

**CHANGING THE  
VIRGINIA INDIVIDUAL INCOME TAX  
STARTING POINT FROM  
FEDERAL ADJUSTED GROSS INCOME TO  
FEDERAL TAXABLE INCOME**

**Virginia Department of Taxation  
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## CURRENT INDIVIDUAL INCOME TAX BASE

- ◆ The starting point for computing Virginia taxable income for individuals is Federal Adjusted Gross Income (FAGI).
  - ◆ To calculate Virginia taxable income, Virginia adjusts FAGI through the use of 4 additions, 23 subtractions, and 10 deductions as well as Virginia personal exemptions and a Virginia standard deduction or Virginia itemized deductions.
  - ◆ Virginia permits 4 different categories of filing status: Single, Married Filing Joint Return, Married Filing Separate Returns, and Married Filing Separately on a Combined Return (which is currently calculated through the spousal tax adjustment worksheet).
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## PROPOSAL 1

1. Replace FAGI with Federal Taxable Income as the starting point for calculating the Virginia individual income tax.

**(NOTE)** This would allow the indexed federal standard deduction, the indexed federal personal exemptions (including the increased exemptions for age and blindness), and federal itemized deductions to be utilized in the calculation of Virginia taxable income. Currently, Virginia utilizes its own standard deduction and personal exemptions to calculate Virginia taxable income.

2. Eliminate all Virginia additions, subtractions, and deductions except for the following:
  - a. Subtract income (interest, dividends, or gains) from obligations or securities of the U.S. exempt from state income tax, but not from federal tax,
  - b. Add state and local income tax deducted for federal purposes, and
  - c. Subtract state and local refund included in federal taxable income.
3. Permit 3 different categories of filing status: Single, Married Filing Joint Return, and Married Filing Separate Returns.

### **Estimated Revenue Impact for Proposal 1**

Using Virginia's current rate schedule, if this individual income tax base was in effect for the 1999 taxable year, Virginia tax liability would have been reduced by approximately \$617.6 million.

To recover this reduced revenue through a rate adjustment, all current Virginia individual income tax rates would have to have been increased by about 0.6%.

## PROPOSAL 2

1. Replace FAGI with Federal Taxable Income as the starting point for calculating the Virginia individual income tax.

**(NOTE)** This would allow the indexed federal standard deduction, the indexed federal personal exemptions (including the increased exemptions for age and blindness), and federal itemized deductions to be utilized in the calculation of Virginia taxable income. Currently, Virginia utilizes its own standard deduction and personal exemptions to calculate Virginia taxable income.

2. Eliminate all Virginia additions, subtractions, and deductions except for the following:
  - a. Subtract income (interest, dividends, or gains) from obligations or securities of the U.S. exempt from state income tax, but not from federal tax,
  - b. Add state and local income tax deducted for federal purposes, and
  - c. Subtract state and local refund included in federal taxable income.
3. Allow an age credit equal to 5% of the existing Virginia age deduction using the existing criteria of the age deduction.
4. Permit 3 different categories of filing status: Single, Married Filing Joint Return, and Married Filing Separate Returns.

### **Estimated Revenue Impact for Proposal 2**

Using Virginia's current rate schedule, if this individual income tax base was in effect for the 1999 taxable year, Virginia tax liability would have been reduced by approximately \$816.8 million.

To recover this reduced revenue through a rate adjustment, all current Virginia individual income tax rates would have to have been increased by about 0.8%.