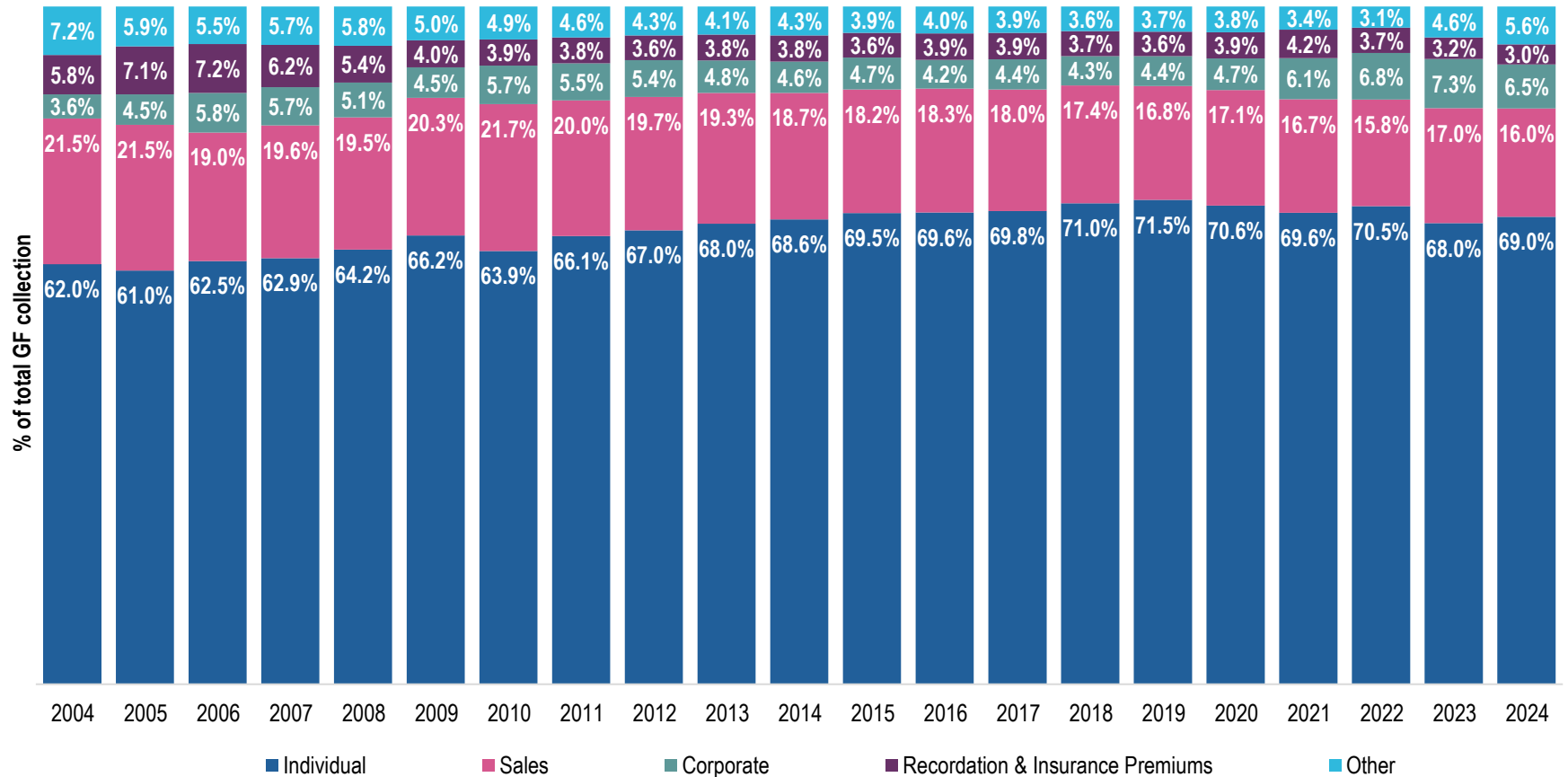
- Include income tax, sales tax, and corporate tax (three largest sources).
- Used for any purpose, such as education, health care, public safety, and social services.
- Department of Taxation administers and collects most general fund revenue.

Nongeneral Fund (NGF) Revenues

- Include federal revenue, tuition and fees, gas taxes, lottery, unemployment taxes, etc.
- Tend to be earmarked for specific programs or purposes, such as transportation.
- Several agencies administer and collect NGF taxes and fees, including Department of Motor Vehicles, Department of Taxation, and Virginia Employment Commission.

General Fund Revenue is Dependent on Individual Income Tax

Individual income, sales, and corporate income taxes account for 90 percent of general fund revenue.

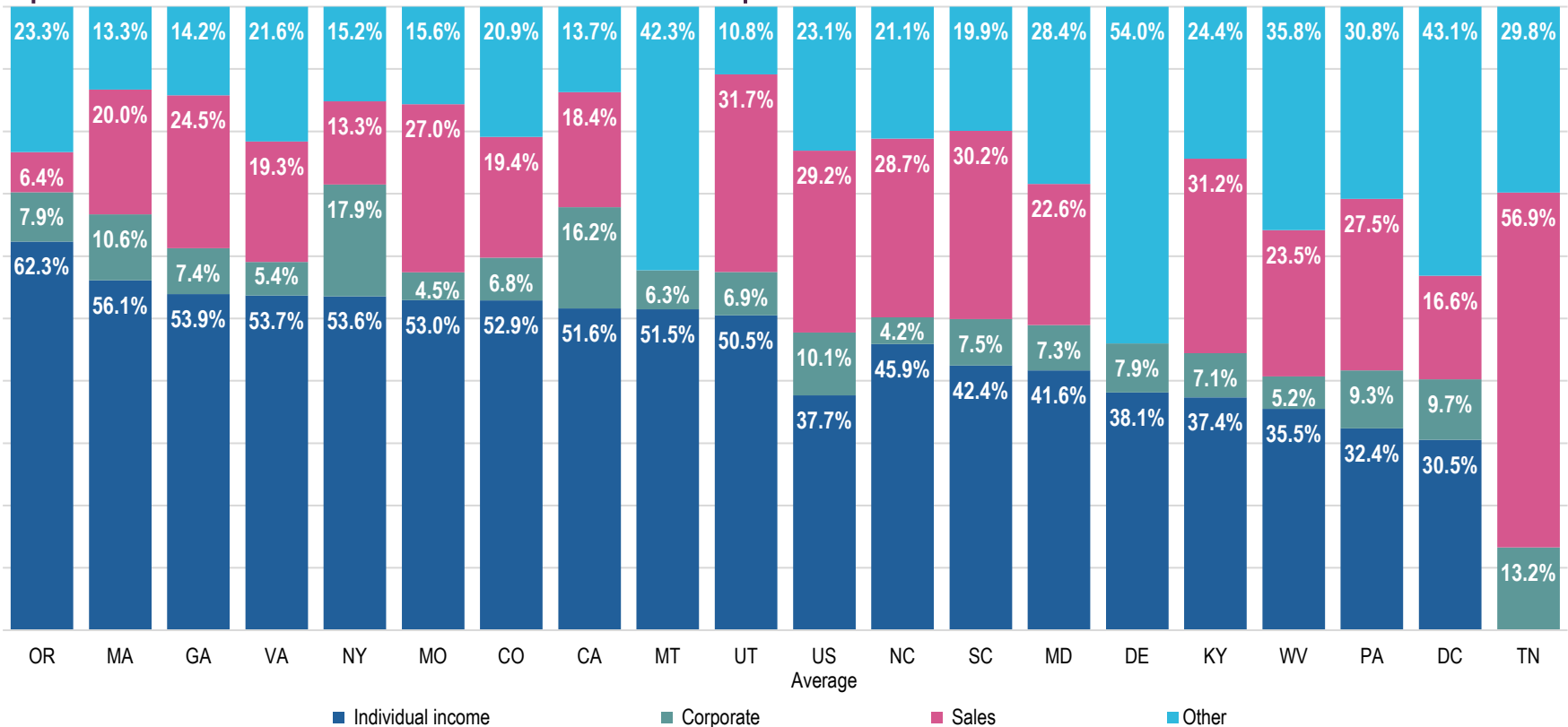


Source: Virginia Department of Taxation, Fiscal Year Revenue Data.

Virginia has the 4th Highest Reliance on Individual Income Tax

When compared to other states, a majority of Virginia's tax revenue (GF and NGF) comes from individual income tax (FY 2021 collections).

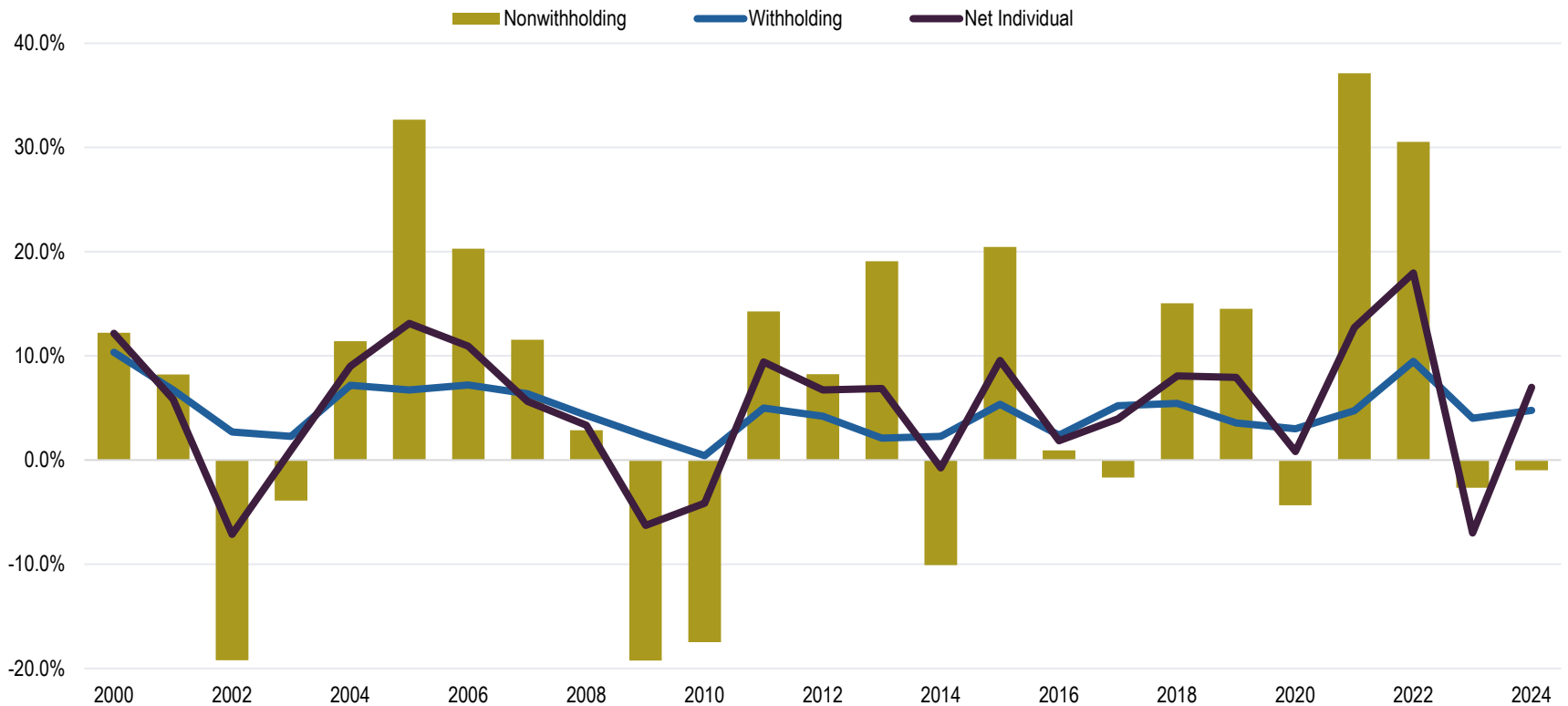
Top Ten Individual Income Reliant States



Source: U.S. Census Bureau, 2022 Annual Survey of State Government Tax Collections. FY 2021 state tax collections.

Individual Income Tax Strength is Volatile Based on Nonwithholding Collections

Nonwithholding income collections year over year revenue growth can vary when compared to withholding.

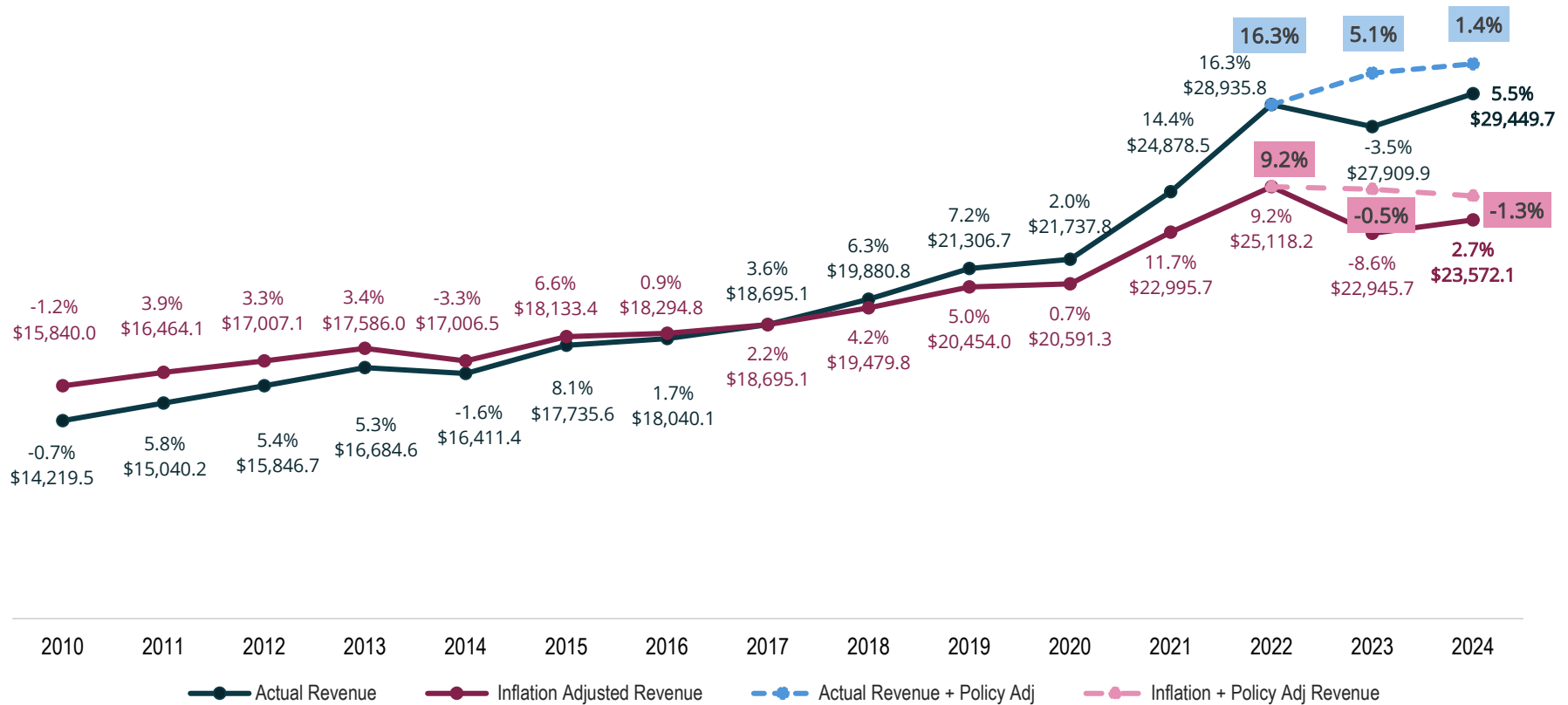


Source: Virginia Department of Taxation, Fiscal Year Revenue Data.

Adjusted for Policy and Inflation GF Revenues Increased 20% Since 2020

In FY 2024, nominal GF revenue collections grew 5.5 percent; however, inflation adjusted GF revenue collections grew 2.7 percent over FY 2023 and declined 1.3 percent when adjusted for tax policy and inflation.

(\$ in millions and inflation adjusted to FY 2017 dollars)



Source: Staff analysis of Secretary of Finance Presentations. Inflation adjusted to FY 2017 dollars using the U.S. Bureau of Economic Analysis Gross Domestic Product Implicit Price Deflator, accessed Aug 5, 2024. Fiscal year GDP implicit price deflator is calculated using the four-quarter moving average.



Policy Actions & 2024 Session Recap

Revenue Impact from Major Tax Policy Actions

Tax Action (\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Individual: Increase Standard Deduction \$8,000/\$16,000 *	(\$1,015.8)	(\$707.4)	(\$719.4)	(\$730.8)
Individual: Increase Standard Deduction \$8,500/\$17,000 (TY24)	0.0	(48.1)	(101.7)	(102.6)
Sales and Use: Eliminate State Portion on Groceries (1.5 percent) *	(115.0)	(267.2)	(272.5)	(273.6)
Individual: Refundable Earned Income Tax Credit to 15.0 percent of Federal Credit	(159.0)	(156.0)	(159.6)	(155.0)
Individual: Military Retirement Subtraction for Age 55 or Older	(145.0)	(156.0)	(182.0)	(194.4)
Individual: Military Retirement Subtraction Eliminate Age Limitation (TY24)	0.0	(37.8)	(33.4)	(34.7)
Individual/Corporate: Increase Business Interest Deduction Disallowed 20% to 30%	(15.3)	(10.9)	(11.3)	(11.8)
Individual/Corporate: Increase Business Interest Deduction Disallowed 30% to 50% (TY24)	<u>0.0</u>	<u>(10.3)</u>	<u>(22.6)</u>	<u>(23.5)</u>
Total Permanent Tax Cuts	(\$1,450.1)	(\$1,393.7)	(\$1,502.5)	(\$1,526.4)
Individual: 2022 Tax Rebate (\$250/\$500)	(\$1,048.6)	0.0	0.0	0.0
Individual: 2023 Tax Rebate (\$200/\$400) (Paid from Special Fund)	<u>0.0</u>	<u>(906.8)</u>	<u>0.0</u>	<u>0.0</u>
Total Permanent + One-Time Tax Cuts	(\$2,498.7)	(\$2,300.5)	(\$1,502.5)	(\$1,526.4)

Source: Virginia Department of Tax, Revenue Impacts. * Estimates updated in July 2023 to reflect wage and inflation growth since fall 2021 estimates.

2024 Session: Sales Tax Proposals

Governor

Expanded sales tax to “New Economy Categories” and increased state sales tax rate by 90 basis points. *

- “New Economy” includes digital downloads, streaming, software application, website hosting and design, data storage and computer-related services.
- Applied to business to consumer (B2C).

GF & K-12 (\$ in millions)	FY 2025	FY 2026
90 basis points	\$520.1	\$1,299.3
“New Economy” B2C	<u>203.4</u>	<u>510.7</u>
Total	\$723.5	\$1,810.0*

House and Senate

Expanded sales tax to “New Economy Categories.”

- **Senate** applied sales tax on “New Economy” to business to consumer (B2C) and **business to business (B2B)** transactions.

GF & K-12 (\$ in millions)	FY 2025	FY 2026
“New Economy” B2C	\$175.6	\$440.9
“New Economy” B2B	<u>248.2</u>	<u>620.3</u>
Total	\$423.8	\$1,061.2

Conference

Expanded sales tax to “New Economy Categories.”

- Applied sales tax on “New Economy” to business to consumer (B2C).
- Applied sales tax on **business to business (B2B)** purchases of “software application services.”

GF & K-12 (\$ in millions)	FY 2025	FY 2026
“New Economy” B2C	\$175.6	\$440.9
Software B2B	<u>161.7</u>	<u>404.1</u>
Total	\$337.3	\$845.0

Special Session

Removed sales tax to “New Economy Categories.”

- FY 2024 withholding collections were performing stronger than forecasted, providing an adjustment of \$525.0 million.

* Governor Youngkin proposed an approximate 12% reduction to each individual income tax rate, reducing GF revenue by \$1.1 billion in FY 2025 and \$2.3 billion in FY 2026. In net, the Governor’s tax proposal reduced GF revenue by \$1.0 billion over the biennium. The income tax reduction was not approved by the General Assembly.