Governor’s Confidential Technical Appendix

Estimated Impact of The Tax Cuts and Jobs Act on Virginia

for:

Commonwealth of Virginia
Department of Taxation

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Executive Summary

On December 22, 2017, Congress enacted the Tax Cuts and Jobs Act (TCJA). This is the most comprehensive tax reform legislation that has been enacted since the Tax Reform Act of 1986. The TCJA affects the amount of individual income tax and corporation income tax paid by the Commonwealth's taxpayers. In December of 2017, the Department of Taxation (Virginia Tax) contracted with Chainbridge Software, LLC (Chainbridge) to develop two modules (individual income tax and corporation income tax) of the PolicyLinks system to assist in their evaluation of the revenue impact of the TCJA on the Commonwealth.

Chainbridge has been involved in the development and delivery of tax policy analysis tools for its state government clients for nearly two decades, including the States of Alabama, California, Connecticut, Mississippi, Minnesota, Maine, Rhode Island, and Vermont. Chainbridge's CEO, Eric Cook, PhD, was involved in developing revenue estimates for the US Congressional Joint Committee on Taxation (JCT) during federal tax reform efforts that culminated in the Tax Reform Act of 1986. He directed development of tax modeling projects for state government clients for both Price Waterhouse and KPMG, and left KPMG to form Chainbridge in 2000.

Virginia Tax staff identified the provisions of the TCJA affecting Virginia taxpayers and determined which provisions would have "no impact", a "minimal impact", a "positive impact" or a "negative impact" on Virginia revenue. Chainbridge worked with Virginia Tax to determine the provisions that would be evaluated using the microsimulation models. These models match federal and Virginia income tax returns for Taxable Year 2015, then make adjustments to the returns to reflect each relevant TCJA provision. The databases are extrapolated to future Taxable Years and provisions are simulated to assess the resulting change in Virginia tax revenues. Some provisions were scored using "off-model" approaches because relevant data were not available. The off-model approach generally involves using ratios that convert the federal revenue estimates produced by the JCT to Virginia estimates.

While every effort has been made to make these estimates as granular and accurate as possible, they must be used with caution because:

- Various assumptions had to be made regarding the choices taxpayers would make in preparing their federal and Virginia returns and, to a certain extent, how their behavior may change in reaction to the TCJA.

- Very little federal guidance has been issued regarding the TCJA provisions. It is possible that such guidance, when issued, could affect the assumptions made in developing these estimates.

Table 1 presents the estimated Virginia revenue impact of the individual, business, and international provisions of the TCJA for Fiscal Years 2018 to 2024.

Table 1
Estimated Virginia Revenue Impact of the TCJA
Fiscal Years 2019 to 2024

	($Millions)						
	2019*	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Individual Provisions	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3
Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3
International Provisions	32.6	52.7	5.5	5.8	6.0	6.3	108.8
Total, All Provisions	594.2	611.1	653.7	798.7	943.2	950.6	4,551.4

* 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.

We find that the *individual provisions* of the TCJA affect Virginia residents as follows:

- There is an overall federal revenue loss
- There is an overall Virginia revenue increase

The individual provisions of the TCJA having the most significant revenue effects on Virginia include:

- Modifications to the standard deduction
- Loss limitation for noncorporate taxpayers
- Changes in itemized deductions

We find that the *business provisions* of the TCJA will result in a Virginia revenue increase that grows over time. The business provisions with the most significant Virginia revenue impact include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

We find that the *international provisions* of the TCJA will result in a Virginia revenue increase having the largest effects in Fiscal Years 2019 and 2020. This increase is attributable to an indirect individual income tax effect of the repatriation of deferred foreign earnings and the direct corporation income tax effect of the Global Intangible Low-taxed Income (GILTI) provision.

Following we provide details regarding the estimated Virginia impact of the individual, business and international provisions of the TCJA on Virginia.

Estimated Impact of the Individual Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia impact of the individual provisions of the TCJA.

The base year for the individual income tax database is Taxable Year 2015. The database includes the population of Virginia Taxable Year 2015 returns matched with federal returns, extrapolated to Taxable Years 2018 through 2024. This model allows tax liability to be recalculated for alternative scenarios using federal data and federal law (including indexing provisions), and to minimize taxpayers' combined Virginia and federal taxes.

To summarize, we find that the individual provisions of the TCJA affect Virginia as follows:

- There is an overall Virginia revenue increase from the individual provisions
- Because the model assumed that taxpayers would seek to minimize their combined federal and Virginia tax liabilities, many taxpayers who would otherwise "switch" from itemizing to claiming the standard deduction for federal tax minimization purposes alone would continue to itemize in order to achieve a lower combined tax liability.

Combined Estimated Federal and Virginia Tax Impact

The following chart presents the combined estimated federal and Virginia tax impact of the TCJA's individual provisions on Virginia residents for Taxable Year 2018. As shown in this chart, it is estimated that 63.1 percent of all returns will have a combined federal and Virginia tax decrease under the TCJA for Taxable Year 2018; 16.5 percent of all returns will have a combined federal and Virginia tax increase; and, 20.4 percent of all returns will have no change in combined federal and Virginia income taxes.

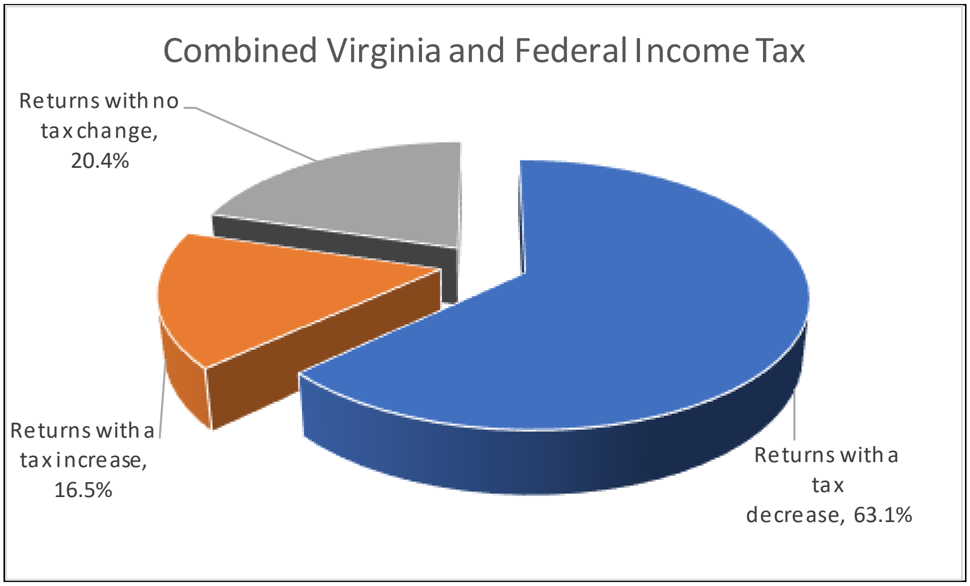


Table 2 presents the estimated combined federal and Virginia impact of the TCJA's individual provisions on residents for Taxable Year 2018, according to Virginia Adjusted Gross Income (AGI) class.

Table 2
Estimated Tax Impact of the "On-Model" Individual Provisions of the TCJA
Combined Federal and Virginia Tax Liability
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
$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

Table 3 presents estimated additional details regarding residents who have combined federal and Virginia tax decreases and increases resulting from the individual provisions of the TCJA for Taxable Year 2018.

Table 3
Estimated Tax Impact of the On-Model Individual Provisions of the TCJA
Returns with Tax Decreases and Increases
Combined Federal and Virginia Tax Liability
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Returns with a Tax Decrease			Returns with a Tax Increase		
	Number of Returns (Units)	Amount of Decrease ($Millions)	Average ($)	Number of Returns (Units)	Amount of Increase ($Millions)	Average ($)
$25,000 and below	373,620	(74.3)	(199)	62,614	58.5	934
25,000 - 50,000	501,089	(294.7)	(588)	247,045	76.3	309
50,000 - 75,000	401,216	(471.5)	(1,175)	86,675	83.9	968
75,000 - 100,000	306,757	(545.8)	(1,779)	48,484	64.0	1,321
100,000 - 125,000	223,155	(584.0)	(2,617)	30,282	52.8	1,743
125,000 - 150,000	147,322	(429.3)	(2,914)	24,006	48.7	2,030
150,000 - 175,000	94,344	(260.5)	(2,761)	24,560	51.0	2,076
175,000 - 200,000	61,753	(156.8)	(2,539)	21,648	45.0	2,081
200,000 - 250,000	73,583	(196.6)	(2,672)	31,431	76.7	2,442
250,000 - 500,000	98,375	(604.8)	(6,148)	24,657	124.2	5,037
500,000 - 1,000,000	22,648	(443.9)	(19,601)	3,186	78.1	24,519
$1,000,000 and above	8,989	(759.0)	(84,430)	1,974	415.4	210,445
Totals	2,312,852	(4,821.2)	(2,085)	606,561	1,174.8	1,937
Source: Virginia Individual Income Tax Microsimulation Model						

As shown in Table 3, it is estimated that 2,312,852 returns will have an average combined federal and Virginia tax decrease of $2,085 under the TCJA for Taxable Year 2018 while 606,561 returns will have an average combined federal and Virginia tax increase of $1,937.

Table 4 presents the estimated distribution of the number of returns with tax increases and decreases for residents resulting from the combined federal and Virginia effect of the individual provisions of the TCJA for Taxable Year 2018.

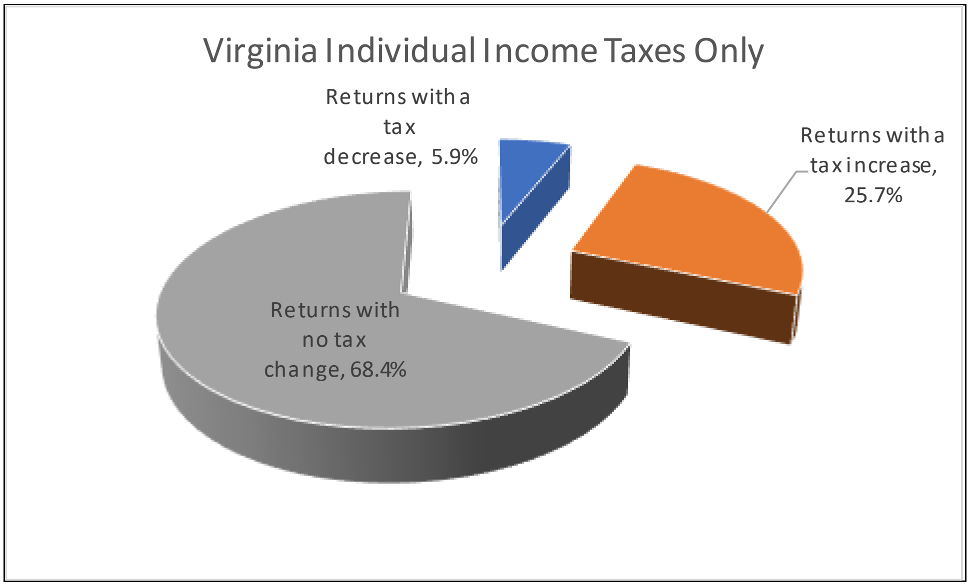
Table 4
Estimated Tax Impact of the On-Model Individual Provisions of the TCJA
Distribution of Returns, Tax Decreases and Increases
Combined Federal and Virginia Tax Liability
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Returns with a Tax Decrease: Number of Returns (Percent)	Returns with a Tax Decrease: Amount of Decrease (Percent)	Returns with a Tax Increase: Number of Returns (Percent)	Returns with a Tax Increase: Amount of Increase (Percent)
$25,000 and below	16.2	1.5	10.3	5.0
25,000 - 50,000	21.7	6.1	40.7	6.5
50,000 - 75,000	17.3	9.8	14.3	7.1
75,000 - 100,000	13.3	11.3	8.0	5.5
100,000 - 125,000	9.6	12.1	5.0	4.5
125,000 - 150,000	6.4	8.9	4.0	4.1
150,000 - 175,000	4.1	5.4	4.0	4.3
175,000 - 200,000	2.7	3.3	3.6	3.8
200,000 - 250,000	3.2	4.1	5.2	6.5
250,000 - 500,000	4.3	12.5	4.1	10.6
500,000 - 1,000,000	1.0	9.2	0.5	6.6
$1,000,000 and above	0.4	15.7	0.3	35.4
Totals	100.0	100.0	100.0	100.0

Source: Virginia Individual Income Tax Microsimulation Model

Estimated Virginia Tax Impact -- Overall

The following chart presents the estimated Virginia individual income tax impact of the TCJA's individual provisions on residents for Taxable Year 2018. As shown in this chart, for Taxable Year 2018, an estimated 68.4 percent of all returns will experience no change in Virginia individual income tax; an estimated 5.9 percent of all returns will experience a Virginia individual income tax decrease; and an estimated 25.7 percent of all returns will experience a tax increase in Virginia individual income taxes.



As shown in Table 5, we estimate that the TCJA results in a significant increase in Virginia individual income tax revenue, resulting in a $532.1 million positive revenue impact in Fiscal Year 2019 and a $443.8 million positive revenue impact in Fiscal Year 2020.

Table 5
Estimated Tax Impact of All Individual Provisions of the TCJA
Virginia Tax Only
Residents and Nonresidents
Fiscal Years 2019 to 2024

	($Millions)						
	2019*	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Fiscal Year Virginia Only Impact Residents and Nonresidents	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.

Table 6 presents the estimated Virginia tax impact of the individual provisions of the TCJA on residents for Taxable Year 2018.

Table 6
Estimated Tax Impact of the On-Model Individual Provisions of the TCJA
Virginia Tax Only -- Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
$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

Overall, the estimated Taxable Year 2018 impact reflects an overall tax increase of 2.7 percent.

Table 7 presents details for residents having Virginia tax decreases and increases resulting from the individual provisions of the TCJA for Taxable Year 2018.

Table 7
Estimated Tax Impact of the On-Model Individual Provisions of the TCJA
Returns with Tax Decreases and Increases
Virginia Tax Only -- Residents Only
Taxable Year 2018

	Returns with a Tax Decrease			Returns with a Tax Increase		
Virginia Adjusted Gross Income	Number of Returns (Units)	Amount of Decrease ($Millions)	Average ($)	Number of Returns (Units)	Amount of Increase ($Millions)	Average ($)
$25,000 and below	3,948	(0.1)	(32)	70,099	13.3	190
25,000 - 50,000	27,315	(1.2)	(45)	248,459	34.2	138
50,000 - 75,000	32,868	(2.3)	(70)	120,009	42.7	355
75,000 - 100,000	29,571	(2.7)	(91)	112,754	42.7	379
100,000 - 125,000	21,184	(2.4)	(114)	104,476	42.1	403
125,000 - 150,000	16,313	(2.1)	(127)	75,913	30.5	402
150,000 - 175,000	10,854	(1.4)	(128)	52,801	22.5	426
175,000 - 200,000	6,681	(0.9)	(135)	37,188	16.8	451
200,000 - 250,000	7,968	(1.1)	(140)	48,890	24.3	498
250,000 - 500,000	36,915	(4.1)	(112)	57,942	34.0	586
500,000 - 1,000,000	16,132	(5.2)	(325)	9,248	12.7	1,377
$1,000,000 and above	7,515	(12.0)	(1,599)	3,153	53.5	16,973
Totals	217,264	(35.6)	(164)	940,933	369.3	392

Source: Virginia Individual Income Tax Microsimulation Model

As shown in Table 7, for Taxable Year 2018, an estimated 217,264 resident returns would have an estimated Virginia tax decrease averaging $164, while 940,933 resident returns would have an estimated Virginia tax increase averaging $392.

Table 8 presents the estimated distribution of the number of returns with tax increases and decreases for residents resulting from the individual provisions of the TCJA for Taxable Year 2018.

Table 8
Estimated Tax Impact of the On-Model Individual Provisions of the TCJA
Distribution of Returns, Tax Decreases and Increases
Virginia Tax Only – Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Returns with a Tax Decrease		Returns with a Tax Increase	
	Number of Returns (Percent)	Amount of Decrease (Percent)	Number of Returns (Percent)	Amount of Increase (Percent)
$25,000 and below	1.8	0.4	7.4	3.6
25,000 - 50,000	12.6	3.4	26.4	9.3
50,000 - 75,000	15.1	6.4	12.8	11.6
75,000 - 100,000	13.6	7.6	12.0	11.6
100,000 - 125,000	9.8	6.8	11.1	11.4
125,000 - 150,000	7.5	5.8	8.1	8.3
150,000 - 175,000	5.0	3.9	5.6	6.1
175,000 - 200,000	3.1	2.5	4.0	4.5
200,000 - 250,000	3.7	3.1	5.2	6.6
250,000 - 500,000	17.0	11.6	6.2	9.2
500,000 - 1,000,000	7.4	14.7	1.0	3.4
$1,000,000 and above	3.5	33.7	0.3	14.5
Totals	100.0	100.0	100.0	100.0
Source: Virginia Individual Income Tax Microsimulation Model				

When completing a federal return, individuals may elect to either claim the standard deduction or itemize their deductions. In Virginia, individuals are bound by that choice on the state return. Therefore, if an individual itemizes for federal tax purposes, s/he must also itemize for state tax purposes. Similarly, if an individual claims the standard deduction for federal tax purposes, s/he must also claim the standard deduction for state tax purposes.

For the individual provisions, if federal taxes were the only consideration, the significant increase in the federal standard deduction would cause many taxpayers to “switch” and take the standard deduction. For purposes of this report, the model minimized each taxpayer’s combined federal and Virginia tax liability and found that many who would otherwise “switch” for federal tax purposes would continue to itemize to minimize their combined federal and Virginia tax liability.

Not all Virginia residents will necessarily minimize their combined federal and Virginia tax liability due to lack of understanding or the perception that the potential savings would not justify the extra effort involved in itemizing. Therefore, the actual Virginia revenue increase due to this provision of the TCJA may be higher by an unknown amount.

To simulate a taxpayer minimizing overall federal and Virginia taxes, the model takes into account every federal individual income tax policy change enacted by the TCJA. For each taxpayer in the database:

- The model computes federal tax and then Virginia tax assuming that the taxpayer itemizes for federal tax purposes (tax assuming itemized deductions).

- The model computes federal tax and then Virginia tax assuming that the taxpayer takes the standard deduction for federal tax purposes (tax assuming standard deduction).

- The model compares the tax based upon claiming itemized deductions to the tax based upon claiming the standard deduction and then takes the minimum of the two.

Table 9 presents the estimated impact of the TCJA on Virginia residents' decision to either itemize or claim the standard deduction for Taxable Year 2018.

Table 9
Estimated Impact of the TCJA on the Decision to Either Itemize or Claim the Standard Deduction
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income			Itemized Deduction Number of Returns (Prior Law)	Itemized Deduction Number of Returns (New Law)	Standard Deduction Number of Returns (Prior Law)	Standard Deduction Number of Returns (New Law)	Number Switching from Itemized to Standard
$25,000 and below			36,628	16,621	1,084,910	1,104,917	155,306
25,000	-	50,000	167,870	94,367	623,312	696,815	77,757
50,000	-	75,000	210,411	127,687	291,987	374,711	81,991
75,000	-	100,000	204,658	125,969	153,029	231,718	78,303
100,000	-	125,000	182,721	105,197	71,295	148,819	77,461
125,000	-	150,000	143,545	89,223	27,964	82,285	54,286
150,000	-	175,000	106,729	71,457	12,243	47,515	35,280
175,000	-	200,000	77,615	54,667	5,826	28,773	22,923
200,000	-	250,000	100,752	74,070	4,296	30,978	26,587
250,000	-	500,000	121,447	94,123	1,601	28,925	27,097
500,000	-	1,000,000	25,458	21,178	379	4,659	4,211
1,000,000	-	+ Infinity	10,668	9,582	296	1,382	1,065
Totals			1,388,501	884,140	2,277,136	2,781,497	642,266

Source: Virginia Individual Income Tax Microsimulation Model

As shown in Table 9, assuming all taxpayers would minimize their combined federal and Virginia tax liability, we estimate that in Taxable Year 2018, 642,266 returns will switch from itemizing to taking the standard deduction.

Estimated Virginia Tax Impact -- Specific Provisions

As previously mentioned, before the revenue estimating process began, each individual provision in the TCJA was evaluated to determine whether it would affect Virginia revenues, and if so, whether the revenue estimate would be developed using either an “on-model” or an “off-model” approach. Specifically, revenue estimates for nine provisions were developed using an on-model approach and revenue estimates for four provisions were developed using an off-model approach. As explained on Page 1, an off-model approach was used for provisions for which data was not available. Table 10 presents the estimated fiscal year Virginia revenue impact of all the provisions of the TCJA that were determined to affect Virginia individual income taxes.

As shown in Table 10, the individual provisions of the TCJA having the most significant revenue effects on Virginia include:

- Modifications to the standard deduction (Simulation 1)
- Loss limitation for noncorporate taxpayers (Simulation 3)
- Changes in itemized deductions (Simulation 4)

Table 10
Estimated Virginia Tax Impact of Individual Provisions of the TCJA
Residents and Nonresidents
Fiscal Years 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

Stacking Order for On-Model Estimates. There are several interactions among the individual provisions of the TCJA. As described by the JCT[1],

> "When one proposal would modify two or more provisions within the Internal Revenue Code, the result of the combination of changes often produces a greater or lesser revenue effect than the sum of the revenue effects of each proposal if enacted separately. If this interaction is ignored, the analysis is

[1] Joint Committee on Taxation, Methodology and Issues in the Revenue Estimating Process, (JCX-2-95), January 23, 1995. (p. 10)

incomplete; if the interaction is assigned to any one element of a proposal, the revenue estimate for that proposal may be misleading.

The proper interpretation of the revenues attributed to specific proposals and the accompanying interaction are determined by the 'stacking order' of the analysis. There are two principal methods of presenting these results in line-by-line revenue tables, and it is important to note that the numbers in each type of presentation may appropriately answer different questions but reflect the same estimated revenue effect.

The first of these methods provides a revenue estimate for each proposal in isolation against present law, assuming none of the other proposals is adopted. … This procedure is usually the most efficient when only a few proposed changes are involved. …

A second method requires that each proposal be estimated as if all other proposals have already been enacted … The Joint Committee staff utilized this second method to analyze the Tax Reform Act of 1986."

The "stacking order" method adopted for purposes of generating the on-model estimates presented in this report is the same as the second method referred to above. It is the same stacking order used by the JCT to estimate the federal revenue impact of the TCJA. Therefore, the first simulation is run against the prior law baseline, the second simulation is run against the first simulation, the third simulation is run against the second, and so on.

Following we provide details regarding each of the Simulations in the stacking order.

Simulation 1 -- Impact of the Standard Deduction Modification. An individual who does not elect to itemize deductions may reduce his or her federal AGI by the amount of the applicable federal standard deduction when computing his or her federal taxable income. The federal standard deduction is equal to the sum of the basic standard deduction and, if applicable, the additional standard deduction for individuals who are elderly or blind. The basic federal standard deduction varies depending upon a taxpayer's filing status. The amount of the federal standard deduction is indexed annually for inflation.

For Taxable Year 2017, the amount of the basic federal standard deduction was $6,350 for single individuals and married individuals filing separate returns, $9,350 for heads of households, and $12,700 for married individuals filing a joint return and surviving spouses.

The TCJA temporarily increases the basic federal standard deduction for individuals across all filing statuses. The federal standard deduction is temporarily increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals. The additional federal standard deduction for the elderly and the blind was not changed. This change is effective for taxable years beginning after December 31, 2017 and does not apply to taxable years beginning after December 31, 2025.

Table 11 presents the distributional impact of the federal standard deduction modification on Virginia residents for Taxable Year 2018 (Simulation 1) compared to prior law.

Table 11
Estimated Virginia Tax Impact of
Standard Deduction Modification (Simulation 1)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Baseline ($Millions)	Simulation 1 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	165.5	166.4	1.0	0.6%
25,000 - 50,000	866.9	876.4	9.5	1.1%
50,000 - 75,000	1,109.3	1,127.6	18.3	1.7%
75,000 - 100,000	1,188.9	1,211.1	22.3	1.9%
100,000 - 125,000	1,153.4	1,174.0	20.7	1.8%
125,000 - 150,000	1,001.8	1,015.0	13.1	1.3%
150,000 - 175,000	844.7	850.8	6.2	0.7%
175,000 - 200,000	697.2	700.0	2.8	0.4%
200,000 - 250,000	1,065.0	1,067.0	2.0	0.2%
250,000 - 500,000	1,897.9	1,898.4	0.4	0.0%
500,000 - 1,000,000	821.9	821.9	0.1	0.0%
$1,000,000 and above	1,371.6	1,371.6	0.1	0.0%
Totals	12,184.0	12,280.4	96.3	0.8%

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

As shown in Table 11, for Taxable Year 2018, this provision results in an estimated average 0.8 percent increase in tax liability, with most of the change concentrated in the Virginia AGI classes below $150,000.

Simulation 2 – Alternative Inflation Measure. Many provisions of the federal income tax system are adjusted for inflation to protect taxpayers from the effects of rising prices. Prior to Taxable Year 2018, most of the adjustments were based on annual changes in the level of the Consumer Price Index for All Urban Consumers (CPI–U). The CPI–U is an index that measures prices paid by typical urban consumers on a broad range of products and is developed and published by the Department of Labor. The TCJA requires the use of a different inflation measure, the Chained Consumer Price Index for All Urban Consumers (C–CPI–U) to adjust provisions previously indexed by the CPI–U. The provision requiring C–CPI–U indexing is permanent and applies to taxable years beginning after December 31, 2017.

Among the inflation-indexed provisions are the following federal individual income tax amounts: (1) the regular income tax brackets; (2) the basic standard deduction; (3) the additional standard deduction for aged and blind; (4) the phase-in and phaseout thresholds for the earned income credit; and (5) IRA contribution limits and deductible amounts.

Table 12 presents the estimated Virginia Taxable Year 2018 distributional impact of the alternative inflation measure (Simulation 2) on Virginia residents after taking into account the federal standard deduction modification (Simulation 1), along with the percent change in tax liability.

Table 12
Estimated Virginia Tax Impact of
Alternative Inflation Measure (Simulation 2)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 1 ($Millions)	Simulation 2 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	166.4	167.0	0.6	0.4%
25,000 - 50,000	876.4	879.3	2.8	0.3%
50,000 - 75,000	1,127.6	1,130.1	2.5	0.2%
75,000 - 100,000	1,211.1	1,212.0	0.8	0.1%
100,000 - 125,000	1,174.0	1,177.2	3.2	0.3%
125,000 - 150,000	1,015.0	1,014.9	(0.0)	0.0%
150,000 - 175,000	850.8	850.8	(0.0)	0.0%
175,000 - 200,000	700.0	699.9	(0.1)	0.0%
200,000 - 250,000	1,067.0	1,066.8	(0.2)	0.0%
250,000 - 500,000	1,898.4	1,898.5	0.1	0.0%
500,000 - 1,000,000	821.9	822.0	0.0	0.0%
$1,000,000 and above	1,371.6	1,371.6	0.0	0.0%
Totals	12,280.4	12,290.2	9.8	0.1%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 1) * 100

Simulation 3 -- Loss Limitation for Noncorporate Taxpayers. Prior to Taxable Year 2018, taxpayers were generally permitted to claim active business losses against non-business income. Under the TCJA, for taxable years beginning after December 31, 2017 and before January 1, 2026, excess business losses of a taxpayer other than a corporation are not allowed for the taxable year. Such "excess business losses" are defined as active business losses in excess of $250,000 ($500,000 for married taxpayers filing jointly). Such losses are carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward in subsequent taxable years.

Table 13 presents the estimated Virginia Taxable Year 2018 distributional impact of the loss limitation (Simulation 3) on Virginia residents after taking into account the impact of Simulations 1 and 2.

Table 13
Estimated Virginia Tax Impact of
Loss Limitation for Noncorporate Taxpayers (Simulation 3)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income			Simulation 2 ($Millions)	Simulation 3 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below			167.0	175.8	8.8	5.3%
25,000	-	50,000	879.3	879.4	0.1	0.0%
50,000	-	75,000	1,130.1	1,130.3	0.1	0.0%
75,000	-	100,000	1,212.0	1,212.2	0.2	0.0%
100,000	-	125,000	1,177.2	1,177.5	0.2	0.0%
125,000	-	150,000	1,014.9	1,015.2	0.3	0.0%
150,000	-	175,000	850.8	851.2	0.4	0.0%
175,000	-	200,000	699.9	700.1	0.2	0.0%
200,000	-	250,000	1,066.8	1,067.7	0.9	0.1%
250,000	-	500,000	1,898.5	1,902.2	3.7	0.2%
500,000	-	1,000,000	822.0	827.8	5.8	0.7%
$1,000,000 and above			1,371.6	1,424.1	52.4	3.8%
Totals			12,290.2	12,363.3	73.1	0.6%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 2) * 100

Simulation 4 -- Repeal and Limitation of Certain Itemized Deductions. The TCJA repeals and limits certain itemized deductions, including those for taxes paid, casualty and theft losses, and some miscellaneous deductions.

<u>Taxes Paid</u>. Under prior law**,** individuals were permitted an itemized deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. Under the TCJA, unless paid or accrued in carrying on a trade or business an individual taxpayer may only claim an itemized deduction of up to $10,000 ($5,000 for married taxpayers filing a separate return) for the aggregate of (i) state and local property taxes and (ii) state and local income, war profits, and excess profits taxes (or sales taxes in lieu of such taxes) paid or accrued in the taxable year. Foreign real property taxes may not be deducted under this exception. The new law applies to taxable years beginning after December 31, 2017 and beginning before January 1, 2026.

<u>Casualty and Theft Losses</u>. Under prior law, a taxpayer could claim a deduction for any loss sustained during the taxable year, not compensated by insurance or otherwise, incurred in a trade or business or other profit-seeking activity. These losses were deductible only if they exceeded $100 per casualty or theft. In addition, aggregate net casualty and theft losses were deductible only to the extent they exceeded ten percent of an individual taxpayer's AGI. Under the TCJA, a taxpayer may claim a personal casualty loss only if such loss was attributable to a disaster declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The new law is effective for losses incurred in taxable years beginning after December 31, 2017 and does not apply to losses incurred after December 31, 2025.

Repeal of Certain Miscellaneous Itemized Deductions. Under prior law, individuals could claim itemized deductions for certain miscellaneous expenses, to the extent they exceeded two percent of the taxpayer's AGI. The TCJA suspends all miscellaneous itemized deductions that were subject to the two-percent floor under prior law, effective for taxable years beginning after December 31, 2017 and ending for taxable years after December 31, 2025.

Table 14 presents the estimated Virginia Taxable Year 2018 distributional impact of these itemized deduction changes (Simulation 4) after taking into account Simulations 1 through 3.

Table 14
Estimated Virginia Tax Impact of
Repeal and Limitation of Certain Itemized Deductions (Simulation 4)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 3 ($Millions)	Simulation 4 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	166.8	169.4	2.6	1.6%
25,000 - 50,000	879.1	902.0	22.9	2.6%
50,000 - 75,000	1,130.1	1,153.9	23.8	2.1%
75,000 - 100,000	1,211.8	1,233.5	21.6	1.8%
100,000 - 125,000	1,177.2	1,196.9	19.7	1.7%
125,000 - 150,000	1,014.9	1,032.8	17.8	1.8%
150,000 - 175,000	851.0	867.2	16.2	1.9%
175,000 - 200,000	699.9	713.9	14.0	2.0%
200,000 - 250,000	1,066.9	1,088.8	21.9	2.0%
250,000 - 500,000	1,899.4	1,934.8	35.4	1.9%
500,000 - 1,000,000	825.0	842.7	17.7	2.1%
$1,000,000 and above	1,441.3	1,466.9	25.6	1.8%
Totals	12,363.3	12,602.6	239.2	1.9%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 3) * 100

It is important to note that the Virginia AGI used to classify simulation results is based upon the base simulation, which in Table 14 is Simulation 3. In the case of Simulation 3, the distributional results will change somewhat from the results in Table 13 because Simulation 3 actually changed Virginia AGI. As a result, the distributional results for Simulation 3 in Table 13 are different from those in Table 14 even though the totals are the same. This is also the case for Simulation 7 in Tables 17 and 18.

As shown in Table 14, the impact of the repeal and limitation of certain itemized deductions (Simulation 4) is fairly evenly distributed across the Virginia AGI classes.

Simulation 5 – Increase Limit for Cash Charitable Contributions. The Internal Revenue Code (IRC) allows taxpayers to reduce their income tax liability by taking deductions for contributions to certain organizations, including charities, federal, state, local, and Indian tribal governments, and certain other organizations. Special rules limit the deductibility of a taxpayer's charitable contributions in a given year to a percentage of income, and the application of those rules partially depend upon whether the organization receiving the contributions is a public charity or a private foundation.

Under prior law, the percentage of income limit for cash contributions to public charities was 50 percent. The TCJA increased the percentage of income limit from 50 percent to 60 percent for taxable years beginning after December 31, 2017 and before January 1, 2026.

Table 15 presents the estimated Virginia Taxable Year 2018 distributional impact of the increase in the limit for cash charitable contributions (Simulation 5) after taking into account Simulations 1 through 4.

Table 15
Estimated Virginia Tax Impact of
Increase Limit for Cash Charitable Contributions (Simulation 5)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 4 ($Millions)	Simulation 5 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	169.4	169.4	(0.0)	0.0%
25,000 - 50,000	902.0	901.9	(0.0)	0.0%
50,000 - 75,000	1,153.9	1,153.9	(0.0)	0.0%
75,000 - 100,000	1,233.5	1,233.5	(0.0)	0.0%
100,000 - 125,000	1,196.9	1,196.8	(0.0)	0.0%
125,000 - 150,000	1,032.8	1,032.7	(0.0)	0.0%
150,000 - 175,000	867.2	867.2	(0.0)	0.0%
175,000 - 200,000	713.9	713.9	(0.0)	0.0%
200,000 - 250,000	1,088.8	1,088.7	(0.0)	0.0%
250,000 - 500,000	1,934.8	1,934.7	(0.1)	0.0%
500,000 - 1,000,000	842.7	842.6	(0.1)	0.0%
$1,000,000 and above	1,466.9	1,466.7	(0.1)	0.0%
Totals	12,602.6	12,602.0	(0.6)	0.0%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 4) * 100

Simulation 6 – Repeal of Overall Limitation on Itemized Deductions. Under prior law, the total amount of most otherwise allowable itemized deductions (other than the deductions for medical expenses, investment interest, and casualty, theft or gambling losses) was limited for certain taxpayers. All other limitations applicable to such deductions (such as separate floors) were first applied and, then, the otherwise allowable total amount of itemized deductions was reduced by three percent of the amount by which the taxpayer's AGI exceeded a threshold amount. For 2017, the threshold amounts were $261,500 for single taxpayers, $287,650 for heads of household, $313,800 for married couples filing jointly, and $156,900 for married taxpayers filing separately. These threshold amounts were indexed for inflation. The otherwise allowable itemized deductions could not be reduced by more than 80 percent by reason of the overall limit on itemized deductions. The TCJA suspended the overall limitation on itemized deductions, effective for taxable years beginning after December 31, 2017 and before January 1, 2026.

Table 16 presents the estimated Virginia Taxable Year 2018 distributional impact of the repeal of the overall limitation on itemized deductions (Simulation 6) after taking into account Simulations 1 through 5.

Table 16
Estimated Virginia Tax Impact of
Repeal of the Overall Limitation on Itemized Deductions (Simulation 6)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 5 ($Millions)	Simulation 6 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	169.4	169.4	(0.0)	0.0%
25,000 - 50,000	901.9	901.9	(0.0)	0.0%
50,000 - 75,000	1,153.9	1,153.9	(0.0)	0.0%
75,000 - 100,000	1,233.5	1,233.5	(0.0)	0.0%
100,000 - 125,000	1,196.8	1,196.8	(0.0)	0.0%
125,000 - 150,000	1,032.7	1,032.7	(0.0)	0.0%
150,000 - 175,000	867.2	867.1	(0.0)	0.0%
175,000 - 200,000	713.9	713.9	(0.0)	0.0%
200,000 - 250,000	1,088.7	1,088.7	(0.1)	0.0%
250,000 - 500,000	1,934.7	1,927.2	(7.4)	-0.4%
500,000 - 1,000,000	842.6	826.4	(16.2)	-1.9%
$1,000,000 and above	1,466.7	1,430.3	(36.5)	-2.5%
Totals	12,602.0	12,541.8	(60.2)	-0.5%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 5) * 100

Simulation 7 – Changes to Moving Expense Deduction and Exclusion. Under prior law, individuals were permitted an above-the-line deduction for moving expenses paid or incurred during the taxable year in connection with starting at a new principal place of work. The expenses were deductible only if the move met certain conditions related to distance from the taxpayer's previous residence and the taxpayer's status as a full-time employee in the new location. Special rules applied in the case of a member of the Armed Forces of the United States on active duty. The TCJA suspends the deduction for Taxable Years 2018 through 2025 but retains tax benefits for the moving expenses of members of the Armed Forces of the United States.

Under prior law, qualified moving expense reimbursements were excluded from an employee's gross income and amounts that were excludible from gross income for income tax purposes were also excluded from wages for employment tax purposes. The TCJA temporarily repeals the exclusion from gross income and wages for qualified moving expense reimbursements except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order for taxable years beginning after December 31, 2017 and before January 1, 2026.

Table 17 presents the estimated Virginia Taxable Year 2018 distributional impact of changes to the moving expense deduction and exclusion (Simulation 7) after taking into account Simulations 1 through 6.

Table 17
Estimated Virginia Tax Impact of
Changes to the Moving Expense Deduction and Exclusion (Simulation 7)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 6 ($Millions)	Simulation 7 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	169.4	169.6	0.2	0.1%
25,000 - 50,000	901.9	902.3	0.4	0.0%
50,000 - 75,000	1,153.9	1,154.2	0.3	0.0%
75,000 - 100,000	1,233.5	1,233.7	0.3	0.0%
100,000 - 125,000	1,196.8	1,197.1	0.2	0.0%
125,000 - 150,000	1,032.7	1,032.9	0.2	0.0%
150,000 - 175,000	867.1	867.3	0.1	0.0%
175,000 - 200,000	713.9	714.0	0.1	0.0%
200,000 - 250,000	1,088.7	1,088.5	(0.1)	0.0%
250,000 - 500,000	1,927.2	1,925.8	(1.4)	-0.1%
500,000 - 1,000,000	826.4	826.5	0.1	0.0%
$1,000,000 and above	1,430.3	1,430.3	0.0	0.0%
Totals	12,541.8	12,542.2	0.4	0.0%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 6) * 100

Simulation 8 – Medical Expense Deduction Restoration. Under prior law, individuals could generally claim an itemized deduction for unreimbursed medical expenses, but only to the extent that such expenses exceed 10 percent of AGI. For taxable years beginning before January 1, 2017, the 10 percent threshold was reduced to 7.5 percent in the case of taxpayers who had attained the age of 65 before the close of the taxable year. In the case of married taxpayers, the 7.5 percent threshold applied if either spouse has obtained the age of 65 before the close of the taxable year. Under prior law, the floor was set to increase to 10 percent for all taxpayers, including those 65 and older, for taxable years beginning after December 31, 2016.

Under the TJCA, for taxable years beginning after December 31, 2016 and before January 1, 2019, the threshold for deducting medical expenses is 7.5 percent for all taxpayers, regardless of age.

Table 18 presents the estimated Virginia Taxable Year 2018 distributional impact of the medical expense deduction restoration for Taxable Year 2018 (Simulation 8) after taking into account Simulations 1 through 7.

Table 18
Estimated Virginia Tax Impact of
Medical Expense Deduction Restoration (Simulation 8)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 7 ($Millions)	Simulation 8 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	169.3	169.2	(0.1)	-0.1%
25,000 - 50,000	902.0	899.6	(2.4)	-0.3%
50,000 - 75,000	1,154.1	1,149.6	(4.5)	-0.4%
75,000 - 100,000	1,233.5	1,228.4	(5.1)	-0.4%
100,000 - 125,000	1,197.2	1,192.9	(4.3)	-0.4%
125,000 - 150,000	1,032.8	1,029.9	(3.0)	-0.3%
150,000 - 175,000	867.3	865.6	(1.8)	-0.2%
175,000 - 200,000	714.0	712.9	(1.1)	-0.2%
200,000 - 250,000	1,088.6	1,087.4	(1.2)	-0.1%
250,000 - 500,000	1,926.3	1,925.3	(1.1)	-0.1%
500,000 - 1,000,000	826.5	826.4	(0.2)	0.0%
$1,000,000 and above	1,430.4	1,430.4	(0.0)	0.0%
Totals	12,542.2	12,517.4	(24.7)	-0.2%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 7) * 100

Simulation 9 – Repeal Deduction for Alimony Payments. Under prior law, alimony and separate maintenance payments were deductible by the payor spouse and includible in income by the recipient spouse. Child support payments were not treated as alimony. Under the TCJA, alimony and separate maintenance payments are not deductible by the payor spouse. Income used for alimony payments is taxed at the rates applicable to the payor spouse rather than the recipient spouse. The treatment of child support is not changed. The TCJA is generally effective for any divorce or separation instrument executed on or after December 31, 2018.

Table 19 presents the estimated Virginia Taxable Year 2018 distributional impact of the repeal of the deduction for alimony payments (Simulation 9) after taking into account Simulations 1 through 8.

Table 19
Estimated Virginia Tax Impact of
Repeal Deduction for Alimony Payments (Simulation 9)
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Simulation 8 ($Millions)	Simulation 9 ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	169.2	169.1	(0.1)	0.0%
25,000 - 50,000	899.6	899.4	(0.2)	0.0%
50,000 - 75,000	1,149.6	1,149.4	(0.2)	0.0%
75,000 - 100,000	1,228.4	1,228.4	(0.1)	0.0%
100,000 - 125,000	1,192.9	1,192.9	0.0	0.0%
125,000 - 150,000	1,029.9	1,029.9	0.1	0.0%
150,000 - 175,000	865.6	865.6	0.1	0.0%
175,000 - 200,000	712.9	712.9	0.0	0.0%
200,000 - 250,000	1,087.4	1,087.5	0.1	0.0%
250,000 - 500,000	1,925.3	1,925.5	0.3	0.0%
500,000 - 1,000,000	826.4	826.5	0.2	0.0%
$1,000,000 and above	1,430.4	1,430.5	0.2	0.0%
Totals	12,517.4	12,517.7	0.3	0.0%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Simulation 8) * 100

It is natural to think that the distribution of tax at the end of Simulation 9 should match the distribution presented in Table 6 for "New Law"; however, the income classifier used for Simulation 9 is Virginia AGI after taking Simulations 1 through 8 into account and the income classifier used in Table 6 above is "Prior Law" Virginia AGI. Because the income classifiers do not match, the distributions do not match.

Off-Model Estimates. Off-model estimates were developed for four individual provisions of the TCJA because relevant Virginia data needed to analyze specific provisions using the on-model approach were not available. The off-model approach generally involves using ratios that convert the federal revenue estimates produced by the JCT to Virginia estimates. To enable this conversion, various ratios are applied to adjust for differences in Virginia income to US income, Virginia individual income tax to US individual income tax, and the impact of the reduction in federal individual income tax rates stemming from the TCJA.

Three of the off-model estimates had a minimal Virginia revenue impact. These three off-model provisions are:

- Repeal of special rule permitting recharacterization of Roth conversions
- Length of service awards for public safety volunteers
- Allow 529 withdrawals up to $10,000 for primary and secondary education

Estimates for the limitation on mortgage interest and home equity interest deductions were developed using a methodology developed by the Tax Policy Center (TPC)[2] that provides an analysis of a similar tax provision by state and income class. Both the provision analyzed in the TPC paper and the TCJA provision apply only to new loans. The estimated positive revenue impact associated with this provision are $13.7 million for Fiscal Year 2019 and $15.1 million for Fiscal Year 2020, increasing annually to $42.7 million by Fiscal Year 2024.

Estimated Federal Individual Income Tax Impact

The following chart presents the estimated federal individual income tax impact of the TCJA's individual provisions on residents for Taxable Year 2018. As shown in this chart, an estimated 25.9 percent of all returns will experience no federal individual income tax change; an estimated 10.2 percent will experience a federal individual income tax increase; and an estimated 63.9 percent will experience a federal individual income tax decrease.

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[2] Chenxi Lu and Eric Toder, "Effects of Reforms of the Home Mortgage Interest Deduction by Income Group and by State," Tax Policy Center, December 6, 2016.

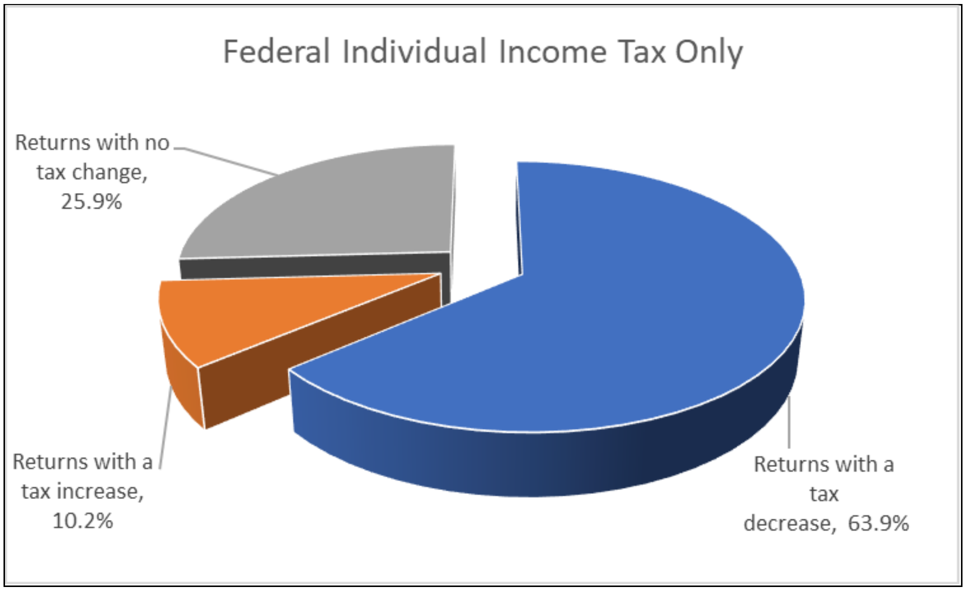

Table 20 presents the estimated federal tax impact of the individual provisions of the TCJA on Virginia residents for Taxable Year 2018.

Table 20
Estimated Federal Individual Income Tax Impact of the On Model Individual Provisions of the TCJA
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income			Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
			Tax Liability			
$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

Table 21 presents estimated details for residents having federal tax decreases and increases resulting from the individual provisions of the TCJA for Taxable Year 2018.

Table 21
Estimated Federal Individual Income Tax Impact
of the On Model Individual Provisions of the TCJA
Tax Liability Decreases and Increases
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Returns with a Tax Decrease			Returns with a Tax Increase		
	Number of Returns (Units)	Amount of Decrease ($Millions)	Average ($)	Number of Returns (Units)	Amount of Increase ($Millions)	Average ($)
$25,000 and below	375,857	(74.5)	(198)	26,081	45.6	1,748
25,000 - 50,000	506,754	(301.4)	(595)	91,150	50.1	550
50,000 - 75,000	407,510	(487.6)	(1,196)	67,666	59.5	880
75,000 - 100,000	311,225	(569.1)	(1,829)	41,702	47.2	1,133
100,000 - 125,000	226,059	(610.9)	(2,702)	26,807	40.0	1,491
125,000 - 150,000	149,442	(447.8)	(2,997)	21,713	38.8	1,788
150,000 - 175,000	96,173	(272.6)	(2,835)	22,666	42.1	1,855
175,000 - 200,000	63,263	(165.4)	(2,614)	20,098	37.7	1,878
200,000 - 250,000	75,560	(208.2)	(2,755)	29,428	65.0	2,210
250,000 - 500,000	99,996	(618.6)	(6,186)	23,020	108.2	4,698
500,000 - 1,000,000	22,711	(442.6)	(19,490)	3,122	69.3	22,207
$1,000,000 and above	8,973	(754.5)	(84,092)	1,990	369.5	185,695
Totals	2,343,523	(4,953.2)	(2,114)	375,444	973.1	2,592

Source: Virginia Individual Income Tax Microsimulation Model

As shown in Table 21, for Taxable Year 2018, an estimated 2,343,523 resident returns will experience a federal tax decrease averaging $2,114, while an estimated 375,444 resident returns will experience an average federal tax increase of $2,592.

Table 22 presents the distribution of the number of returns with estimated federal tax increases and decreases for residents resulting from the individual provisions of the TCJA for Taxable Year 2018.

Table 22
Estimated Federal Individual Income Tax Impact
of the On-Model Individual Provisions of the TCJA
Distribution of Returns, Tax Decreases and Increases
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Returns with a Tax Decrease: Number of Returns (Percent)	Returns with a Tax Decrease: Amount of Decrease (Percent)	Returns with a Tax Increase: Number of Returns (Percent)	Returns with a Tax Increase: Amount of Increase (Percent)
$25,000 and below	16.0	1.5	6.9	4.7
25,000 - 50,000	21.6	6.1	24.3	5.1
50,000 - 75,000	17.4	9.8	18.0	6.1
75,000 - 100,000	13.3	11.5	11.1	4.9
100,000 - 125,000	9.6	12.3	7.1	4.1
125,000 - 150,000	6.4	9.0	5.8	4.0
150,000 - 175,000	4.1	5.5	6.0	4.3
175,000 - 200,000	2.7	3.3	5.4	3.9
200,000 - 250,000	3.2	4.2	7.8	6.7
250,000 - 500,000	4.3	12.5	6.1	11.1
500,000 - 1,000,000	1.0	8.9	0.8	7.1
$1,000,000 and above	0.4	15.2	0.5	38.0
Totals	100.0	100.0	100.0	100.0

Source: Virginia Individual Income Tax Microsimulation Model

Conclusion

To summarize, we estimate that the individual provisions of the TCJA affect Virginia residents as follows:

- There is an overall federal tax decrease across all income classifications.
- There is an overall Virginia tax increase across all income classifications.
- There is an overall combined federal and Virginia tax decrease across all income classifications.
- Because the model assumed that taxpayers would seek to minimize their combined federal and Virginia tax, many taxpayers who would otherwise "switch" from itemizing to claiming the standard deduction for federal tax

minimization purposes alone would continue to itemize to achieve a lower combined tax liability.

Estimated Tax Impact of the Business Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia impact of the business provisions of the TCJA. Most of the TCJA business provisions affect both corporations and pass-through entities, including partnerships and LLCs; therefore, the Virginia revenue impact includes the impact on both individual and corporation income tax revenues.

The base year for the corporation income tax database is Taxable Year 2015. This database was extrapolated through Taxable Year 2024. The revenue estimates cover Fiscal Years 2019 to 2024. Due to the likely timing of Virginia's conformity to the TCJA, the estimates assume that the full revenue impact for Taxable Year 2018 will be recognized in Fiscal Year 2019.

The JCT estimates that the TCJA will result in significant federal tax cuts for certain business taxpayers[3]. The bulk of the federal tax cut is due to the reduced corporate income tax rate, which has no direct impact on Virginia revenue. Overall, we estimate that the business provisions of the TCJA will result in a Virginia revenue increase that grows over time. The business provisions of the TCJA that result in the most significant Virginia revenue increases include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

The business provisions of the TCJA that result in the most significant Virginia revenue decreases include:

- Increase in IRC section 179 expensing
- Simplified accounting for small business

Following we discuss:

- The overall estimated Virginia tax impact of the business provisions of the TCJA taken together

- The estimated Virginia tax impact of specific business provisions of the TCJA

[3] "Tax Cuts and Jobs Act Conference Report to Accompany H.R. 1, December 15, 2017", pp. 685-688

Estimated Virginia Revenue Impact -- Overall

As shown in Table 23, the business provisions of the TCJA result in an estimated Virginia revenue increase of $0.5 million in Fiscal Year 2019 and $114.6 million in Fiscal Year 2020, increasing to $398.2 million by Fiscal Year 2024. The business provisions do not have a significant revenue impact in Fiscal Year 2019 due to the offsetting negative revenue impact of the simplified accounting rules for small businesses. However, there is a large positive revenue impact beginning in Fiscal Year 2020, with a significant increase in Fiscal Year 2022 when a provision related to the amortization of research and experimental expenditures becomes effective.

Table 23
Estimated Virginia Revenue Impact of All Business Provisions of the TCJA
Fiscal Years 2019 to 2024
($millions)

	2019*	2020	2021	2022	2023	2024	Total
Fiscal Year Virginia Only Impact							
Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3

* 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

Estimated Virginia Revenue Impact -- Specific Provisions

The Virginia Corporation Income Tax Microsimulation Model was used to generate revenue estimates for four on-model provisions. Twenty-two off-model estimates were generated using JCT estimates as a starting point.

Table 24 presents an overview of the estimated fiscal year revenue impact of the business provisions of the TCJA having an impact on Virginia businesses, including both corporations and pass-through entities (partnerships, limited liability companies, Subchapter S corporations, etc.).

Table 24
Estimated Virginia Revenue Impact of Business Provisions of the TCJA
Fiscal Years 2019 to 2024

	2019*	2020	2021	2022	2023	2024	Total
Simulation 1: Increase IRC section 179 expensing	(89.9)	(46.2)	(22.6)	(19.2)	(13.8)	(9.9)	(201.6)
Simulation 2: Limit net interest deductions	122.8	90.0	93.4	98.7	105.1	109.3	619.1
Simulation 3: Modification of net operating loss deduction	8.0	23.3	42.2	52.7	51.8	50.8	228.7
Simulation 4: Repeal domestic production activities deduction	52.0	40.8	42.6	44.3	46.2	48.0	273.9
Off-Model Est. 1: Simplified accounting for small business	(107.3)	(33.1)	(16.5)	(14.4)	(11.8)	(12.2)	(195.3)
Off-Model Est. 2: Modify treatment of S corps conversions into C corps	(4.3)	(2.5)	(3.0)	(2.8)	(2.9)	(2.8)	(18.3)
Off-Model Est. 3: Modifications of treatment of farm property	-	-	(0.4)	(1.0)	(1.5)	(1.3)	(4.1)
Off-Model Est. 4: Repeal like-kind exchanges except for real property	6.3	6.5	8.7	11.2	14.7	19.3	66.8
Off-Model Est. 5: Applicable recovery period for real property	(1.0)	(1.2)	(2.2)	(2.5)	(3.5)	(3.5)	(13.9)
Off-Model Est. 6: Amortization of research and experimental expenditures	-	-	-	94.4	195.7	164.2	454.3
Off-Model Est. 7: Meals and entertainment expenses	17.5	11.9	12.2	12.5	12.8	13.0	80.1
Off-Model Est. 8: Repeal deduction for qualified transportation fringes	13.0	9.0	9.3	9.5	9.8	10.1	60.7
Off-Model Est. 9: UBTI increased by amount of certain fringe expenses	- - - -- - - - - - -Estimate Included in Off-Model Estimate 8 - - - - - - - - -						
Off-Model Est. 10: Repeal of rollover of publicly traded securities gain	1.7	1.4	1.3	1.3	0.9	0.5	7.0
Off-Model Est. 11: Rules for taxable year of inclusion in gross income -- general	13.3	9.3	9.2	5.6	1.4	1.0	39.7
Off-Model Est. 12: Rules for taxable year of inclusion in gross income -- OID	1.1	3.6	4.0	3.6	4.0	3.6	19.8
Off-Model Est. 13: Modification of rules relating to employee remuneration	3.6	5.6	5.4	5.4	5.4	5.4	30.8
Off-Model Est. 14: Treatment of qualified equity grants	(1.8)	(1.1)	(1.1)	(0.7)	(0.2)	0.0	(4.9)
Off-Model Est. 15: Expand definition of built-in loss for partnership loss transfers	-	-	0.4	0.6	0.5	0.5	2.0
Off-Model Est. 16: Charitable and foreign taxes in partnership loss limit	0.4	0.6	0.5	0.5	0.5	0.5	3.1
Off-Model Est. 17: Repeal of technical termination of partnerships	1.3	0.7	0.5	0.9	1.1	1.1	5.6
Off Model Est. 18: Unrelated business taxable income separately computed for each trade or activity	2.2	1.6	1.6	2.0	2.2	2.2	11.8
Off Model Est. 19: Charitable deduction not allowed for amounts paid in exchange for college athletic seating	1.8	1.1	1.1	1.1	1.1	1.1	7.2
Off Model Est. 20: Create qualified opportunity zones	(12.9)	(8.9)	(9.0)	(8.9)	(8.3)	(8.1)	(56.0)
Off Model Est. 21: Repeal of deduction for local lobbying expenses	0.4	0.6	0.5	0.5	0.5	0.5	3.1
Off-Model Est. 22: Revision of treatment of contributions to capital	1.3	1.8	3.3	4.9	5.5	5.0	21.8
Total, All Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3

* 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

Following we provide discussions of the four business provision Simulations and the significant off-model estimates.

Simulation 1 -- Increase IRC Section 179 Expensing. A taxpayer generally must capitalize the cost of property used in a trade or business or held to produce income and recover such cost over time through annual deductions for depreciation or amortization. However, a taxpayer may elect under IRC section 179 to deduct (or ‘‘expense’’) the cost of qualifying property, rather than to recover such costs through depreciation deductions, subject to limitation.

Under prior law, the maximum amount a taxpayer could expense was $500,000 of the cost of qualifying property placed in service for the taxable year. The $500,000 amount was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeded $2,000,000. The $500,000 and $2,000,000 amounts were indexed for inflation for taxable years beginning on or after January 1, 2016.

The TCJA increases the maximum amount a taxpayer may expense under IRC section 179 to $1,000,000 and increases the phaseout threshold amount to $2,500,000 for taxable years beginning after December 31, 2017. These amounts are indexed for inflation for taxable years beginning after December 31, 2018.

Simulation 2 – Limit Net Interest Deductions. Interest paid or accrued by a business generally is deductible in the computation of taxable income subject to several limitations. Interest is generally deducted by a taxpayer as it is paid or accrued, depending on the taxpayer’s method of accounting.

Under prior law, in the case of a taxpayer other than a corporation, the deduction for interest on indebtedness that is allocable to property held for investment (investment interest) was limited to the taxpayer’s net investment income for the taxable year. Disallowed investment interest was carried forward to the next taxable year.

Under the TCJA, for taxable years beginning after December 31, 2017, the deduction for business interest is limited to the sum of (1) business interest income; (2) 30 percent of the adjusted taxable income of the taxpayer for the taxable year; and (3) the floor plan financing interest of the taxpayer for the taxable year. Floor plan financing interest is interest on indebtedness used to finance the acquisition of motor vehicles held for sale or lease to retail customers and secured by the inventory so acquired. This limitation applies to both corporations and pass-through entities. In the case of a pass-through entity, the limitation applies at the entity level, rather than the partner or owner level. In the case of a group of affiliated corporations that file a consolidated return, the limitation applies at the consolidated tax return filing level.

Under the TCJA, interest deductions are permitted to be carried forward indefinitely, subject to certain restrictions applicable to partnerships.

Simulation 3 -- Modification of Net Operating Loss Deduction. When the amount of business deductions exceeds gross income during a taxable year, business deductions are first used to reduce gross income to zero. The remaining, unused amount is known as a "net operating loss" (NOL) and can reduce income in other taxable years according to specific rules. Under prior law, an NOL could generally be carried back two years and carried over 20 years to offset taxable income in such years.

The TCJA generally limits the NOL deduction to 80 percent of taxable income for losses arising in taxable years beginning after December 31, 2017. Carryovers to other years are adjusted to take account of this limitation and may be carried forward indefinitely.

In addition, NOLs may no longer be carried back and used in previous taxable years. Exceptions apply to property and casualty insurance companies and certain farm losses.

Simulation 4 – Repeal Domestic Production Activities Deduction. Under prior law, IRC section 199 provided a deduction from taxable income (or, in the case of an individual, AGI) equal to nine percent of the lesser of the taxpayer's qualified production activities income or taxable income (determined without regard to the IRC section 199 deduction) for the taxable year. The TCJA repeals the deduction for income attributable to domestic production activities and is effective for taxable years beginning after December 31, 2017.

Off-Model Estimates. Off-model estimates were developed for twenty-two business provisions of the TCJA because relevant Virginia data needed to analyze specific provisions using the on-model approach were not available. The off-model estimate that results in the greatest Virginia revenue increase is the amortization of research and experimental expenditures (Off-Model Estimate 6). Business expenses associated with the development or creation of an asset having a useful life extending beyond the current year generally must be capitalized and depreciated over such useful life. However, taxpayers may elect to deduct currently the amount of certain reasonable research or experimentation expenditures paid or incurred in connection with a trade or business. Taxpayers may choose to forgo a current deduction, capitalize their research expenditures, and recover them ratably over the useful life of the research, but in no case over a period of less than 60 months. Alternatively, taxpayers may elect to amortize their research expenditures over a period of 10 years.

Under the TCJA, amounts defined as specified research or experimental expenditures are required to be capitalized and amortized ratably over a five-year period, beginning with the midpoint of the taxable year in which the specified research or experimental expenditures were paid or incurred. Specified research or experimental expenditures attributable to research that is conducted outside of the United States are required to be capitalized and amortized ratably over a period of 15 years, beginning with the midpoint of the taxable year in which such expenditures were paid or incurred.

The provision applies to amounts paid or incurred in taxable years beginning after December 31, 2021. We estimate that the provision will have a positive revenue impact of $94.4 million for Fiscal Year 2022, $195.7 million for Fiscal Year 2023, and $164.2 million for Fiscal Year 2024, for a total of $454.3 million over the period of analysis.

The off-model estimate resulting in the greatest Virginia revenue decrease is the simplified accounting provision for small businesses (Off Model Estimate 1). The TCJA expands the universe of taxpayers that may use the cash method of accounting, retains prior law exceptions from the required use of the accrual method for qualified personal service corporations and taxpayers other than C corporations, and exempts certain taxpayers from the requirement to keep inventories. It also expands the exception for small taxpayers from the uniform capitalization rules and the exception for small construction contracts from the requirement to use the percentage-of-completion method. The provision is generally applicable for taxable years beginning after December 31, 2017.

Conclusion

The JCT estimates that the TCJA will provide business taxpayers with significant federal tax cuts. We estimate that the business provisions of the TCJA will result in a Virginia revenue increase that grows over time.

The business provisions with the most significant Virginia revenue impact include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

Estimated Impact of the International Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia tax impact of the international provisions of the TCJA. Virginia Tax and Chainbridge conducted a review of the international provisions of the TCJA and concluded that most of the provisions would have not have a substantive Virginia revenue impact. The rationale for this conclusion in most cases is that while Virginia generally conforms to federal law, Virginia allows a subtraction for foreign source income, which includes dividends from a foreign corporation.

The "current year inclusion of global intangible low-taxed income" (GILTI) is the only international provision expected to have a direct positive revenue impact on Virginia. While another international provision relating to the repatriation of deferred foreign earnings ("Repatriation") will generally have no direct revenue impact on Virginia, it is expected to result in an indirect positive revenue impact. Such indirect impact will occur because corporations subject to Repatriation at the federal level are expected to use some of their repatriated earnings to make distributions to their individual shareholders. Because such distributions are typically taxable to shareholders under federal law and Virginia conforms to such treatment, the increased corporate distributions will increase the amount of individual income tax collected by Virginia.

Following we provide discussions of:

- The aggregate estimated Virginia revenue impact of all of the international provisions of the TCJA

- The estimated Virginia tax impact of the two specific international provisions of the TCJA

Estimated Virginia Tax Impact -- Overall

As shown in Table 25, we find that the international provisions of the TCJA result in a positive Virginia revenue impact. This revenue gain is the greatest in Fiscal Years 2019 ($32.6 million) and 2020 ($52.7 million).

Table 25
Estimated Virginia Revenue Impact of the International Provisions of the TCJA
Fiscal Years 2019 to 2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
Fiscal Year Virginia Revenue Impact							
International Provisions	32.6	52.7	5.5	5.8	6.0	6.3	108.8

* 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

Estimated Virginia Tax Impact -- Specific Provisions

The Virginia tax impact of the Repatriation provision was estimated using an off-model approach. The Virginia Corporation Income Tax Microsimulation Model was used to estimate the Virginia tax impact of the GILTI provision.

Repatriation Provision. For the last taxable year beginning before January 1, 2018, any U.S. shareholder of a specified foreign corporation must include in income its pro rata share of the *accumulated post-1986 deferred foreign income of the corporation*. A portion of that pro rata share of foreign earnings is deductible; the amount of the deductible portion depends upon whether the deferred earnings are held in cash or other assets. The deduction results in a reduced rate of tax with respect to income from the required inclusion of pre-effective date earnings. A corresponding portion of the credit for foreign taxes is disallowed, thus limiting the credit to the taxable portion of the included income. The increased tax liability generally may be paid over an eight-year period. Special rules are provided for S corporations and real estate investment trusts.

Because corporate U.S. shareholders may subtract the net inclusion on their Virginia return, the Repatriation provision has no direct impact on the corporation income tax. However, the Repatriation provision is expected to result in an indirect impact on the individual income tax. As previously stated, such indirect impact will occur because corporations subject to Repatriation at the federal level are expected to use their repatriated earnings in part to make distributions to their shareholders.

Based upon our research of Forms 10-K filed with the US Securities and Exchange Commission (SEC) for publicly-traded companies that are expected to repatriate earnings, we were able to estimate the amount of distributions being made on account of the Repatriation provision and the extent that they would be taxable to individual shareholders as either dividend income or capital gains under federal law. Because Virginia generally conforms to the federal tax treatment of corporate distributions, the increased corporate distributions made on account of the Repatriation provision will increase the amount of individual income tax collected by Virginia. Moreover, because the TCJA left the federal tax treatment of corporate distributions largely unaltered, this provision will result in a positive impact regardless of whether Virginia chooses to conform to the TCJA. There would be a direct impact on individual income taxpayers; however, this impact is expected to be minimal.

Table 26 presents the estimated indirect Virginia revenue impact of the Repatriation provision for Fiscal Years 2018 to 2024.

Table 26
Estimated Virginia Revenue Impact of
International Repatriation Provision
Fiscal Years 2018-2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
Fiscal Year Virginia Revenue Impact							
Repatriation Provision	25.5	47.3	-	-	-	-	72.8

* 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

Inclusion of Global Intangible Low-taxed Income *(GILTI).* Under the TCJA, U.S. shareholders of controlled foreign corporations must include in gross income their pro rata share of Global Intangible Low-Tax Income ("GILTI"). GILTI is income earned by a foreign corporation that exceeds a "normal" rate of return on its tangible assets and that is not already taxed by the United States in the current year. A 10 percent rate of return on assets is considered normal. However, GILTI is effectively taxed at a low rate for U.S. corporate shareholders because, for taxable years beginning after December 31, 2017, and before January 1, 2026, a domestic corporation can generally claim a deduction in an amount equal to 50 percent of its GILTI. For taxable years beginning after December 31, 2025, the deduction amount is equal to 37.5 percent of its GILTI.

Current Virginia law allows a subtraction for Subpart F income under Va. Code section 58.1-402(C)(7) and a subtraction for foreign source income under Va. Code section 58.1-402(C)(8). However, GILTI would not qualify for either subtraction because Virginia Tax concluded that it is not technically "Subpart F income" as defined in IRC section 952, nor is it "foreign source income" as defined in Va. Code section 58.1-302.

Table 27 presents the Virginia tax impact of the GILTI provision on corporation income taxpayers for Fiscal Years 2018-2024. The impact on individual income taxpayers is expected to be minimal.

Table 27
Estimated Virginia Revenue Impact of
International GILTI Provision
Fiscal Years 2018-2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
Fiscal Year Virginia Revenue Impact							
GILTI Provision	7.1	5.4	5.5	5.8	6.0	6.3	36.0

* 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

Conclusion

Overall, we estimate that the international provisions of the TCJA will result in a positive revenue impact for Virginia, consisting of an ongoing positive revenue impact from the GILTI provision and a short-term indirect impact in FY 2019 and 2020 from the repatriation provision.