

INDIVIDUAL INCOME TAX

Option for Basing the Tax on Federal Adjusted Gross Income

Following is an option for imposing Virginia's individual income tax on federal adjusted gross income. Virginia's individual income tax currently is imposed on Virginia adjusted gross income. This alternative provides for the elimination of all deductions (old-age, etc.), exemptions (personal and dependent, etc.), and tax credits currently available under Virginia law, with the sole exception of social security income. Thus, in filing a Virginia individual income tax return, the taxpayer would report his federal adjusted gross income and would be allowed a single deduction for social security income, if applicable. The alternative below has a built-in estimate for the deduction of social security income. This deduction is estimated to be \$51 million in Fiscal Year 2003. It should be noted that this number may be much higher in the future as more Virginians retire. Thus, the tax rates and tax brackets presented may need to be adjusted to take into account growth in social security income.

If this alternative were adopted, Virginia individual income tax would be calculated by multiplying the individual's federal adjusted gross income by the applicable tax rates with a single deduction for social security income. The income tax brackets and income tax rates were selected with the intent to be revenue neutral as measured by Fiscal Year 1999 actual individual income tax revenues plus an estimated deduction for social security income (\$6.091 billion + \$51 million = \$6.141 billion). The income tax brackets and income tax rates under this alternative are:

<u>FAGI</u>	<u>TAX RATE</u>
If FAGI is \$0-\$20,000;	Tax is \$0
If FAGI is \$20,000-\$30,000;	Tax is 0% on first \$20,000 of FAGI and 4% on FAGI between \$20,000 and \$30,000
If FAGI is \$30,000-\$50,000;	Tax is 0% on first \$20,000 of FAGI, 4% on FAGI between \$20,000 and \$30,000, and 5.5% on FAGI between \$30,000 and \$50,000
If FAGI is over \$50,000;	Tax is 0% on first \$20,000 of FAGI, 4% on FAGI between \$20,000 and \$30,000, 5.5% on FAGI between \$30,000 and \$50,000, and 6.25% on FAGI over \$50,000