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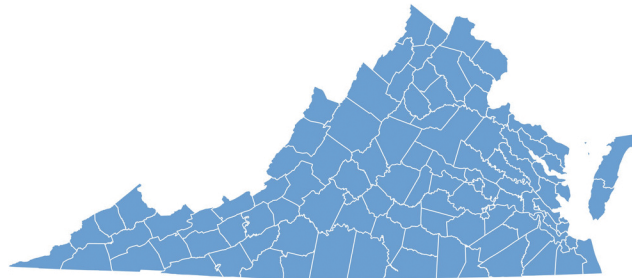


Virginia Federation of NARFE (VFN)

Serving 317,055
Active and Retired VA Voters

153,853 Annuitants &
Survivor Annuitants

147,358 Active Federal &
15,844 Postal Employees



36 Local Chapters

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*Advocating and Protecting the Rights of
Virginia's Federal Active & Retirees*



National Active & Retired Federal Employees Association (NARFE)



Virginia Federation of NARFE (VFN)

2026 State Legislative Plan

*Protecting Earned Benefits of Active &
Retired Federal Employees and the
Interests of Annuitant Spouses*

Repeal of Sunset Provision for Virginia's Current Standard Deduction Amounts

Unless the General Assembly acts to repeal the "sunset Provision" in **VA 58.1-322.03**, the standard deduction from *Virginia Adjusted Gross Income* (VAGI) for Tax Years 2025-26 (\$8,500 for single filers; \$17,500 for couples filing jointly) will decrease drastically in Tax Year 2027 to amounts previously allowed in Tax Year 2005 (\$3,000 single; \$6,000 married). Absent such action, a typical married couple filing jointly would face a sharp tax increase of approximately \$660 in 2027 and beyond $(\$17,500 - \$6,000) \times 0.0575 = \$661.25$, even in the absence of any increase in their VAGI.

Until Tax Year 2019, the standard deduction remained unchanged from the 2005 amounts above, after which, the General Assembly (GA) enacted several increases in 2019, 2022, 2024, and most recently in 2025 - albeit with some built-in contingencies. In 2022, these contingencies included: **(1)** conditioning an increase in the standard deduction upon the level of State revenue growth during the second half of that year; and **(2)** a sunset provision that would come into play at the end of the Tax Year 2025 whereby the standard deduction would revert to the 2005 amounts. Recourse was had to this same sunset feature in 2024, and again in 2025 when the most recent expiration date (12/31/26) was established.

Some might take comfort in this cautious, tentative approach toward tax policy. But the possibility of a return to standard deduction levels of yesteryear effectively, and unfairly, shifts much of the risk of an economic downturn onto the backs of taxpayers. With the current sunset provision baked into the Tax Code, the GA in the face of declining revenue, could do nothing but follow current law, thereby avoid having to take difficult votes to raise taxes or cut popular programs.

Fortunately, there is a simple solution. In the past two sessions of the GA, several bills to repeal the sunset provision in **VA 58.1-322.03** were introduced and heard by the relevant committees. Thus, suitable legislative text already exists, and now is the time to repeal this onerous provision. We believe that taxpayers deserve both fairness and stability in tax policies. We hope the GA shares this belief.

Age 65+ Deduction

Virginia's **Age 65+ Deduction** is meant to help seniors, but the income qualification formula is unfair to those not receiving Social Security benefits. Currently the State calculates "Adjusted Gross Income" (AFAGI) in a way that penalizes CSRS annuity income and other wages while excluding Social Security benefits from the income formula. This creates an income-source bias, not a fair measure of total income received.

CSRS retirees with identical total incomes are treated differently because retirees do not receive Social Security benefits based on their federal work record because those benefits are already embedded into the CSRS annuity and are fully taxed by the State of Virginia, while Social Security income which is not taxed by the State of Virginia is again excluded in the AFAGI income qualification formula for the Age 65+ Deduction. The income qualification should not be dependent on whether retirement benefits come from Social Security or from CSRS annuities or other income. Many CSRS retirees lose access to this deduction simply because their benefits are counted differently.

We urge the General Assembly to amend current tax law for the Age 65+ deduction by either eliminating income limits entirely so that all Virginians aged 65+ qualify, or fix the AFAGI formula by raising income limits to focus fairly on actual income received rather than on source of income.

AFAGI = Federal Adjusted Gross Income (FAGI) + VA Conformity Additions - VA Conformity Subtractions. In this case:
Single Filers: \$108,476 (\$58,476 = max Social Security (2024) + \$50,000 current limit)
Married/Joint Filers: \$191,952 (\$116,952 = max Social Security (2024) + \$75,000 current limit)

While assuming the resulting AFAGI as proposed above would now include taxable Social Security benefits received, those benefits would be offset by the increase in existing Income Limit(s). With this proposal, "Income" qualifying for the Age 65+ Deduction would be more fairly based on **income received** rather than dependent on the **income source** as it is today, and no Single or Married/Joint tax filer currently eligible for the deduction would be excluded.

Exempting a Portion of CSRS Annuities Equivalent to Social Security Benefits

Virginia's tax code unfairly penalizes federal retirees under the Civil Service Retirement System (CSRS). Unlike Social Security, which is exempt from state income tax, CSRS annuities are 100% taxed, even though they serve the same purpose.

CSRS predates Social Security; so, CSRS retirees were excluded from Social Security but they contributed equivalent amounts into the federal retirement system.

CSRS retirees rely on one income source, their annuity, fully taxed in Virginia. Whereas Federal Employees' Retirement System (FERS) retirees (post 1984) receive retirement from three sources; a smaller annuity, Social Security (state-tax exempt), and the Thrift Savings Plan. This is an unfair disparity, two retirees with the same total benefit face unequal tax treatment simply because of the retirement system.

The General Assembly can fix this by exempting a portion of CSRS annuities from Virginia income tax, just as Social Security benefits are exempt.

In the 2025 Virginia legislative session, two bills were introduced that specifically address income tax subtractions for CSRS:

Senate Bill 943 (SB943) introduced by Senator DeSteph, this bill proposes an individual income tax subtraction equal to 20% of the federal CSRS benefits received by a taxpayer each taxable year; beginning in 2025.

House Bill 2575 (HB2575) introduced by Delegate Leftwich, this bill mirrors SB943.

Federal retirees dedicated their careers to serving the nation and the Commonwealth. Fair tax treatment for CSRS retirees is long over due.

