



# **COMMONWEALTH of VIRGINIA**

## **Department of Taxation**

July 25, 2023

To: The Honorable Janet D. Howell  
Co-Chairwoman, Senate Finance and Appropriations Committee

The Honorable George L. Barker  
Co-Chairman, Senate Finance and Appropriations Committee

The Honorable Barry D. Knight  
Chairman, House Appropriations Committee

Dear Co-Chairwoman Howell, Co-Chairman Barker, and Chairman Knight:

As you know, Enactment 6 of the 2022 Appropriation Act (Chapter 2, Acts of Assembly, 2022 Special Session I) increased the Virginia standard deduction amount from \$4,500 to \$8,000 for single filers and from \$9,000 to \$16,000 for married couples filing jointly, beginning in Taxable Year 2022. However, Enactment 8 of the 2022 Appropriation Act stipulates that the approved and funded standard deduction increases cannot take effect for Taxable Year 2023 unless the annual revenue growth, adjusted for tax policy changes, is at least five percent for Fiscal Year 2023. Moreover, the Tax Department is required to certify that the revenue growth meets or exceeds the five percent threshold after accounting for tax policy changes.

Table 1 on the next page lists the state tax policy changes approved by the General Assembly during 2022 and 2023 that resulted in a General Fund revenue adjustment for FY 2023. It should be noted that the policy adjustments reflect actual collections made during FY 2023, and exclude final return payments, refunds, and estimated payments that will be made after July 1, 2023.

Several of the original revenue estimates were adjusted to reflect changes in economic conditions. In particular, the estimated impact of the standard deduction increase was originally based on the December 2021 General Fund revenue forecast and the July 2021 Congressional Budget Office price and income growth projections. This estimate was updated to reflect that there was more economic growth than anticipated over the last two years. Similarly, the original estimate for elimination of the state sales tax on groceries was based on historical sales tax collections grown to reflect a cumulative

change in CPI-U from 2021 to 2023 of 6.6%. Since the actual CPI-U growth rate for that same period from the Bureau of Labor Statistics was 14.3%, the estimate was updated to reflect actual inflationary adjustments.

In addition, two of the estimates listed in Table 1 were adjusted to reflect actual collections during FY 2023. First, the estimated impact of the one-time tax rebate was adjusted to reflect actual rebates issued during FY 2023. Second, the estimated impact of eliminating the accelerated sales tax ("AST") was updated to reflect actual changes in the timing of sales tax collections. The original AST estimate assumed that all AST dealers would eliminate AST payments in June 2022, thereby shifting \$202.8 million of revenues from FY 2022 to FY 2023. However, several dealers continued to make AST payments in June 2022, and instead shifted revenues from FY 2023 to FY 2024, for a net impact of \$57.2 million in FY 2023.

<b>Table 1: Approved Tax Policy Adjustments Adopted in 2022</b> <i>(Amounts in Millions)</i>		
<b>Provision</b>	<b>Total Estimated FY 2023 GF Impact</b>	<b>FY 2023 Tax Policy Adjustments</b>
Standard Deduction Increase	(\$970.2)	\$1,015.8
One-Time Tax Rebates	(\$1,048.6)	\$1,062.6
Elimination of Accelerated Sales Tax	\$202.8	(\$57.2)
Veterinarian Sales Tax Exemption	(\$4.1)	\$4.1
Military Retirement Subtraction	(\$145.0)	\$145.0
Refundable Earned Income Tax Credit	(\$159.0)	\$159.0
163(j) Deduction Increase to 30%	(\$15.3)	\$15.3
Elimination of Sales Tax on Groceries	(\$107.3)	\$115.0
Conformity (2022)	(\$35.6)	\$35.6
Conformity (2023)	(\$0.2)	\$0.2
Eligible Educator Expense Deduction	(\$3.5)	\$3.5
Hardwood Practices Tax Credit	(\$1.0)	\$1.0
Neighborhood Assistance Credit	(\$3.0)	\$3.0
<b>Total</b>	<b>(\$2,290.0)</b>	<b>\$2,502.9</b>

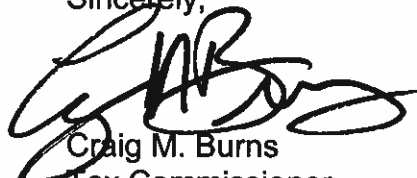
After accounting for the revenue impact of the tax policy adjustments, General Fund revenue growth for Fiscal Year 2023 was 5.1 percent. The following table illustrates the calculations of the adjusted revenue growth.

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<b>Table 2: General Fund Revenue Growth Adjusted for Tax Policy Changes</b> <i>(Amounts in Millions)</i>	
Unadjusted YTD Revenue Collections (FY 2023)	\$27,909.9
+ Tax Policy Adjustments (FY 2023)	\$2,502.9
Revenues Adjusted for Tax Policy Changes (FY 2023)	\$30,412.8
÷ Prior YTD Revenue Collections (FY 2022)	\$28,934.9
<b>Adjusted Growth Rate</b>	<b>5.1%</b>

If you or your staff have any questions, please contact me at 804-786-3332.

Sincerely,



Craig M. Burns  
Tax Commissioner

Enclosure

CC: The Honorable Stephen E. Cummings, Secretary of Finance  
Ms. April Kees, Staff Director, Senate Finance and Appropriations Committee  
Ms. Anne Oman, Staff Director, House Appropriations Committee