

1979

REPORT OF THE SUBCOMMITTEE STUDYING
CRITERIA FOR SALES TAX EXEMPTION BILLS

This subcommittee of the House Finance Committee is charged with examining proposed sales and use tax legislation referred to the entire committee and submitting a recommendation on the bill.

The Virginia Retail Sales and Use Tax is the second most important component of the State's tax structure. Although no tax can be popular, the sales tax has proven to be relatively popular because it is broad-based and is extended fairly and universally. Most exemptions, therefore, would cause an inequity by chipping away at the broad-base of the tax and allow certain goods to escape taxation while requiring the remaining goods to pay a relatively higher tax to pick-up the share that was exempted.

Clearly the subcommittee wishes it could grant every worthwhile exemption, but obviously, this would be unfair as well as leaving the sales tax in shambles. The more prudent approach is to keep the sales tax structure as broad-based as possible, spreading the tax burden broadly and evenly in order to keep each individual's tax as low as possible. The subcommittee, however, does realize that changes become necessary from time to time and therefore, the subcommittee will consider each bill on its individual merit.

The subcommittee, in the course of considering any proposed exemption, will examine the legislation and require the patron to answer the following questions:

1. What is the purpose of the exemption? What would the exemption achieve and what is it intended to achieve?
2. Would it reduce the broad-based nature of the sales tax?

3. Was the exemption bill introduced to exempt a single isolated product or organization or to solve a particular problem for a single industry or firm? If so, is this the equitable approach considering the broad-based nature of the sales tax?
4. Would the granting of this particular exemption lead to bills exempting similar products or organizations in the future?
Would this be equitable? If so, how much revenue loss would this involve?
5. Does it grant preferential treatment for certain consumers or producers at the expense of others? Would the exemption grant a competitive advantage to one group or one produce vis-a-vis another? Would the exemption benefit one segment of the population?
6. Do similar products receive an exemption in Virginia? How are similar products taxed in Virginia?
7. What is the cost of this exemption?
8. How will the lost revenue be made up?
9. Does the exemption primarily involve a single locality? If so, does the patron have the written approval of the locality?

Respectfully submitted,

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