

## **Virginia Tax Reform & Service Delivery Restructuring Hanger/Parrish Joint Subcommittee (11/25/03)**

### **Estate Tax**

The estate tax is an unfair impediment to the generational transfer of family owned business and farm properties. This should be repealed.

### **Sales Tax**

- (1) Virginia should adopt the streamlined standards and continue to work with a coalition of states to gain authority to collect sales tax on remote sales (catalog and internet)
- (2) Accelerated payments of sales tax to the state by retailers should be discontinued
- (3) Sales tax should not be extended to services
- (4) Sales tax should be removed from food. This should be done by a credit program rather than point of sale. The credit will be reconciled back against income tax returns and in cases where there is no income tax liability, a simple postcard filing would be necessary for a refundable credit. This should apply to the entire state and local portion (Currently 4.5%)
- (5) The state portion of sales tax should be increased if needed to offset the elimination of other taxes and also to fund additional payments to localities to offset the need for more local real estate tax

### **Income Tax**

- (1) Standard deduction should be increased to \$3,500 single and \$7,000 joint returns
- (2) The personal exemption should be increased to \$2,500 with no additional exemption amounts allowed for age or disability
- (3) The brackets which currently are mostly irrelevant should be changed to make it slightly progressive as it was intended 75 years ago
- (4) The current age deduction should be subjected to means testing and perhaps a portion of the increased revenue used for additional health related benefits

### **Personal Property Tax**

- (1) The phase-out of the property tax on personal use vehicles should be completed. The tax should be removed from the full value of all qualifying vehicles, not just the first \$20,000 assessed value.

- (2) A constitutional amendment should be offered to end taxation of personal use vehicles.
- (3) Localities will be reimbursed per current formulas at 100% and that amount shall serve as a benchmark for future payments to localities either through block grants or assumption of services by the state. Personal use vehicles will no longer be assessed.

## **Cigarette Tax**

The current system of a state excise tax and local option cigarette taxes shall be abolished and replaced by a single statewide tax at .30 per pack. This tax shall be returned to the localities on a per capita basis with a “no-loss” provision for localities that currently impose a local cigarette tax.

## **Beer Tax**

The current beer tax is applied at the wholesale level. The method of beer taxation should be studied for possible change, but now the current rate is the equivalent of .26 per gallon and is low as compared to other states, particularly southern states and can be increased by the equivalent of .06 per 12 oz serving without being overly aggressive.

## **Tele-communication Tax**

A companion study of tele-communication taxes in Virginia has yielded an innovative proposal that will replace several taxes with a single excise tax at a lower rate (4.5%) and derive roughly the same revenue by broadening the base.

## **Real Estate Tax**

While state revenues have not increased as a result of rate changes for many years, pressures have been placed on localities which has resulted, in many localities, in higher rates of increase in local real estate tax than is tolerable. While other initiatives are being put in place to provide more revenue to the localities by the state and/or assumption of more service responsibility by the state, there needs to be an affirmative action to control the effective growth in levies from residential and agricultural properties.

Taxable value of residential and agricultural properties shall be cost plus a 2% annual growth factor. Sale, transfer, rezoning at the owners request, or change in use may trigger a market value assessment.

A constitutional amendment shall be proposed to allow this modification.

## **Transportation Funding**

There is no question that there is not an adequate revenue flow to deal with transportation funding needs. Efficiencies must be created and better strategies for mass transit created before taxes are increased in this area. A combination of tolls and increased fuel tax should be considered.

## **Dedicated Funding Source-Conservation**

We are fortunate to have growth, but we must create a funding source that has a nexus to growth in order to fund adequate protections for air, water and other natural and historic resources.

## **Other Taxes & Fees**

All local and state tax should be reviewed over a period of time and Title 58.1 subjected to a complete revision.

Fees imposed throughout all of the various titles should be reviewed for possible elimination or adjustment up or down.

Rather than continuing the current commission, a resolution should be introduced to request a joint subcommittee of the House and Senate Finance Committees to be appointed by the Chairs of the Finance Committees, with the charge of continuing the work of reforming Virginia's tax system.

## **General Principles**

In general, more emphasis should be placed on consumption taxes and personal income taxes with the state assuming a large share of funding for services and a resulting reduced emphasis on real property and other locally generated taxes and fees.

While everyone should contribute as their means allow, the overall tax system, both state and local should be slightly progressive and the lowest levels of income should be sheltered from income tax.

The primary work shall be to restore **equity** to the tax system as well as **predictability** and **simplicity**. **Adequacy** of revenue must be addressed later in the context of total identified obligations and the necessary exercise of reducing or constraining expenditures versus the ability and will of the taxpaying public to provide funds for desired services.

## **BPOL**

## **Corporate/Business Adjustments**

## **Military Family Tax Relief Act**

## **Other Issues**

- (1) Composit Index**
- (2) Transportation Funding Formulas**
- (3) Incentives to local governments for consolidation of services**
- (4) Other disparity issues**