



Special Report on Tax Policy
(Senate Bill 30, as Introduced)

Senate Finance Committee
Virginia General Assembly

February 20, 2000

SPECIAL REPORT ON TAX POLICY

Mr. Chairman and Members of the Committee:

Throughout this session, a number of members of the Committee, and of the Senate at large, have been looking for ways to eliminate all the Virginia income tax paid by the working poor. We bring to you a special recommendation that will do just that. It is a fitting companion to welfare reform policies we have been pursuing, and recognizes to a large degree that everyone is not sharing equally in Virginia's economic expansion.

Here's how the proposal works:

- A \$300 credit would be provided for each personal and dependent exemption claimed on the tax form.
- Eligibility for the credit would be limited to taxpayers with incomes less than the federal poverty guidelines published each year.
- The poverty guidelines increase by family size -- for example, \$8,350 for a single person and \$19,950 for a five-person family.
- The total tax reduction would also increase by family size -- larger families would be entitled to more exemptions.
- The credit would be available to all Virginia taxpayers with qualifying low incomes -- families with children, couples, and singles.
- Taxpayers claiming other tax reductions through additional exemptions, deductions, or income exclusions must choose between those tax benefits and this credit. They could not claim both.
- Finally, this tax credit would be non-refundable. The credit would eliminate the tax liability, but no refund in excess of the liability would be granted.

The credit would become effective on January 1, 2000 -- meaning that all low-income workers would receive the benefit for the current tax year. The estimated cost of this credit is \$20.2 million in fiscal year 2001 and \$22.0 million in fiscal year 2002.

As the table below shows, with this action, we would effectively be eliminating the state income tax on all workers living in poverty.

**Impact of \$300 Tax Credit
per Personal and Dependent Exemption**

2000 Poverty Income	Family Size	Married			Single		
		State Tax	\$300 Credit/ Exempt.	Remaining Tax Liability	State Tax	\$300 Credit/ Exempt.	Remaining Tax Liability
8,350	1	NA	NA	NA	107	300	0
11,250	2	110	600	0	203	600	0
14,150	3	208	900	0	308	900	0
17,050	4	313	1,200	0	413	1,200	0
19,950	5	418	1,500	0	518	1,500	0
22,850	6	523	1,800	0	623	1,800	0
25,750	7	628	2,100	0	729	2,100	0
28,650	8	734	2,400	0	849	2,400	0

Page 466, after line 27, insert:

"§ 4-7.02. EARNED INCOME TAX CREDIT FOR LOW-INCOME TAXPAYERS

A. As used in this section, unless the context requires otherwise:

"Family Virginia adjusted gross income" means the combined Virginia adjusted gross income of an individual, the individual's spouse, and any person claimed as a dependent on the individual's income tax return for the taxable year.

Poverty guidelines means the poverty guidelines for the forty-eight contiguous states and the District of Columbia updated annually in the Federal Register by the U.S. Department of Health and Human Services under the authority of § 673 (2) of the Omnibus Budget Reconciliation Act of 1981.

"Virginia adjusted gross income" has the same meaning as the term is defined in § 58.1-321, Code of Virginia.

B. For taxable years beginning on and after January 1, 2000, any individual or persons filing a joint return whose family Virginia adjusted gross income does not exceed one hundred percent of the poverty guideline amount corresponding to a household of an equal number of persons as listed in the poverty guidelines published during such taxable year, shall be allowed a credit against the tax levied pursuant to § 58.1-320, Code of Virginia, in an amount equal to \$300 for each of the individual, the individual's spouse, and any person claimed as a dependent on the individual's or married persons' income tax return for the taxable year. For any taxable year in which a husband and wife file separate Virginia income tax returns, the credit provided under this section shall be allowed against the tax for only one of such two income tax returns. Additionally, the credit provided under this section shall not be allowed against such tax of a dependent of the individual or of married persons.

C. The amount of the credit provided pursuant to this section for any taxable year shall not exceed the individual's or married persons' Virginia income tax liability.

D. Notwithstanding any other provision of this section, such credit shall not be allowed in any taxable year in which the individual, the individual's spouse, or both, or any person claimed as a dependent on such individual's or married persons'

income tax return, claims one or any combination of the following on his or their income tax return for such taxable year:

1. The subtraction under subdivision 11 of subsection C of § 58.1-322, Code of Virginia;
2. The subtraction under subdivision 23 of subsection C of § 58.1-322, Code of Virginia;
3. The subtraction under subdivision 24 of subsection C of § 58.1-322, Code of Virginia, or;
4. The subtraction for the additional personal exemption for blind or aged taxpayers under subdivision 2 a of subsection D of § 58.1-322, Code of Virginia."

(This amendment provides a non-refundable tax credit equal to \$300 per personal and dependent exemption for Virginia taxpayers with incomes at or below the federal poverty level. The credit would eliminate the state income tax liability for these taxpayers.)