

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



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

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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. 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.

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.

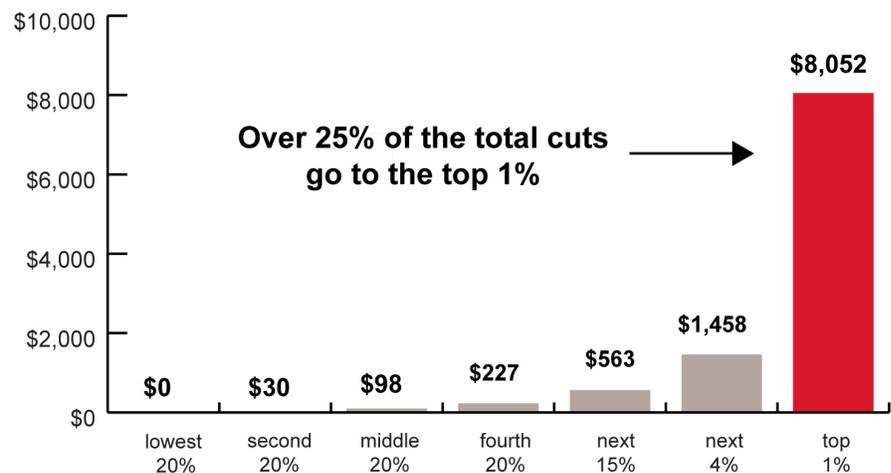
Similar income tax cut proposals were introduced this past legislative session in Virginia as part of the debate surrounding transportation funding and tax reform efforts. In addition, similar proposals have been or are being considered in other states such as North Carolina, Oklahoma, Kansas, and Louisiana. This issue brief examines the impacts of a top rate reduction with particular focus on how it would affect low- and moderate-income Virginians.

While the Attorney General's proposal also contains a variety of business tax cuts and relies on closing unidentified loopholes to offset some of the cost of those cuts, this analysis focuses on how the individual income tax cut would affect Virginia households and families.

Skewed Benefit

Average Tax Cut by Household from Reducing Top Individual Income Tax Rate from 5.75% to 5%, by Income Group

Estimated Tax Cut, 2013



Source: Institute on Taxation and Economic Policy, 2013.

These findings draw into question whether cutting Virginia's income tax rates should be the state's top tax policy priority.

What the Income Tax Cuts Mean for Virginians

- **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.

The bottom line: 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.

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