

Policy Choices to Protect and Increase Investment in Virginia Communities

To make sure every community in Virginia is a good place to live, work, and raise a family, we must invest in quality public education, health care, affordable housing, access to food, and other important services and supports. However, the ability to protect existing investments and make new ones is under threat due to the significant impact that recent federal decisions will have on our state budget. Rather than doubling down on tax choices that are more likely to harm low-income families, drawing from rainy day funds meant for unexpected and short-term revenue shortfalls, or cutting funding from programs — a choice that has largely harmed Black, brown, and low-income families in the past — we should look to advance tax fairness and make continued and long-overdue transformative investments that would make Virginia a place where everyone can thrive.

There are a number of ways to increase state revenues while modernizing our tax system and making sure the wealthiest among us, who pay the least taxes as a share of income, pay their fair share. Options range from altering our state income tax, expanding the sales tax base and addressing sales tax exemptions, and more. While we don't delve into every opportunity to increase state revenues through the state tax code, we highlight several below that could be used to create and support thriving communities.

Closing Loopholes

Option	Most Recent Estimate (non-inflation adjust.)	Estimate time frame	Est. year	Source
Decouple from federal special treatment of capital gains for Qualified Small Business Stocks (QSBS)	\$28.1 million	2026	2025	Institute on Taxation and Economic Policy
Decouple from Foreign-Derived Deduction Eligible Income (FDDEI) deduction. Washington, D.C., and 18 states, including NC, have already decoupled	\$99.6 million	2026	2026	ITEP report
Address incomplete non-grantor (ING) trusts: Fix loophole by treating income as taxable to the grantor, rather than as the income of a separate entity taxed elsewhere	Unknown positive revenue. See recent CBPP report			

Income Tax Changes

Option	Most Recent Estimate (non-inflation adjust.)	Estimate time frame	Est. year	Source
Establish a fair share tax, a new state income tax bracket of 10% only on annual taxable income that exceeds \$1 million starting TY26	\$3.0 billion in FY27 \$2.1 billion in FY28	FY27-28	2026	HB188 FIS
Establish a new state income tax bracket of 7% only on annual taxable incomes over \$600,000	\$530 million in FY27 \$584 million in FY28	FY27-28	2025	HB1754 FIS
Establish two new income tax brackets: a 8% tax rate on taxable income between \$600,000 and \$1 million, and 10% on income above \$1 million starting TY27	\$1.1 billion in FY27 \$2.5 billion in FY28	FY27-28	2026	HB979 FIS

Sales Tax Changes

Option	Most Recent Estimate (non-inflation adjust.)	Estimate time frame	Est. year	Source
Expand state sales tax base to include digital personal property and new economy services, incl. some Business to Business (B2B) transactions (part of HB978; Del. Watts)	\$1.6 billion in FY27 \$1.8 billion in FY28 (incl. K12 & transpo \$)	FY27-28	2026	HB978 FIS (portion)
Expand retail sales and use tax to select services, incl. delivery, dry cleaning, repair, and storage services (part of HB 978, Del. Watts)	\$1.2 billion in FY27 \$1.3 billion in FY28 (incl. K12 & transpo \$)	FY27-28	2026	HB978 FIS (portion)
Eliminate data center sales and use tax exemption, cap, or tie to energy efficiency standards	\$550 million in FY27 \$1.3 billion in FY28 (incl. K12 & transpo \$)	FY27-28	2026	SB30 Item 4-14 #4s estimate
Expand state sales tax base to include digital personal property and new economy services, not including any B2B transactions	\$441 million (GF, incl. restricted for K12)	FY26	2024	Aug. 2024 SFAC staff presentation
Increase the watercraft sales tax rate and eliminate \$2,000 cap (sometimes referred to as the 'yacht tax loophole')	\$6.6 million	FY24	2018	HB465 FIS

Other Taxes and Credits

Option	Most Recent Estimate (non-inflation adjust.)	Estimate time frame	Est. year	Source
Reestablish the state estate tax	about \$60 million	annual	2024	HB1414 FIS
End the Education Improvement Scholarship Tax Credit (EISTC)	\$25 million	annual	limit set by state code	§ 58.1-439.26
End single sales factor apportionment for manufacturers for corporate income tax	\$28 million	FY23	2024	JLARC, Econ. Development Incentives 2024
Adopt mandatory combined reporting	Further study needed for revenue impacts		2021	2021 Unitary Combined Reporting Study
Switch to market-based sourcing	Further study needed for revenue impacts		2025	Study included in Ch. 725

New Options from Other States

Option	Most Recent Estimate (non-inflation adjusted)	Estimate time frame	Est. year	Source
Establish 3.8% tax on net investment income for households making over \$200k/single or \$250k/joint	Approx. \$475 million in FY27; \$960 million in FY28	FY27-28	2026	HB378 FIS
Establish a 2% surtax on net capital gains income for households making \$200k or more	Approx. \$400 million using TY2022 data; would be volatile	2022	2025	IRS TY22 SOI
Establish marginal rates on real estate transfers of high value properties, either on the value above a threshold or on the total value	Up to \$403 million		2024	CBPP