

**Commentary on Example in August 18 Richmond Times-Dispatch Editorial**

- The example fails to account for the overall state and federal impact on taxpayers - most taxpayers will receive a net federal and state tax benefit, even after accounting for any increase in Virginia tax.
- The example fails to recognize that the impact is very specific to each individual – it does not provide information about dependents, the type of itemized deductions claimed, etc.
- The article is focused only on one provision of a very large federal bill. Considering the impact of the standard deduction increases without taking into account the interaction of any of the other changes, such as changes to the state and local tax (SALT), mortgage interest, charitable contribution, and miscellaneous itemized deductions provides an unrealistic calculation.
- The example oversimplifies the complex computation of federal and state tax liability.
  - For example, the student loan interest deduction is an above-the-line deduction (taken into account in adjusted gross income), rather than an itemized deduction.
  - Assuming this couple is claiming the maximum deduction allowed under federal law (\$2,500), their federal itemized deductions would be \$16,500 rather than \$19,000.
- The example also inaccurately assumes that an individual’s state itemized deductions will be equal to the federal itemized deductions.
  - Under current state law, Virginia, like many other states, disallows the portion of the state and local tax (SALT) deduction allowed for state income taxes.
  - As a result, the amount of Virginia itemized deductions allowed are almost always less than the federal amount.
- After accounting for these two changes, the calculation looks more like this:

**FEDERAL TAX IMPACT**

<u>Itemizing For TY 2018</u>		<u>Standard Deduction for TY 2018</u>	
Gross Income	\$80,000	Gross Income	\$80,000
Student Loan Interest Deduction*	\$2,500	Student Loan Interest Deduction*	\$2,500
<b>Federal Adjusted Gross Income</b>	<b>\$77,500</b>	<b>Federal Adjusted Gross Income</b>	<b>\$77,500</b>
Itemized Deductions	\$16,500	Federal Standard Deduction	\$24,000
Federal Taxable Income	\$61,000	Federal Taxable Income	\$53,500
<b>Federal Tax</b>	<b>\$6,939</b>	<b>Federal Tax</b>	<b>\$6,039</b>

**VIRGINIA TAX IMPACT**

<u>Itemizing For TY 2018</u>		<u>Standard Deduction for TY 2018</u>	
Federal Adjusted Gross Income	\$77,500	Federal Adjusted Gross Income	\$77,500
Itemized Deductions	\$16,500	Virginia Standard Deduction	\$6,000
SALT Deduction - Income tax addback**	\$2,884		
Virginia Personal Exemption	\$1,860	Virginia Personal Exemption	\$1,860
Virginia Taxable Income	\$62,024	Virginia Taxable Income	\$69,640
Virginia Tax	\$3,309	Virginia Tax	\$3,747
Spousal Tax Adjustment***	\$259	Spousal Tax Adjustment***	\$259
<b>Virginia Tax Final</b>	<b>\$3,050</b>	<b>Virginia Tax Final</b>	<b>\$3,488</b>

\* Assumes maximum deduction of \$2,500  
 \*\* Assumes state income taxes paid of \$2,884  
 \*\*\* Assumes both spouses earned \$40,000 each

Increase in state taxes	\$438
Decrease in federal taxes	(\$900)
<b>Combined Tax Impact</b>	<b>(\$462)</b>