

Exhibit A

RESTRUCTURING THE INDIVIDUAL INCOME TAX

Under this proposal, all additions, subtractions, and deductions would be eliminated from the computation of Virginia taxable income with the exception of the deduction for social security income. However, Virginia must also allow individuals to subtract income earned on any obligation of the federal government. This is the one subtraction that is not simply a Virginia policy decision. The Supreme Court of the United States has ruled that states are not allowed to tax income earned on an obligation of the United States government. Therefore, under this proposal, an individual's taxable income would be equal to their FAGI minus any social security income and income earned on any obligation of the federal government included in FAGI. This proposal would be effective for taxable year beginning on and after January 1, 2004.

This revision to how Virginia taxable income is computed for individuals would be done in conjunction with a revision to the tax tables and tax rates for the individual income tax. The following shows the revised tables and rates along with the associated impact:

Individual Income Rate Tables

Virginia Taxable Income Level	SINGLE Taxpayer Tax Rate	MARRIED Taxpayer Tax Rate
\$0 - \$15,000	0%	0%
\$15,001 - \$25,000	3.5%	0%
\$25,001 - \$30,000	4%	0%
\$30,001 - \$50,000	5.5%	5.5%
\$50,001 & above	6.25%	6.25%

Revenue Impact

FY 2004	FY 2005	FY 2006
<\$241.6 Million>	<\$469.1 Million>	<\$459.4 Million>