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Tax Increases Could be Coming to Virginia Soon!

By Michael W. Thompson

Recent federal tax cuts put more money into the pockets of most Virginia families to the tune of some \$1200 to \$1400. But a good part of that could soon be taken away by our elected officials when the General Assembly meets in January.

When the General Assembly votes to conform our state tax code to the new federal tax code, because of the unique way our state tax code is written, our taxes will increase by \$1.2 billion over the next two years and \$4.5 billion over the next five years! Most of that -- \$3 billion -- will fall on individuals but the corporate taxes will also increase by about 40% if no action is taken by our elected officials.

This “windfall of new taxes” is not factored into the current General Fund budget, so significant tax cuts can take place without reducing any of today’s government programs.

Virginia must do more to improve our economy. More people continue to move out of Virginia than are moving in. And a survey earlier this year rates Virginia as the 8th worst state for the middle class. So increasing taxes will not help our state compete in today’s world. And our families that have more money in their paychecks today thanks to the federal tax cut, certainly don’t want to see a large part of that disappear to the state in increased taxes.

This is why the Thomas Jefferson Institute organized a working group of business associations and citizen groups to come up with a tax cut plan that will return the windfall from conforming our state tax code to the federal tax code to our taxpayers. If Virginia is to return to being one of the best states for business and for families, then tax relief is critically important.

Our tax plan, released just before Thanksgiving, is focused on two major elements.

First, the personal standard deduction – a portion of income not subject to tax – should be doubled from \$3,000 to \$6,000 for individuals and \$6,000 to \$12,000 for couples. Today’s standard deduction has not changed since 1989 and inflation has dramatically devalued these amounts over 30 years. Doubling the standard deduction will help more than 70% of Virginians with the most impact on the middle class. But it will also remove tens of thousands of lower income families from paying incoming taxes – folks who will use these funds for the basics such as shoes for their kids.

Second, the corporate income tax should be reduced over two years from the current 6% to 5% by reducing it a half point each year. This is a 16% cut in the corporate taxes and will help make our businesses more competitive to our surrounding states.

And these tax cuts could be just the beginning. If the projected windfall from conforming our state tax code to the federal tax code continues as the state suggests it will after two years, additional tax cuts of \$3 billion for our individuals and our business can take place without impacting the current General Fund budget.

In addition to conforming our tax code, doubling the standard deduction for individuals and couples, and reducing the corporate income tax by 16%, the General Assembly should also index our taxes to inflation as the federal tax code did more than 30 years ago. Finally, the General Assembly should create a method to track, segregate and capture the additional windfall revenue that will be generated by conforming our state tax code to the federal code. It should not spend these windfall monies, but earmark them for future tax relief.

Without the General Assembly taking actions to reduce our taxes, and do so when it meets in January, our taxes are going to increase by more than \$4.5 billion over the next six years. That means our middle class status vis-à-vis other states will not improve, and our businesses will find their taxes increase by close to 40% and those at the bottom of the income ladder will not be helped.

This tax plan has been endorsed by the National Federation of Independent Business and its 6,000 Virginia members, the Family Foundation, Americans for Prosperity, and Americans for Tax Reform. More are expected to endorse. The Virginia Chamber recently said, “The Virginia Chamber appreciates the work that the Thomas Jefferson Institute put into this plan. A state’s tax climate is important to its ability to be economically competitive and create jobs. To be the number one state for business, the Chamber supports comprehensive tax reform.”

Tax relief is needed and should be the top priority for the incoming General Assembly.

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A version of this commentary originally appeared in the Fredericksburg Free Lance-Star on December 2, 2018. Michael Thompson is president of the Thomas Jefferson Institute for Public Policy. He can be reached at info@thomasjeffersoninst.org.