

February 15, 2019

ABOUT

Who's GILTI? What's SALT? And What Just Happened With Virginia's Tax Law?

Today, the governor signed a nearly \$1 billion tax package that was passed earlier this week by the General Assembly (HB 2529/SB 1372). The legislation included an emergency clause and is therefore effective immediately. The legislation includes some one-time provisions and several ongoing tax provisions. Over the last week, we've provided analysis of how the proposed tax changes and related budget cuts help -- or fail to help -- communities of color in Virginia. This post provides a deeper dive into the various provisions of the tax law and their costs.

New reserve fund and 2019 refund checks

This legislation creates a new reserve fund -- the "Taxpayer Relief Fund." Additional state revenues related to federal tax changes, beyond those that are used to pay for the tax changes discussed below, will be deposited into this fund (\$613.1 million during the current two-year budget).

Many, but not all, Virginia tax filers will receive checks of up to \$110 (or up to \$220 for married joint filers) later this year from this fund. Tax filers who have state income tax liability after considering all deductions and credits below \$110 (or below \$220 for married joint filers) will receive checks for the amount of their income tax liability, and filers with state income tax liability of zero will not receive a check. (And tax filers who have certain types of outstanding debt will not receive a check and will instead have it garnished.)

The Secretary of Finance has stated that about 2.5 million state tax filers are expected to receive these checks (totaling about \$390 million). Virginia has about 3.9 million state tax filers.

The remaining reserve balances would be available to lawmakers in future budgets.

Increasing the state standard deduction by 50 percent, preserving overall limitation on itemized deductions, and lifting of \$10,000 cap on local property taxes

The legislation increases Virginia's standard deduction to \$4,500 for individuals and \$9,000 for married joint filers (from \$3,000 and \$6,000, respectively). This provision broadly reduces state income taxes for many tax filers who do not itemize their deductions but won't affect tax returns being prepared right now as the increase is effective for the tax year (TY) beginning January 1, 2019. The increased standard deduction will sunset after TY 2025, meaning it will no longer be in effect unless lawmakers decide to continue it or make further changes.



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information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons.

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The 2017 federal tax law suspended what's known as the Pease limitation – a provision of the federal tax code that limited the overall amount of certain itemized deductions for the highest-income tax filers. This legislation preserves the overall limitation for Virginia's state tax code (effective for TY 2019 and beyond), essentially making sure that Virginia retains some resources that could have been lost without this limitation.

The 2017 federal tax law also placed a cap on state and local tax (SALT) deductions, limiting the amount to \$10,000. Like it did with the Pease limitation, Virginia's legislation takes a different approach and lifts the SALT cap for local property taxes (effective for TY 2019 and beyond). This provision primarily benefits affluent property owners.

Together, these three provisions reduce state's resources by about \$308 million in the current two-year budget.

20 percent deduction for disallowed net interest deduction

The 2017 federal tax law placed limits on net interest deductions for certain businesses at the federal level. Virginia's legislation creates a new state deduction equal to 20 percent of this disallowed amount (effective for TY 2018 and beyond). This provision reduces state revenues by about \$43 million for the two-year budget.

Subtraction for Global Intangible Low-Taxed Income

To discourage profit shifting by multinational corporations, the 2017 federal tax law created a new tax on certain international corporate incomes. This new class of taxable corporate income is known as Global Intangible Low-Taxed Income (GILTI).

Virginia's tax legislation effectively does not conform to this provision of the federal tax law aimed at reining in corporate tax avoidance. Rather, Virginia's legislation extends the state's existing subtraction for corporate foreign income to include GILTI (effective for TY 2018 and beyond). This provision reduces state revenues by about \$13 million for the two-year budget.

– *Chris Wodicka, Policy Analyst*

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