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Media Contact

Patrick Getlein
Communications Director
patrick@thecommonwealthinstitute.org
804-396-2051 x103
www.thecommonwealthinstitute.org

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What Would a Cut to the Top Individual Income Tax Rate Mean for Virginians?

4 in 10 Virginians Would See No Benefit, Federal Government Stands to Gain

RICHMOND, VA – A proposal to eliminate Virginia’s top individual income tax rate would overwhelmingly benefit the state’s wealthiest residents, who already spend far less of their household budgets on state and local taxes than any other group. In addition, nearly 40 percent of Virginia taxpayers would see no reduction in their taxes under the plan and most of the rest would see only minor savings, according to a new report published today by The Commonwealth Institute for Fiscal Analysis, an independent, non-partisan, non-profit policy research organization in Virginia.

Similar income tax cut proposals were introduced this past legislative session in Virginia as part of the debate surrounding transportation funding and tax reform efforts. In addition, similar proposals have been or are being considered in other states such as North Carolina, Oklahoma, Kansas, and Louisiana.

As part of his Economic Growth and Virginia Jobs Plan, Attorney General Ken Cuccinelli has proposed cutting key state and local revenue sources. A major component is eliminating Virginia’s current top individual income tax rate at a cost of over \$1.1 billion per year. Virginia’s new top tax rate would drop to 5 percent from 5.75 percent, and it would kick in for all taxable income over \$5,000.

According to the new report, the proposed individual income tax rate cut would mean:

- **No Reduction for Many:**
Nearly 4 in 10 Virginians (39 percent), mostly low- and moderate-income households, would see no reduction in their income tax bill. No Virginian earning less than \$21,000 would receive a tax cut under the proposal and only half of all families earning between \$21,000 and \$39,000 would see their taxes reduced.
- **Some Small Reduction for the Middle Class:**
A majority (71 percent) of the state’s middle-income taxpayers, those earning from \$40,000 to \$63,000 would see their state income taxes drop by just \$98 on average per year.

- **Big Reduction for the Wealthy:**

Virginia's wealthiest taxpayers would receive the largest tax savings by far. Over three-quarters of the benefits from eliminating Virginia's top individual income tax bracket would go to households earning at least \$108,000. In fact, over a quarter of the benefits go to the wealthiest 1 percent of earners (those earning more than \$509,000), who would get an average tax cut of over \$8,000 per household.

- **Federal Tax Hike:**

Almost one out of every five dollars of the \$1.1 billion personal income tax cut proposal would be sent to the federal government in Washington, D.C., leaving Virginia with fewer resources to invest in local priorities like schools, health care and public safety. This is because the more affluent families that would benefit most from the plan tend to write-off their state income tax payments when filling out their federal tax returns. Since these taxpayers would see their state income tax bills shrink, their federal tax deductions would shrink as well, resulting in a federal tax hike of over \$200 million per year for all of these households combined.

“Given that Virginia’s high-income taxpayers already pay less of their income in state and local taxes than their less affluent neighbors, these findings draw into question whether cutting Virginia’s income tax rates should be the state’s top tax policy priority,” says Michael Cassidy, President and CEO of The Commonwealth Institute.

The full report is available at www.thecommonwealthinstitute.org.

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About The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.