



Thomas Jefferson Institute for Public Policy

- * ...a non-partisan research and education organization devoted to improving the lives of the people in Virginia...



**“Tax Restructuring in Virginia:
Revenue Neutral Path for Improving
Virginia’s Economy”**

TJI Tax Reform Study

April 2, 2013

TJI's Tax Reform Study **GOALS:**

- ❖ MORE EQUITABLE FOR ALL
- ❖ IMPROVE ECONOMY
- ❖ SUSTAIN ECONOMY
- ❖ REVENUE-NEUTRAL DAY ONE

TJI's Tax Reform Study **OBJECTIVES:**

- ✦ MORE FAIR TAX STRUCTURE
- ✦ ELIMINATE "JOB KILLING" TAXES
- ✦ ENCOURAGE ECONOMIC GROWTH

Most economists agree:

Low, broadly applied taxes are best for the economy. Such taxes do not distort the marketplace as do targeted taxes, tax credits, special tax exemptions.

Eliminate Job-Killing Taxes:

BPOL - Business Professional Occupation Licensing Tax

M & T - Machine and Tool Tax

M C - Merchants Capital (Inventory) Tax

TJI's Tax Reform Study **IDEOLOGY:**

- ❖ VML & VACO
- ❖ Tax Foundation
- ❖ Americans for Tax Reform

TJI's Tax Reform Study **METHODOLOGY:**

- ❖ Broaden Sales Tax to Include Services
- ❖ No Business-to-Business Taxes
- ❖ Health Care Remains Exempt

TJI's Tax Reform Study **PROCESS:**

CHMURA ECONOMICS & ANALYTICS

...to determine all Sales Taxes, BPOL Taxes,
Machine Tool Taxes, and Merchants Capital
Taxes collected in Virginia...by Industry Group

TJI's Tax Reform Study **PROCESS:**

Beacon Hill Institute

STAMP (State Tax Analysis Modeling Program)

...projects "additional economic activity" that tax and spend policies can have over 5 years above the current base line on:

Employment...Investment...Disposable Income.. State GDP

STAMP Model used in the past with bi-partisan praise

Factors...Bearing on the Objective:

- ❖ LOWER PERSONAL INCOME TAX
- ❖ ELIMINATE BPOL, M&T, & MC TAXES
- ❖ BROADEN SALES TAX TO INCLUDE SERVICES

Replacing BPOL, M&T, MC Taxes

...Revenue to Localities:

- ❖ Collected by State
- ❖ Counties/cities “made whole”
- ❖ Distributed MONTHLY to Localities
(using formula to keep existing revenue)

TJI's Tax Model RESULTS:

First three scenarios

Sales tax expanded, no off-setting actions

Scenario #3 – begins the no sales tax on health care services

TJI's Tax Model RESULTS:

Scenario # 1: Sales Taxes expanded to service sectors just enough to eliminate BPOL, M&T, MC

- ❖ 600 Fewer Jobs
- ❖ \$ 640 Million Increased Capital Investment
- ❖ Real Disposable Income decreases by \$ 191 Million
- ❖ State GDP decreases by \$335 million

TJI's Tax Model RESULTS:

scenario # 2: Sales Tax expanded to all service sectors...eliminate BPOL, M&T, MC...and lower sales tax rate to 3.07% -- 42% cut.

- ❖ 6,000 – 7,600 New Jobs
- ❖ \$600 Million Increased Investment
- ❖ Real Disposable Income Decreases by \$161-\$210 Million
- ❖ Real State GDP Decreases by \$190 Million

TJI's Tax Model RESULTS:

Scenario # 3: Sales tax expanded to all service sectors
EXCLUDING healthcare and health care...eliminate BPOL, M&T, MC –
and lower sales tax to 3.68% -- 30.6% cut .

- ❖ 8,200 – 10,600 New Jobs Created
- ❖ \$615 Million in New Capital Investment
- ❖ Real Disposable Income Increases by \$683-865 Million
- ❖ Real State GDP Increases by \$537 Million

TJI's Tax Model RESULTS:

Second three scenarios

Sales tax expanded

Only health care is excluded

Tax Reduction off-sets

TJI's Tax Model RESULTS:

Scenario # 4: Sales tax expanded to all service sectors
EXCLUDING entire healthcare sector...eliminate BPOL, M&T,
MC...REDUCE personal income taxes by 17% .

- ❖ 45,000 New Jobs
- ❖ \$ 258 Million Increased Capital Investment
- ❖ Real Disposable Income increases by \$ 1 BILLION
- ❖ State GDP increases by \$4.8 billion

TJI's Tax Model RESULTS:

Scenario # 5: Sales tax expanded to all service sectors EXCLUDING entire healthcare sector...eliminate BPOL, M&T, MC...Lowest personal income tax bracket (\$0-3000) is ELIMINATED and all other personal income taxes reduced by 10% .

- ❖ 61,000 New Jobs
- ❖ \$ 274 Million Increased Capital Investment
- ❖ Real Disposable Income increases by \$ 1.8 BILLION
- ❖ State GDP increases by \$6.6 Billion

TJI's Tax Model RESULTS:

Optimal Economic Impact

Scenario # 6: Sales tax expanded to all service sectors EXCLUDING entire healthcare sector...eliminate BPOL, M&T, MC...bottom two personal income tax brackets (\$0-3000 & \$3000-5000) are ELIMINATED...the 5% rate drops to 4.55% (a 9.0% tax cut)...the 5.75% rate drops to 5.0% (a 13% tax cut).

- ❖ 79,000 New Jobs
- ❖ \$ 287 Million Increased Capital Investment
- ❖ Real Disposable Income increases by \$ 2.85 billion
- ❖ State GDP increases by \$8.4 billion

TJI's Tax Model RESULTS:

Last three scenarios

Sales tax expanded

**Health care is excluded & selected
sectors remain sales tax exempt**

Tax Reduction off-sets

TJI's Tax Model RESULTS:

Scenario # 7: Sales tax expanded to all service sectors EXCLUDING entire healthcare sector, private colleges and private schools...eliminate BPOL, M&T, MC...lowest personal income tax brackets (\$0-3000) is ELIMINATED, and other brackets cut by 13%.

- ❖ 59,800 New Jobs
- ❖ \$ 273 Million Increased Capital Investment
- ❖ Real Disposable Income Increases by \$ 1.8 BILLION
- ❖ State GDP increases by \$6.5 billion

TJI's Tax Model RESULTS:

Scenario # 8: Sales tax expanded to all service sectors EXCLUDING entire healthcare sector, private colleges and schools, and day care services...eliminate BPOL, M&T, MC...lowest personal income tax bracket (\$0-3000) is ELIMINATED, and rates for other brackets cut by 12.5% .

- ❖ 58,900 New Jobs
- ❖ \$ 274 Million Increased Capital Investment
- ❖ Real Disposable Income increases by \$ 1.7 BILLION
- ❖ State GDP increases by \$6.4 billion

TJI's Tax Model RESULTS:

Scenario # 9: Sales tax expanded to all service sectors EXCLUDING entire healthcare sector, private colleges and schools, day care services, and banking/finance...eliminate BPOL, M&T, MC...lowest personal income tax brackets (\$0-3000) is ELIMINATED, and rates for other brackets cut by 10%.

- ❖ 46,600 New Jobs
- ❖ \$ 427 Million Increased Capital Investment
- ❖ Real Disposable Income increases by \$ 1.5 billion
- ❖ State GDP increases by \$4.9 billion

TJI's Tax Model RESULTS:
...with 'Best-Case' scenario is # 6

79,000 New Jobs

\$ 287 Million Increased Capital Investment

\$ 2.85 Billion Increased Disposable Income

\$8.4 Billion increase in State GDP

TJI's Tax Model Scenario # 6

Professor Robert Fuller at GMU on March 29, 2013: 154,000 jobs at stake in Virginia because of sequestration.

Jefferson Institute Scenario #6 offer 79,000 over the next 5 years.

Without an overall tax increase

www.thomasjeffersoninst.org

