

## **Task Force #1 HJR 60 (2002)**

### State Income Tax Issue

#### **10. Overwithholding of income---current status, fiscal implications**

Virginia requires employers to withhold income from each employee's paycheck for remittance to the Department of Taxation for payment of Virginia individual income taxes. In fiscal year 2001, the amount statutorily required to be withheld by employers exceeded the amount of individual income taxes ultimately owed to the Commonwealth. This is because Virginia's withholding laws have a built-in assumption that all individual taxpayers claim the standard deduction when filing their state income tax returns (the standard deduction is \$3,000 for single individuals and \$5,000 for married persons). However, Virginia law allows taxpayers, when filing their annual income tax returns, to claim the higher of their itemized deductions reported on their federal income tax return or Virginia's standard deduction. Many Virginians in fact claim the higher itemized deductions, but their withholding is based on an assumption that the lower standard deduction will be claimed.

The General Assembly addressed overwithholding in 1989 when it passed House Bill No. 1950, which would have allowed taxpayers to reduce the amount withheld from their paychecks by their employers for remittance to the Department of Taxation. House Bill No. 1950 originally was to take effect on January 1, 1991, but subsequent General Assemblies have delayed its effective date. Most recently, the 2000 Session of the General Assembly delayed the effective date of House Bill No. 1950 until January 1, 2003 (the bill has a negative fiscal impact which is potentially significant).

The 2002 Session of the General Assembly included legislation in the 2002-2004 Budget Bill, which effectively makes the provisions of House Bill No. 30 effective on July 1, 2002. Thus, beginning on this day, it will be easier for taxpayers to reduce the amount withheld from their paychecks for payment of individual income taxes.

In summary, the implementation of the provisions of House Bill No. 30 pursuant to the 2002-2004 Budget Bill, if utilized by taxpayers, may effectively reduce the impact of overwithholding by the Commonwealth.