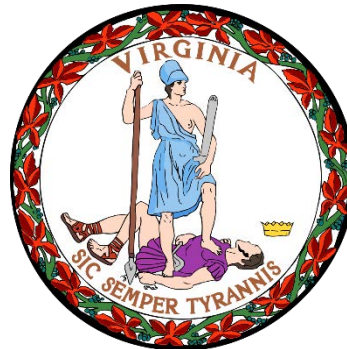


Fiscal Impact of the Tax Cut and Jobs Act (TCJA) on Virginia

*A presentation to the 2019 FTA Revenue Estimating and
Tax Research Conference*

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Overview

Fiscal Impact of TCJA & Virginia's Response

- Chainbridge Software Estimated Key Components of TCJA
- Virginia's Response to TCJA
- Ernst & Young Estimated Impact of Tax Conformity and Taxpayer Relief Refunds
- FY 2019 General Fund Revenue
- FY 2020 General Fund Revenue

Tax Policy (Conformity): Certainty for 2018 Filing Season Is Critical

- Conformity means that Virginia generally adopts the federal definitions of income, such as any *above-the-line* modifications.
- Virginia does not currently conform to any Tax Cuts and Jobs Act (“TCJA”) provisions to the extent they are effective for Taxable Years 2018 and after.
- Virginia needs to advance the date of conformity to December 31, 2018 so that the 2019 filing season can begin.
- Once the date of conformity is advanced, other policy adjustments (*if any*) to Virginia law can be discussed to adjust for changes in federal law.
- Taxpayers, tax practitioners, and software vendors have historically assumed that Virginia will advance its date of conformity each year. Taxpayers will begin filing their 2018 income tax returns in January 2019.
- Failure to enact timely conformity legislation would negatively impact many constituents, including hundreds of thousands of individual taxpayers.
- In addition, if Virginia fails to advance the date of conformity:
 - Individuals would be required to complete additional forms to make up to 20 complex modifications on their Taxable Year 2018 returns.
 - Businesses would be required to make up to 30 additional modifications.

Tax Policy Model by Chainbridge

- Chainbridge model work is finished and the full report is available on the Finance web site – www.finance.virginia.gov.
 - Various assumptions have to be made regarding the choices taxpayers make in preparing their federal and Virginia returns and, to a certain extent, how their behavior may change in reaction to the TCJA. *These choices had to be made even before the enactment of TCJA.*
 - Very little federal guidance has been issued regarding the TCJA provisions. It is possible such guidance, when issued, could affect the assumptions made in developing these estimates and tax choices made by Virginia taxpayers.
 - State revenue estimates as a result of the TCJA are greater than the tax liability impact to Virginia taxpayers because of nonresident filers.
 - Many provisions related to TCJA are interrelated. Individual provisions will impact taxpayers on a case by case basis, depending on income level and other circumstances.

Total Federal Relief in Tax Year 2018

Almost \$4 Billion to Virginia

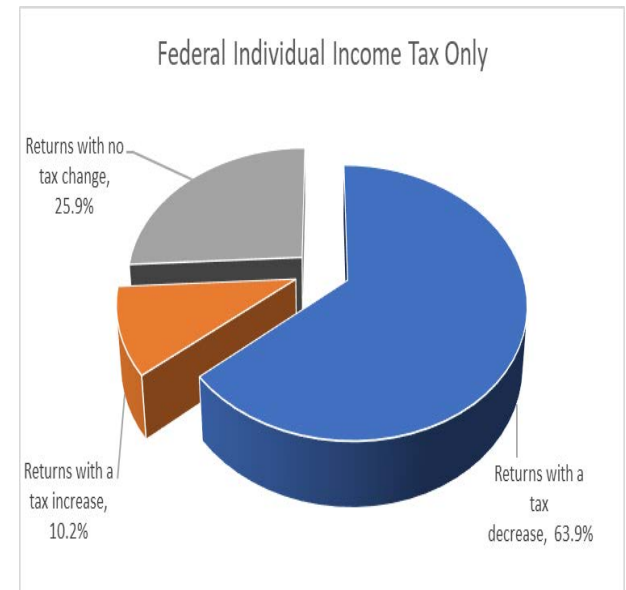
Estimated Federal Individual Income Tax Impact on the Provisions of the TCJA

Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability			Percent Change*
	Baseline (\$Millions)	New Law (\$Millions)	Tax Change (\$Millions)	
\$25,000 and below	240.0	211.1	(28.9)	-12.1%
25,000 - 50,000	1,510.5	1,259.1	(251.3)	-16.6%
50,000 - 75,000	2,559.0	2,131.0	(428.0)	-16.7%
75,000 - 100,000	3,073.6	2,551.8	(521.8)	-17.0%
100,000 - 125,000	3,246.0	2,675.1	(570.9)	-17.6%
125,000 - 150,000	3,064.8	2,655.8	(409.0)	-13.3%
150,000 - 175,000	2,731.3	2,500.8	(230.6)	-8.4%
175,000 - 200,000	2,347.5	2,219.8	(127.6)	-5.4%
200,000 - 250,000	3,763.6	3,620.5	(143.1)	-3.8%
250,000 - 500,000	7,691.1	7,180.7	(510.4)	-6.6%
500,000 - 1,000,000	4,326.3	3,952.9	(373.3)	-8.6%
\$1,000,000 and above	8,392.4	8,007.3	(385.1)	-4.6%
Totals	42,946.1	38,966.0	(3,980.1)	-9.3%

Source: Virginia Individual Income Tax Microsimulation Model
 * Percent Change = (Tax Change / Baseline) * 100



- About 90% of all Virginians will see no change or reduced federal tax liability.
- About 48.5% of the federal tax relief will flow to middle income taxpayers (\$50,000 - \$150,000).
- Approximately 7% of the federal tax relief will flow to taxpayers with income of \$50,000 or less.

Projected Tax Year 2018 Virginia Revenue Increase of \$333 million

Estimated Virginia Individual Income Tax Impact on the Provisions of the TCJA

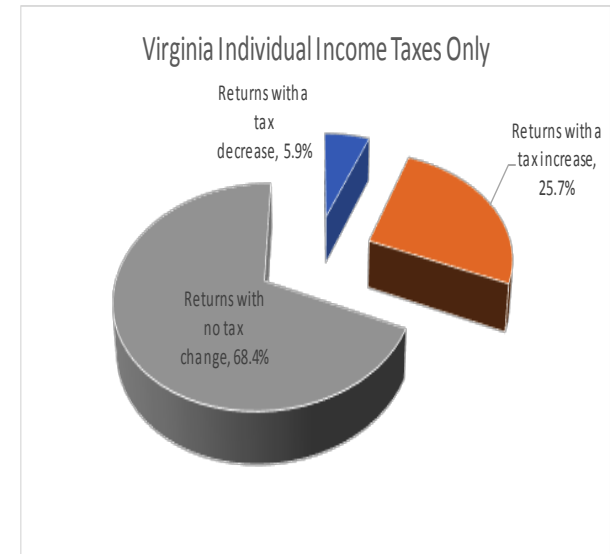
Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability			Percent Change*
	Baseline (\$Millions)	New Law (\$Millions)	Tax Change (\$Millions)	
\$25,000 and below	165.5	178.6	13.2	8.0%
25,000 - 50,000	866.9	899.9	33.0	3.8%
50,000 - 75,000	1,109.3	1,149.7	40.4	3.6%
75,000 - 100,000	1,188.9	1,228.9	40.0	3.4%
100,000 - 125,000	1,153.4	1,193.1	39.7	3.4%
125,000 - 150,000	1,001.8	1,030.3	28.4	2.8%
150,000 - 175,000	844.7	865.8	21.1	2.5%
175,000 - 200,000	697.2	713.1	15.9	2.3%
200,000 - 250,000	1,065.0	1,088.2	23.2	2.2%
250,000 - 500,000	1,897.9	1,927.8	29.8	1.6%
500,000 - 1,000,000	821.9	829.3	7.5	0.9%
\$1,000,000 and above	1,371.6	1,413.1	41.5	3.0%
Totals	12,184.0	12,517.7	333.7	2.7%

Source: Virginia Individual Income Tax Microsimulation Model
 * Percent Change = (Tax Change / Baseline) * 100

Approximately 13.8% of Virginia residents' tax liability resulting from TCJA will be paid by taxpayers with income of \$50,000 or less.



About 26% of Virginians will see increased state tax liability, with the highest percentage increases for taxpayers with less than \$50,000 in income.

Tax Year 2018 Net Federal and State Tax Relief Over \$3.6 Billion

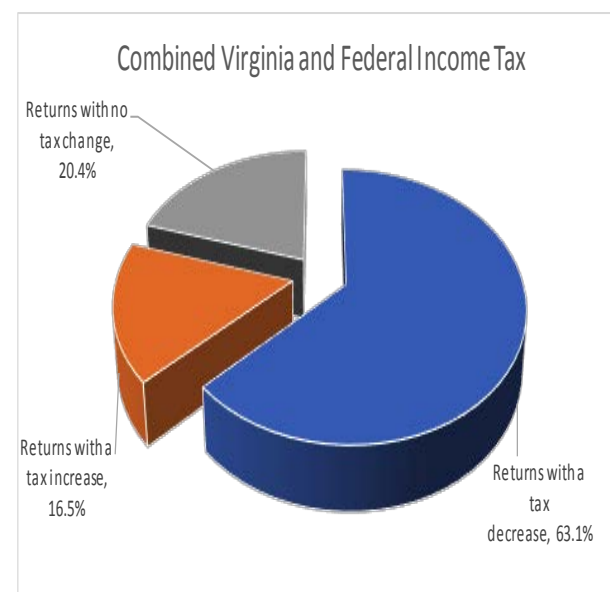
Estimated Combined Individual Income Tax Impact on the Provisions of the TCJA

Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability			Percent Change*
	Baseline (\$Millions)	New Law (\$Millions)	Tax Change (\$Millions)	
\$25,000 and below	405.5	389.7	(15.8)	-3.9%
25,000 - 50,000	2,377.4	2,159.1	(218.3)	-9.2%
50,000 - 75,000	3,668.3	3,280.7	(387.6)	-10.6%
75,000 - 100,000	4,262.5	3,780.7	(481.8)	-11.3%
100,000 - 125,000	4,399.4	3,868.2	(531.2)	-12.1%
125,000 - 150,000	4,066.7	3,686.1	(380.6)	-9.4%
150,000 - 175,000	3,576.0	3,366.5	(209.5)	-5.9%
175,000 - 200,000	3,044.7	2,932.9	(111.8)	-3.7%
200,000 - 250,000	4,828.7	4,708.8	(119.9)	-2.5%
250,000 - 500,000	9,589.0	9,108.4	(480.6)	-5.0%
500,000 - 1,000,000	5,148.1	4,782.3	(365.8)	-7.1%
\$1,000,000 and above	9,763.9	9,420.4	(343.6)	-3.5%
Totals	55,130.2	51,483.7	(3,646.5)	-6.6%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Baseline) * 100



- About 83% of all Virginians will see a net decrease or no change from Federal/Virginia tax liability.
- Only 7% of the tax relief will flow to income earners of less than \$50,000.

Fiscal Year Cash Flow of Almost \$600 Million per Year However, Significant Amount Is Not Permanent and Comes with Unknowns

Estimated Virginia Revenue Impact of the TCJA Fiscal Years 2019 to 2024 (Includes Residents and Nonresidents)

(\$Millions)

By Source	2019	2020	2021	2022	2023	2024
Individual Provisions	532.1	443.8	466.7	492.5	520.0	546.1
Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2
International Provisions	32.6	52.7	5.5	5.8	6.0	6.3
Total, All Provisions	594.2	611.1	653.7	798.7	943.2	950.6

(\$Millions)

By Provisions	2019	2020	2021	2022	2023	2024
Temporary Provisions (Expiring after 2025)	517.3	433.6	455.7	480.4	506.8	532.5
Permanent Provisions	76.9	177.5	198.0	318.3	436.4	418.1
Total, All Provisions	594.2	611.1	653.7	798.7	943.2	950.6

- Most of the individual provisions are temporary and expire after 2025; the only substantial individual provision that is permanent is related to alternative inflation measures.
- Due to the likely timing of Virginia's conformity to the federal provisions, the full impact for Taxable Year 2018 is recognized in fiscal year 2019.
- Nonresidents account for approximately 11% of revenues.

Details of the Revenue Impacts from Individual Income Tax Provisions

Estimated Virginia Tax Impact of Individual Provisions of the TCJA

Residents and Nonresidents

Fiscal Year 2019 to 2024

	(\$Millions)						
	2019*	2020	2021	2022	2023	2024	Total
Simulation 1: Standard deduction modification	147.8	100.5	99.7	99.2	99.0	99.0	645.2
Simulation 2: Alternative inflation measure	14.2	9.4	9.8	9.8	10.3	10.8	64.4
Simulation 3: Loss limitation for noncorporate taxpayers	125.9	103.6	102.8	101.5	100.5	100.0	634.3
Simulation 4: Repeal and limitation of certain itemized deductions**	366.9	283.0	303.2	324.4	346.8	370.9	1,995.2
Simulation 5: Increase limit for cash charitable contributions	(0.9)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)	(4.9)
Simulation 6: Repeal of overall limitation on itemized deductions	(96.7)	(72.2)	(74.9)	(77.7)	(80.7)	(84.1)	(486.3)
Simulation 7: Changes to moving expense deduction and exclusion	6.2	4.3	4.4	4.6	4.8	4.9	29.1
Simulation 8: Medical expense deduction restoration for 2018	(45.6)	-	-	-	-	-	(45.6)
Simulation 9: Repeal deduction for alimony payments	0.8	1.1	1.6	2.2	2.9	3.7	12.2
Off-Model Estimate 1: Repeal itemized deduction for interest on mortgage debt & home equity debt	13.7	15.1	21.2	29.0	37.3	42.7	158.9
Off-Model Estimate 2: Repeal special rule permitting recharacterization of Roth conversions	-	-	-	0.6	1.0	1.0	2.5
Off-Model Estimate 3: Length of service awards for public safety volunteers	-	(0.3)	(0.4)	(0.4)	(0.4)	(0.8)	(2.2)
Off-Model Estimate 4: Allow 529 withdrawals up to \$10,000 for primary & secondary education	-	-	-	-	(0.6)	(1.1)	(1.7)
Total, All Provisions	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3
* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019							
** Limitation for state and local taxes and repeal of non-disaster casualty loss deduction; and deduction for certain miscellaneous expenses							

- About two-thirds of the revenues are from the repeal and limitation of certain itemized deductions.

Details on the Individual Income Tax Provisions

Impact on the Decision to Either Itemize or Take the Standard Deduction

Residents Only, Taxable Year 2018

Virginia Adjusted Gross Income	Itemized Deduction		Standard Deduction		Number Switching from Itemized to Standard
	Number of Returns (Prior Law)	Number of Returns (New Law)	Number of Returns (Prior Law)	Number of Returns (New Law)	
\$25,000 and below	36,628	16,621	1,084,910	1,104,917	20,007
25,000 - 50,000	167,870	94,367	623,312	696,815	73,503
50,000 - 75,000	210,411	127,687	291,987	374,711	82,724
75,000 - 100,000	204,658	125,969	153,029	231,718	78,689
100,000 - 125,000	182,721	105,197	71,295	148,819	77,524
125,000 - 150,000	143,545	89,223	27,964	82,285	54,322
150,000 - 175,000	106,729	71,457	12,243	47,515	35,272
175,000 - 200,000	77,615	54,667	5,826	28,773	22,947
200,000 - 250,000	100,752	74,070	4,296	30,978	26,682
250,000 - 500,000	121,447	94,123	1,601	28,925	27,324
500,000 - 1,000,000	25,458	21,178	379	4,659	4,280
1,000,000 - and above	10,668	9,582	296	1,382	1,086
Totals	1,388,501	884,140	2,277,136	2,781,497	504,361

Source: Virginia Individual Income Tax Microsimulation Model

- An estimated 504,361 Virginians are projected to switch from itemizing to claiming the standard deduction.
- This is the combined result of (1) an increase in the federal standard deduction and (2) changes to itemized deductions, including the \$10,000 SALT deduction cap and repeal of certain deductions.
- 16.7% of households with income between \$50,000 and \$150,000 will be impacted by the repeal and limitation of itemized deductions on the Virginia return; these account for only 5.86% of all Virginia resident returns.

TCJA Temporary Provisions in Current Law Forecast Expected to Go to the Taxpayer Relief Fund After FY2020

Conformity to TCJA	Tax Type	Fiscal Year (\$ in millions)						
		2019	2020	2021	2022	2023	2024	2025
Individual Provisions - Revenues generated by the individual reform provisions contained in 575 Subtitle A of Title I and §§ 13611-13613 of the federal Tax Cuts and Jobs Act, P.L. 115-97 (2017), from the collection of taxes during Fiscal Years 2019 through 2025		\$532.1	\$443.8	\$466.7	\$492.5	\$520.0	\$546.1	\$573.5
SB 1372/HB 2529	Tax Type	Fiscal Year - Preliminary Revenue Impact Accounting for the Time of Passage (\$ in millions)						
		2019	2020	2021	2022	2023	2024	2025
Increase SD to \$4,500/\$9,000	Individual Income Tax		(\$359.7)	(\$235.7)	(\$236.9)	(\$238.7)	(\$239.9)	(\$240.2)
SALT and SD \$4,500/\$9,000 compared to SD to \$4,500/\$9,000	Individual Income Tax		(\$55.6)	(\$41.7)	(\$46.7)	(\$52.1)	(\$57.9)	(\$64.2)
Allow a subtraction for up to 20% of the disallowed net interest deduction (effective TY 2018, assumes no add-back)	Individual Income Tax	(\$2.0)	(\$1.8)	(\$1.8)	(\$2.1)	(\$2.7)	(\$2.8)	(\$2.7)
Total Individual Income Tax	Individual Income Tax	(\$2.0)	(\$309.6)	(\$205.9)	(\$209.6)	(\$214.3)	(\$218.3)	(\$221.5)
Allow a subtraction for up to 20% of the disallowed net interest deduction (effective TY 2018, assumes no add-back) -Corporate Income Tax	Corporate Income Tax							
		(\$22.6)	(\$16.2)	(\$16.9)	(\$17.6)	(\$18.3)	(\$19.1)	(\$19.9)
Allow a GILTI subtraction (effective TY 2018)	Corporate Income Tax	(\$7.1)	(\$5.4)	(\$5.5)	(\$5.8)	(\$6.0)	(\$6.3)	(\$6.5)
Total Corporate Income Tax	Corporate Income Tax	(\$29.7)	(\$21.6)	(\$22.4)	(\$23.4)	(\$24.3)	(\$25.4)	(\$26.4)
SB 1372-Impact		(\$31.7)	(\$331.2)	(\$228.3)	(\$233.0)	(\$238.7)	(\$243.7)	(\$247.8)
Revenue to be transferred to the Taxpayer Relief Fund (Fiscal Years 2019 through 2025) Excluding Pease		\$500.5	\$5.2	\$165.2	\$183.3	\$202.2	\$220.2	\$240.0
Estimated Cost of the Refunds to be Issued in October, 2019: Non-refundable credit equal to \$110/\$220 for single/married taxpayers; effective only for TY 2018 for taxpayers who file by July 1, 2019		-	(\$419.4)					

- FY2021 and FY2022 would generate around \$350 million at current projections

Tax Conformity and Taxpayer Relief Refunds

Ernst & Young Analysis of *Tax Cuts and Jobs Act* (TCJA) Temporary Provisions Received in FY 2019

- Ernst & Young (E&Y) was hired to analyze the 2018 tax returns filed by July 1 to determine the amount of additional revenue that was attributable to either the underlying economy or the TCJA temporary provisions.
 - Net revenue of \$455 million received due to TCJA temporary provisions
 - Additional \$466 million from individuals
 - An \$11 million decline from corporations
- Analysis showed 728,000 resident individuals switched from itemized to standard deduction. Chainbridge had estimated 504,361.
- The total Taxpayer Relief Fund payments are anticipated to be \$431 million.
- The entire Ernst & Young report and appendix data is attached in the appendix.

Table 6. Estimated impact of individual provisions of the TCJA on the decision to itemize or claim the standard deduction, number of returns
Thousands of returns

Adjusted gross income	Itemized deduction		Standard deduction		Number switching from itemized to standard
	Number of returns (Pre-TCJA 2018)	Number of returns (Post-TCJA 2018)	Number of returns (Pre-TCJA 2018)	Number of returns (Post-TCJA 2018)	
Less than \$0	5	2	13	16	3
\$0 under \$25,000	135	42	1,093	1,185	92
\$25,000 under \$50,000	178	55	642	765	123
\$50,000 under \$75,000	204	79	298	424	126
\$75,000 under \$100,000	193	81	152	264	112
\$100,000 under \$125,000	171	73	70	169	99
\$125,000 under \$150,000	134	63	27	99	71
\$150,000 under \$175,000	99	51	13	61	49
\$175,000 under \$200,000	72	39	6	38	32
\$200,000 under \$250,000	93	55	4	43	38
\$250,000 under \$500,000	113	73	2	41	40
\$500,000 under \$1,000,000	20	14	*	6	6
More than \$1,000,000	6	5	*	2	1
All returns	1,424	632	2,322	3,113	792

Ernst & Young Summary

Estimated average Virginia tax liability impact of the individual reform provisions of the TCJA

Adjusted Gross Income	Number of Returns (thousands)	Tax Liability (\$millions)	Average Change (\$)
Less than \$0	19	16	870
\$0 under \$25,000	1,228	23	19
\$25,000 under \$50,000	820	46	56
\$50,000 under \$75,000	503	55	110
\$75,000 under \$100,000	345	61	178
\$100,000 under \$125,000	241	51	212
\$125,000 under \$150,000	161	39	242
\$150,000 under \$175,000	112	29	263
\$175,000 under \$200,000	78	21	270
\$200,000 under \$250,000	98	28	286
\$250,000 under \$500,000	115	37	325
\$500,000 under \$1,000,000	20	17	851
More than \$1,000,000	6	41	6,491
All returns	3,745	466	125

Note: Adjusted gross income is federal adjusted gross income adjusted for filers of forms 760PY and 763. Tax liability is income tax after credits. Results are shown for filers of form 760, 760PY, Source: EY analysis.

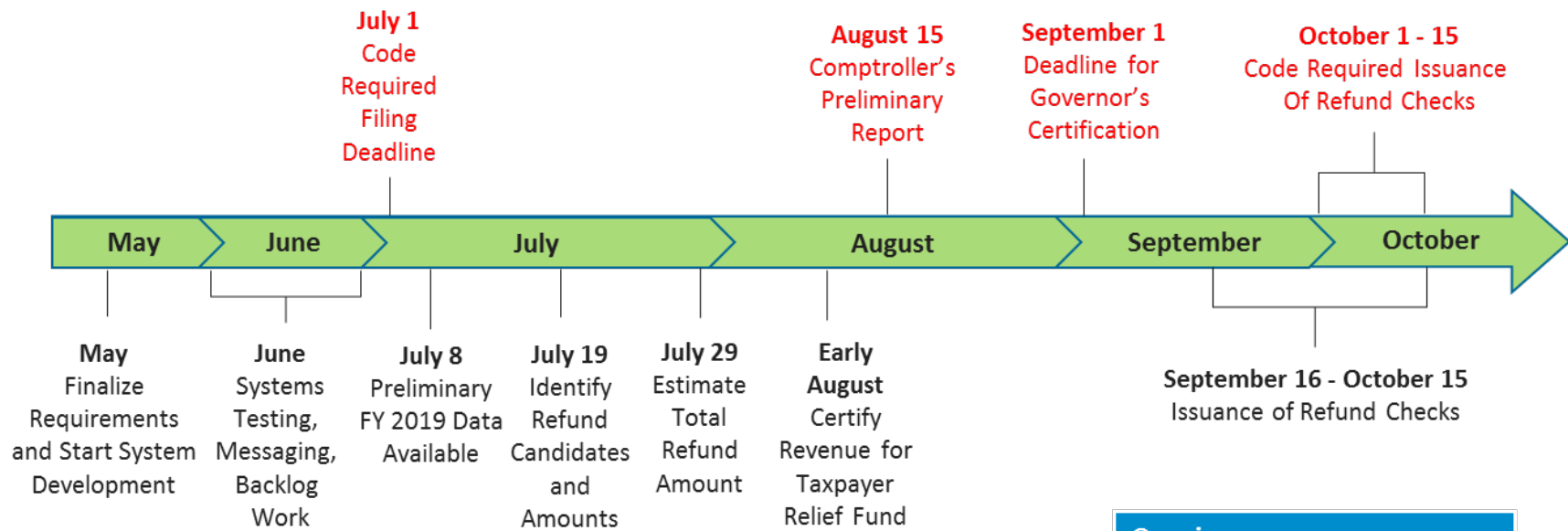
- The average change across all returns was a \$125 increase.

Taxpayer Relief Refunds - Statutory Requirements

- ▶ 2018 Individual Tax Return must be filed by July 1, 2019
- ▶ Refund amount is a maximum of \$110 for an individual and \$220 for a joint return
 - ▶ Limited to the tax liability after any deductions, subtractions or credits to which the individual is entitled
- ▶ The Governor, in consultation with the State Comptroller and the Tax Commissioner, must certify revenue for the Taxpayer Relief Fund to the General Assembly on or before September 1, 2019
- ▶ If the estimated amount in the Taxpayer Relief Fund is insufficient to issue the full amount of the refunds, then such refunds will be reduced and prorated
- ▶ Refunds to be issued on or after October 1, 2019 but before October 15, 2019

Taxpayer Relief Refunds

High-Level Anticipated Timeline



- Ongoing:**
- Error worklists cleared
 - Refund checks reissued
 - File generation for Treasury

Note: Dates in red are in *Code of Virginia*

Including Transfers, FY 2019 General Fund Resources Grew 7.1 Percent and Finished \$797.7 Million (3.8 Percent) Above Forecast

Summary of Fiscal Year 2019 Revenue Collections

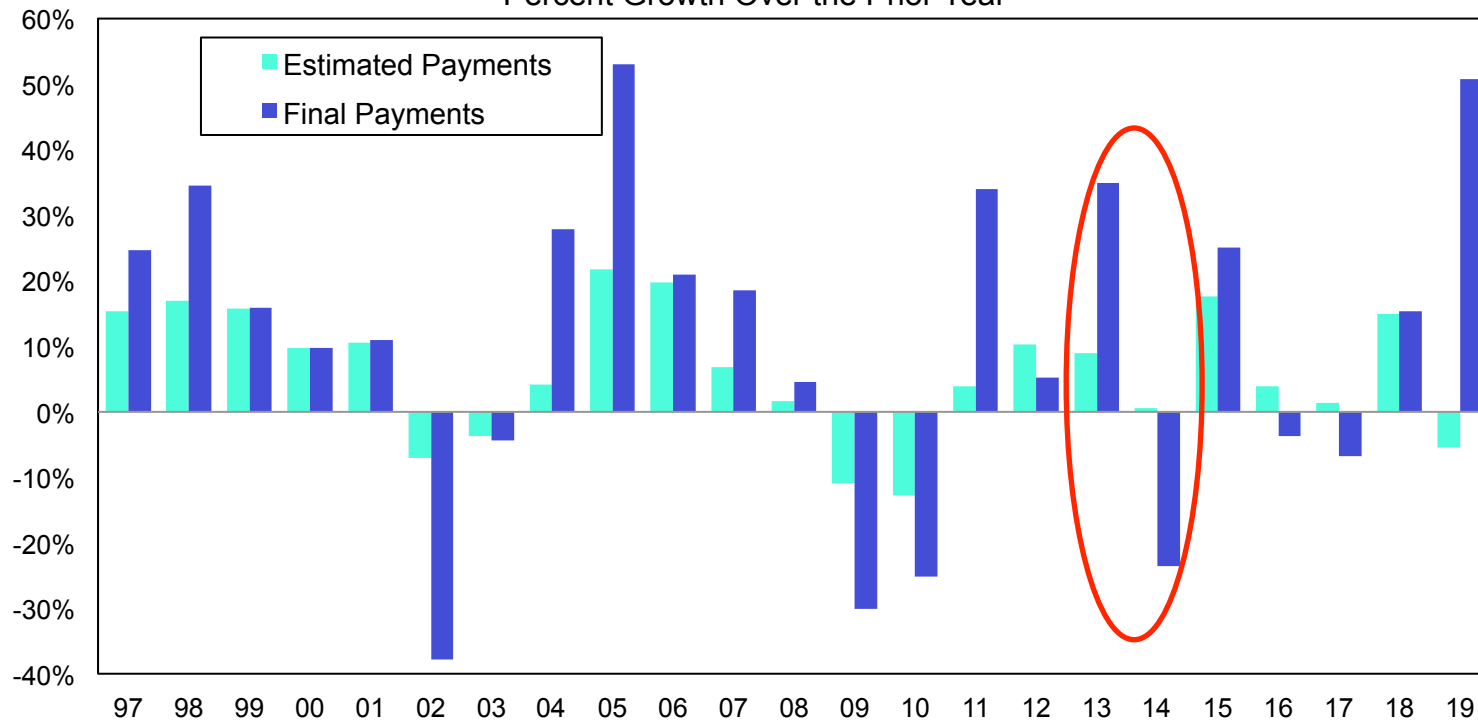
(millions of dollars)

Major Sources	As a % of Total General Fund				% Growth Over FY 18	
		Official	Actual	Change	Official	Actual
Withholding	59.1%	\$13,013.9	\$12,987.8	(\$26.1)	3.8 %	3.6
Nonwithholding	18.1	3,419.2	3,976.8	557.6	(1.5)	14.5
Refunds	(7.9)	(2,011.5)	(1,738.2)	273.3	5.4	(8.9)
Net Individual	69.3%	\$14,421.6	\$15,226.5	\$804.9	2.2 %	7.9 %
Sales	16.3%	\$3,591.1	\$3,580.4	(\$10.7)	3.7 %	3.4 %
Corporate	4.3	1,012.2	943.4	(68.8)	17.4	9.5
Wills (Recordation)	1.8	368.6	386.5	17.9	(6.7)	(2.1)
Insurance	1.7	395.3	382.0	(13.3)	17.0	13.0
All Other Revenue	3.6	739.9	788.8	48.9	3.0	9.8
Total Revenue	97.0%	\$20,528.7	\$21,307.5	\$778.8	3.3 %	7.2 %
A.B.C. Profits	0.6	\$115.6	\$130.7	\$15.1	5.6 %	19.4 %
Sales Tax (0.375%)	1.8	389.9	392.6	2.7	3.5	4.2
Transfers	0.6	133.6	134.7	1.1	(6.0)	(5.3)
Total Transfers	3.0%	\$639.1	\$658.0	\$18.9	1.7 %	4.7 %
TOTAL GENERAL FUND	100.0%	\$21,167.8	\$21,965.5	\$797.7	3.2 %	7.1 %

- The gain in nonwithholding and individual income tax refunds, about \$831 million, was slightly offset by shortfalls in most other revenue sources.
- To fully fund the enacted budget and the Taxpayer Relief Fund of \$450 million, total fiscal year revenue growth needed to reach 5.5 percent – September 1 is the deadline for Governor’s certification.

Individual Income Tax Nonwithholding Collections Were \$557.6 Million (16.3 Percent) Ahead of the Annual Estimate in FY 2019

Growth in Estimated and Final Payments, FY97 - FY19
Percent Growth Over the Prior Year



- Collections of nonwithholding, 17 percent of total revenues and one of the most volatile revenue sources, were significantly ahead of expectations, due to capital gains realizations and the timing of payments related to federal tax changes.
- Total nonwithholding collections grew 14.5 percent in fiscal year 2019 compared with the annual estimate of a 1.5 percent decrease.
- The estimate included reducing forecasted collections by \$213 million for the nonwithholding collar. The nonwithholding collar is the 10-year average of nonwithholding payments as a percent of total revenues (16.15%), limited to 1 percent of general fund revenues.

Large Individual Payments Reflect Capital Gains and Substantial Non-wage Income

Large Individual Payments April - May		
	<u>Number of Payments</u>	<u>Total \$ Amt of Payments</u> (in millions)
FY06	876	\$274.3
FY07	930	\$330.8
FY08	924	\$344.2
FY09	511	\$257.9
FY10	328	\$112.5
FY11	547	\$204.7
FY12	521	\$184.4
FY13	884	\$327.5
FY14	427	\$141.5
FY15	606	\$215.5
FY16	687	\$220.2
FY17	645	\$178.7
FY18	646	\$201.8
FY19	1,195	\$463.8
FY20	?	?

- Fiscal year 2013 payments spiked as taxpayers reacted to changes in federal tax legislation that was enacted in December 2012.