

Virginia Tax Studies Relevant to the Work of the Joint Commissions



Presentation to the Small Business Commission and the
Manufacturing Development Commission

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Virginia Tax Studies Relevant to the Work of the Joint Commissions – Joint Subcommittee to Evaluate Tax Preferences



- ❧ The Joint Subcommittee to Evaluate Tax Preferences was established in 2012.
- ❧ Its purpose is to oversee the evaluation of tax credits, deductions, subtractions, exemptions, and exclusions.
- ❧ The joint subcommittee is a permanent committee in the legislative branch.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Joint Subcommittee to Evaluate Tax Preferences



- ❧ Six members from each of the House and Senate Finance Committees and two members of the House Appropriations Committee make up the Joint Subcommittee.
- ❧ Its charge is to review tax preferences to determine if they achieve their intended policy purpose.
- ❧ An income tax subcommittee and a sales tax subcommittee will be formed to review those respective taxes.
 - ▶ It is envisioned that the income tax subcommittee will review both the individual and corporate income taxes.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Review of the Effectiveness of Virginia Tax Preferences (2012)



- ❧ In 2012, JLARC issued a report on the effectiveness of Virginia tax preferences.
- ❧ Among other things, it concluded that sales and use tax preferences reduce tax liability by \$7.9 billion a year (several of the preferences reflect sales taxes that may not be feasible to collect).
 - ▶ Service exemptions account for \$3.5 billion a year.
 - ▶ Eliminating service exemptions could result in administrative burdens to businesses and the Commonwealth.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Review of the Effectiveness of Virginia Tax Preferences (2012)



- ✧ JLARC looked at both tangible goods and services exemptions:
 - ▶ Professional, insurance, personal, repair, and Internet services account for \$ 3.3 billion annually.
 - ▶ Prescription drugs account for \$ 379 million annually.
 - ▶ The reduced sales tax on food accounts for \$346 million annually.
 - ▶ Nonprofit and church purchases account for \$184 million annually.
 - ▶ Advertising accounts for \$85 million annually.
 - ▶ Separately stated transportation charges account for \$84 million annually.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Study and Revision of Virginia’s State Tax Code - (2003)



- ☞ The Joint Subcommittee was charged with, among other things:
- (1) considering the sufficiency of current taxes and tax preferences and the costs of preferences;
 - (2) considering the current revenue capacity of localities and the sufficiency of their revenue tools;
 - (3) clarifying the definition of manufacturer for BPOL;
 - (4) determining sales tax loss due to electronic commerce;
 - (5) evaluating the real estate assessment appeal process;
 - (6) evaluating the appropriateness of the merchants capital and BPOL taxes;
 - (7) considering a plan to more equitably address tax preferences and rates for income taxes; and
 - (8) determining the equitable division of support by the state and localities for education and other services.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Study and Revision of Virginia’s State Tax Code - (2003)



- ❧ The joint subcommittee undertook a comprehensive study of state and local taxes.
- ❧ The major sources of state revenues are the individual income, sales and use, and corporate income taxes.
- ❧ 84% of all city revenues and 91% of all county revenues come from real property, personal property, sales and use, consumer utility, and BPOL taxes.
 - ▶ One shoe size does not fit all for local taxes. Counties have statutory cap rates for hotel, meals, cigarette, and admissions taxes.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Study and Revision of Virginia’s State Tax Code - (2003)



- ❧ The business community opposes gross receipts based taxes (BPOL).
- ❧ The business community understands the BPOL tax is a substantial source of revenue and a replacement source of revenue is needed to eliminate it.
- ❧ The joint subcommittee studied existing sales tax exemptions.
 - ▶ One of its task forces recommended imposing the sales tax on repair and personal services, and consider repealing exemptions for public service companies.

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Commission on Virginia’s State and Local Tax Structure for the 21st Century (2001)



- ❧ The independent Commission was formed by House Joint Resolution No. 578 (1999).
- ❧ The Commission undertook a comprehensive study of Virginia’s state and local taxes and the division of responsibilities for the funding of public services.
- ❧ Some of the Commission’s findings and recommendations were:
 - (1) the Commonwealth increase support for operational and capital costs of school divisions;
 - (2) the Commonwealth assume the full operational cost for certain mandated services;

Virginia Tax Studies Relevant to the Work of the Joint Commissions – Commission on Virginia’s State and Local Tax Structure for the 21st Century (2001)



- (3) at least 6 percent of the annual individual income tax be returned to localities;
- (4) extend the sales tax to personal services, amusements, and repair services;
- (5) the individual income tax be revised in a revenue-neutral manner;
- (6) equalize the taxing authority of counties and cities;
- (7) a permanent commission be established to study current and prospective fiscal needs; and
- (8) localities be permitted to retain BPOL and merchants' capital taxes.