
In this presentation

Marijuana legalization in Virginia

Increasing progressivity of Virginia's personal income tax

Building equity into economic development incentives

Key points

Most incentives are not intentionally designed for equity, but some are

Whether or not an incentive is designed for equity, it can be evaluated for equity

Successfully targeting who benefits is not easy

Why legalize?

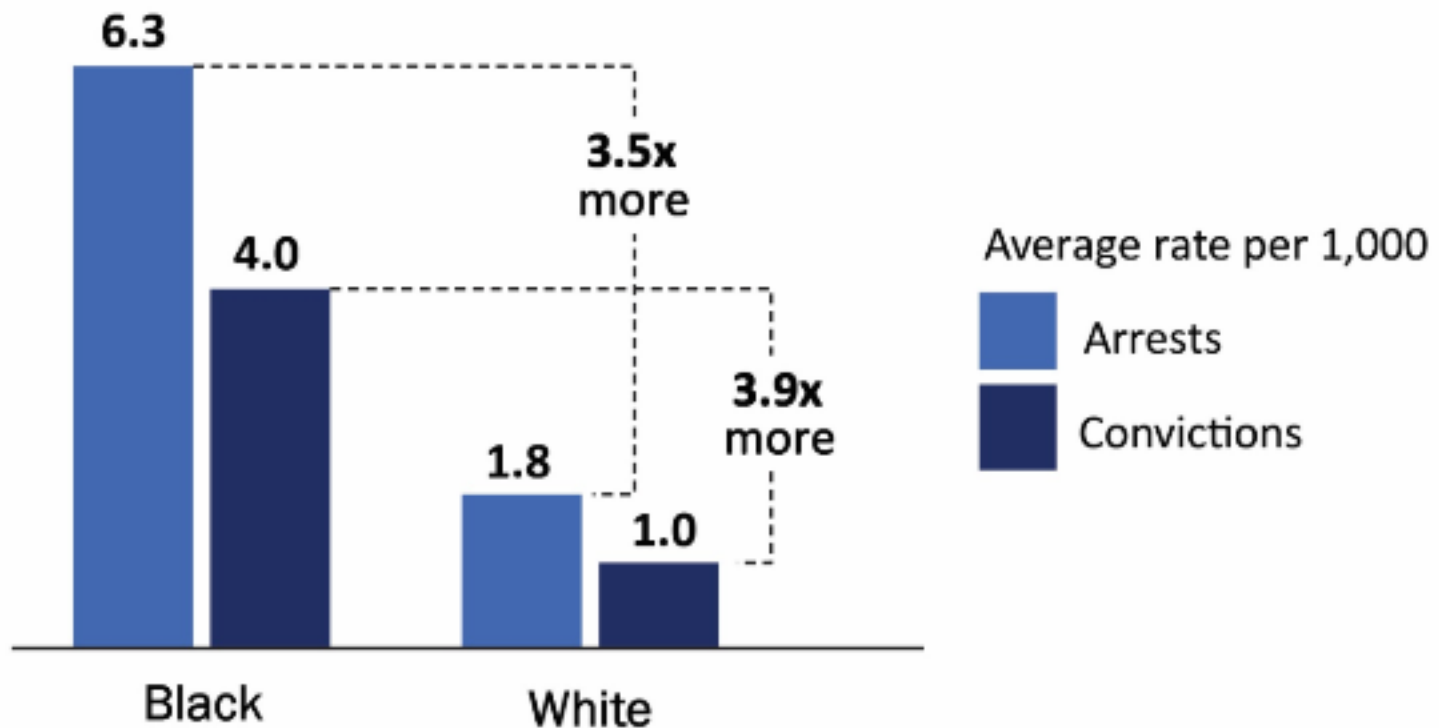
- Virginia legalized marijuana possession on July 1, 2021
- Primarily to address criminal justice inequities caused by marijuana prohibition
- Not for economic impacts, or new tax revenue

Black and white Virginians use at similar rates

- Black Virginians report similar rates of marijuana use (7%) as white Virginians (6%)

Source: National Survey of Drug Use and Health, 2008/09 to 2017/18.

But Black Virginians 3.5 times more likely to be arrested for marijuana possession



Targeting who benefits

- Intention: communities most affected by marijuana law enforcement should have opportunity to benefit from commercial market
- But race-based criteria are subject to strict scrutiny by courts and likely cannot be used for social equity programs

Options for targeting who benefits

	Number of beneficiaries	Magnitude of benefit	Costs
Marijuana business ownership	1	5	\$\$
Marijuana industry employment	3	3	\$
Increase funding to existing community assistance programs	5	3	\$\$\$
Community reinvestment grant fund	5	3	\$\$\$

Will targeting who benefits work?

- Other states are increasingly attempting to achieve social equity goals through their commercial markets.
- No state, though, has been able to fully achieve these goals, and several are revising their approaches to improve their effectiveness.

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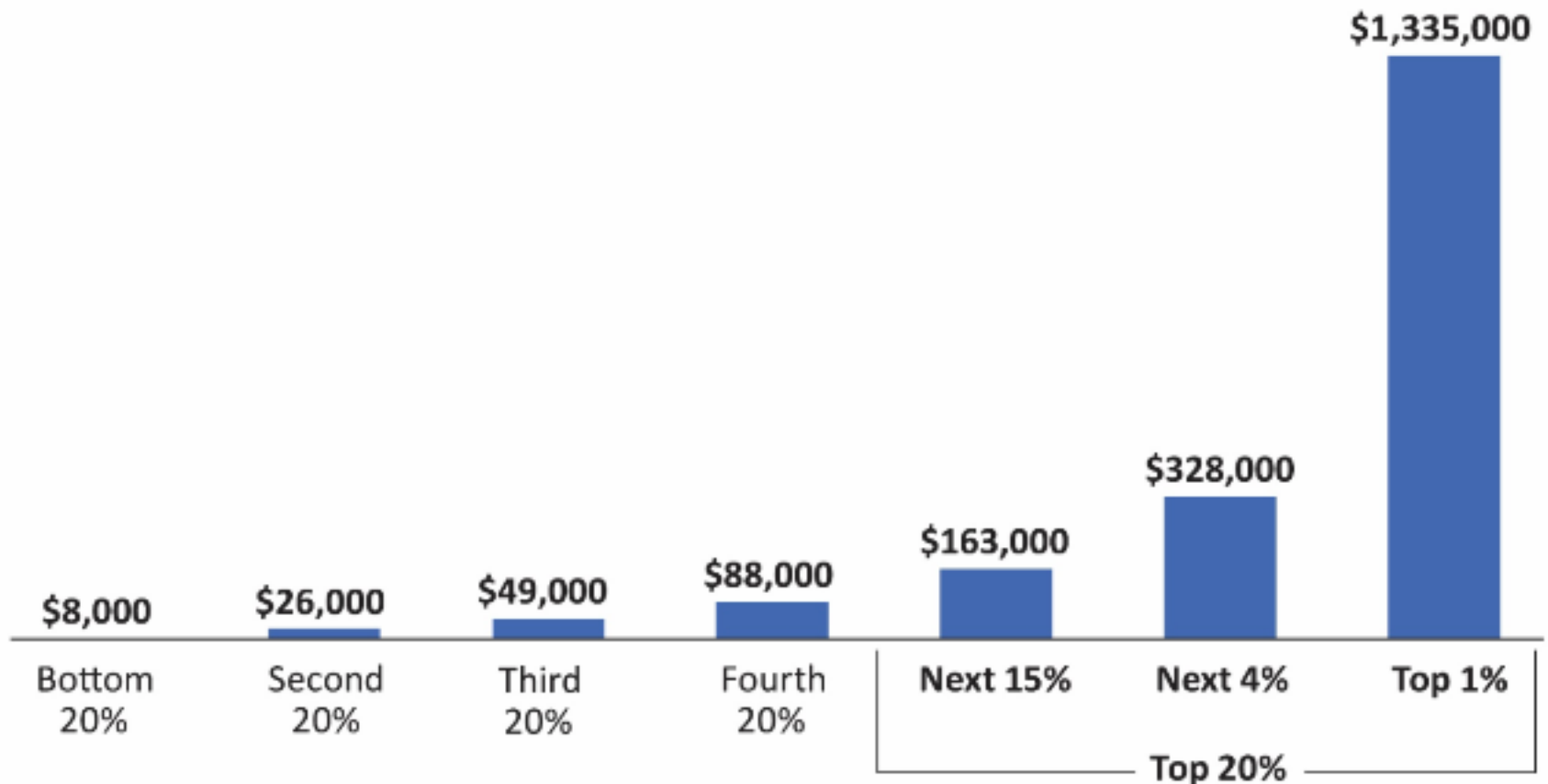
Increasing progressivity of Virginia's personal income tax

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Increasing state tax progressivity

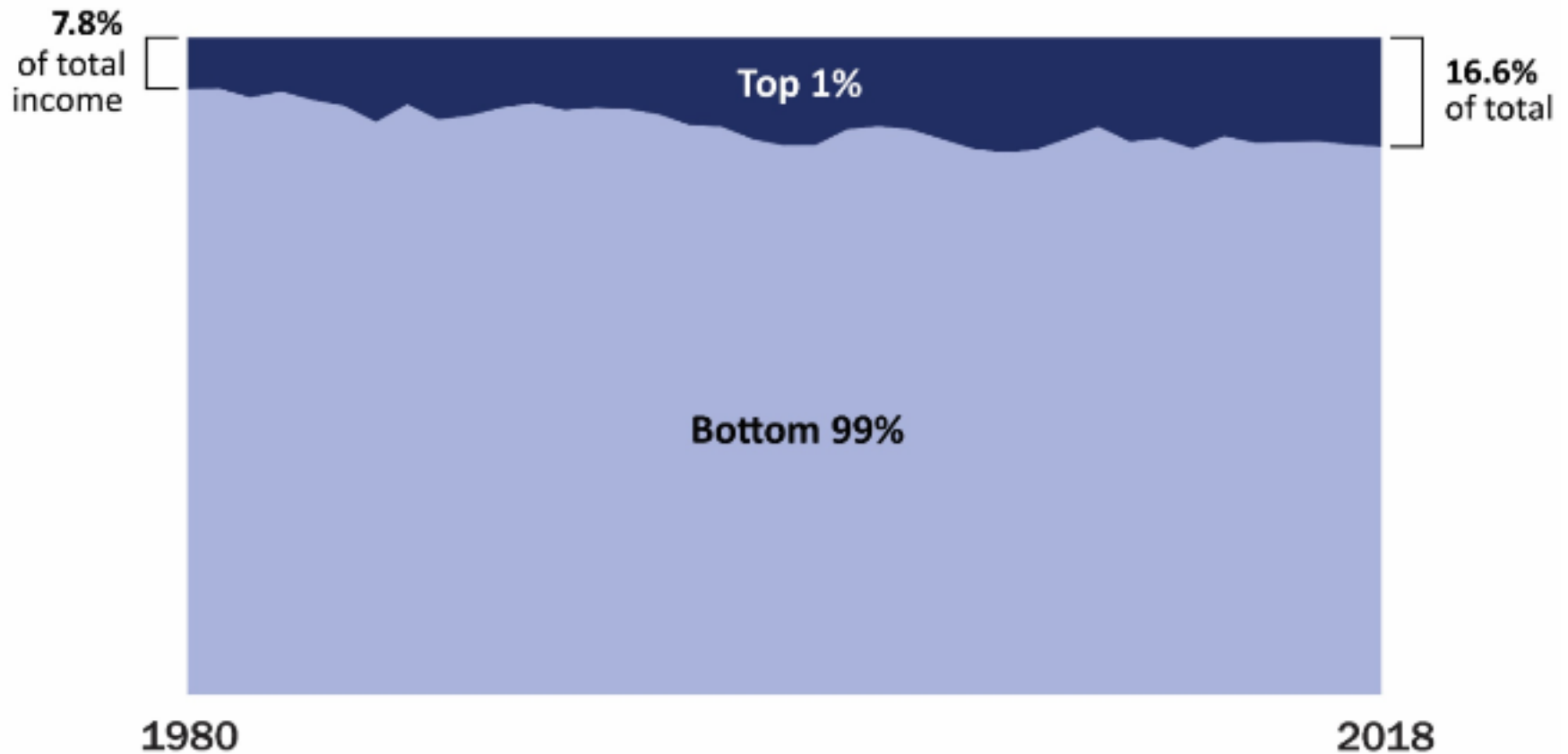
- Not so much about disparate impacts by race as about disparate impacts by income (although the two are highly correlated)

Substantial differences in income among Virginia filers, especially among the top 20%



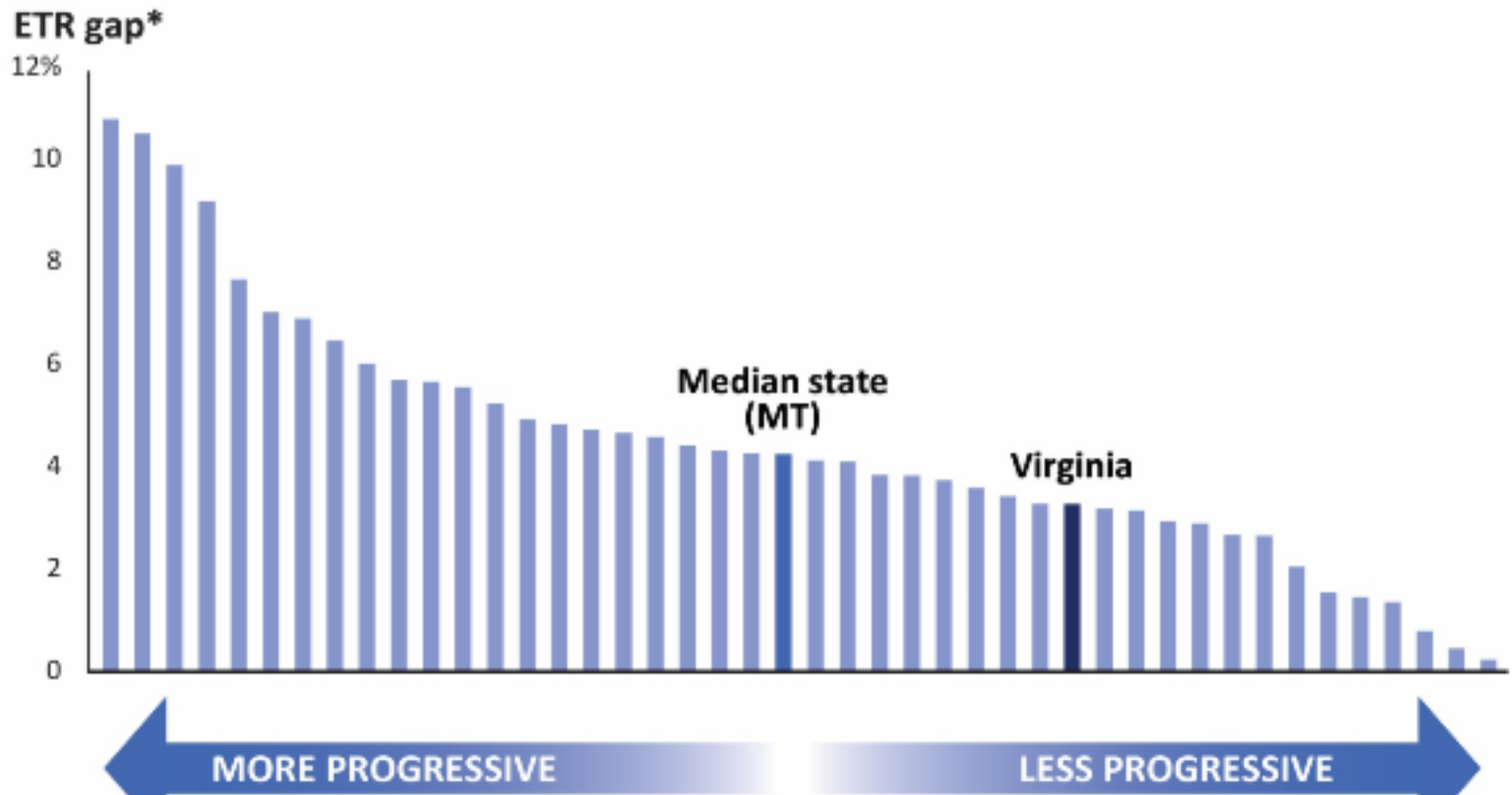
SOURCE: JLARC analysis of 2016 Virginia tax returns. Excludes part-year and nonresident filers, and non-filers.

Top 1% of Virginians' share of total income has more than doubled (1980–2018)



Source: IRS Statistics of Income and CPS data, World Inequality Database.

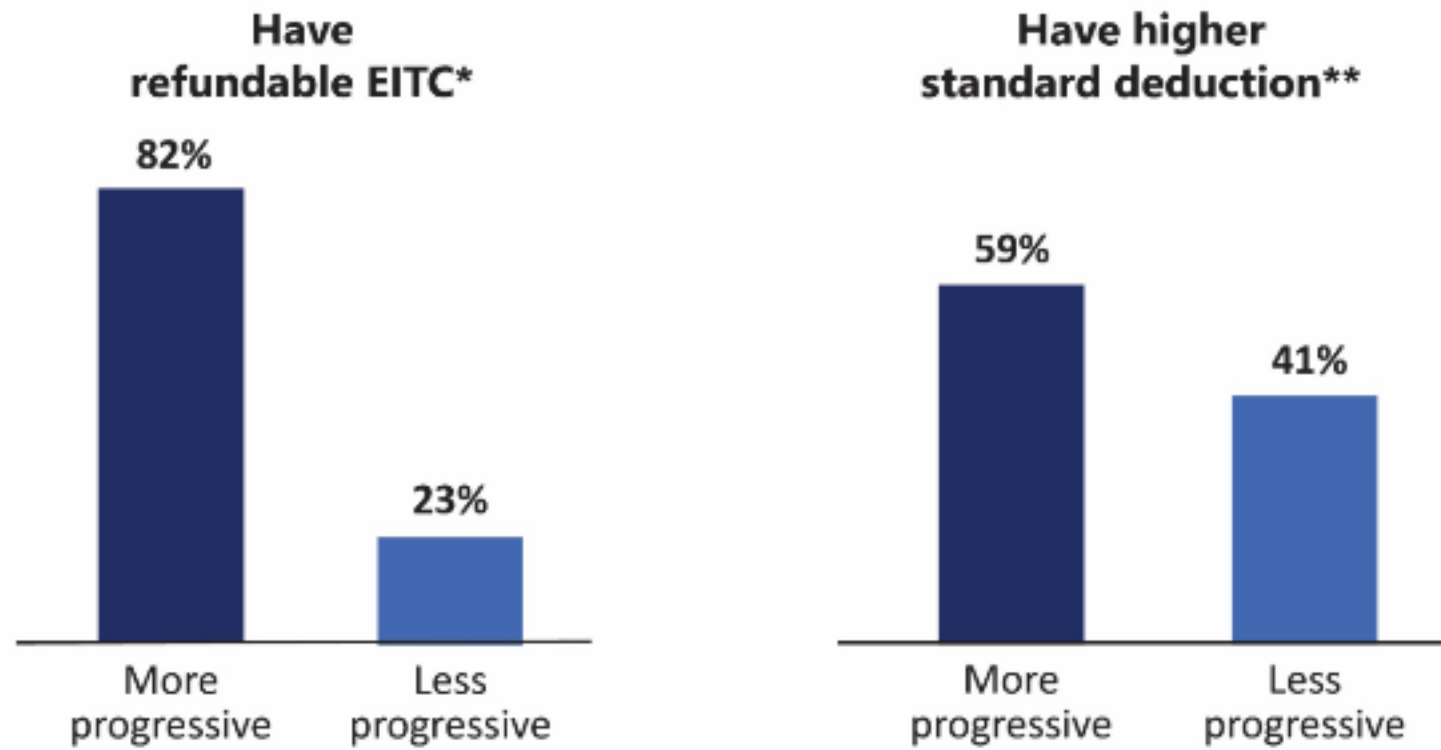
Most states have more progressive individual income taxes than Virginia



Source: Institute on Taxation & Economic Policy (ITEP), 2018.

*ETR gap = percentage point gap in effective tax rate between the top 1% of taxpayers and the bottom 20%.

States with more progressive income taxes tend to have larger credits and deductions



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*EITC = earned income tax credit.

**Standard deduction is higher than the median standard deduction for states with individual income taxes.

Will it happen?

- Challenges: revenue costs, politics
- But some bipartisan support for increasing the standard deduction
- And the tax brackets have not been adjusted for inflation in more than 30 years

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Most economic development incentives are not designed to benefit specific groups... but

- Programs targeted to distressed regions
 - Opportunity zones/enterprise zones
 - Virginia Tobacco Commission
- Grant programs to small and minority businesses
- Workforce initiatives
 - Loan forgiveness for staying in a distressed region
 - Providing scholarships and new training programs for specific occupations in demand

Links

- [Key Considerations for Marijuana Legalization](#)
- [Interim presentation: Options to make Virginia's individual Income tax more progressive](#)
- [JLARC economic development incentives evaluations](#)