

Commission on the Revision of Virginia's State Tax Code and the Streamlined Sales Tax Project [SJR 347 (2003)]

July 15, 2003

The Commission on the Revision of Virginia's State Tax Code and the Streamlined Sales Tax Project (SJR 347 (2003)) held its first meeting for 2003 in Richmond on July 15, 2003. The Commission was created to follow-up on the work of the Hanger/McDonnell Commission (SJR 387/HJR 685 (2001); HJR 60 (2002).

Election of Co-Chairmen and Comments by Legislators

The Commission members elected Senator Emmett Hanger and Delegate Harry Parrish as Co-Chairmen. Other members of the Commission are Senators John Chichester, Charles Colgan, and Walter Stosch; Delegates Leo Wardrup, Thelma Drake, Allen Louderback, Kenneth Melvin, and Johnny Joannou; John Bennett, Secretary of Finance; and Ken Thorson, State Tax Commissioner.

The meeting began with comments by the co-chairmen who spoke of the difficult task the Commission faces in developing a tax reform plan that will bring Virginia's tax code into the 21st Century. They emphasized that any changes that might be suggested must create a more equitable, efficient, and easy-to-understand system; one that takes into account the new economy based more on services than goods.

Two members of the House Appropriations Committee addressed the Commission regarding the spending side of the budget. They urged the Commission to consider all its options in developing a fair and efficient tax policy plan in order for the state to have the funds needed to pay for the basic obligations it faces in the next biennium..

Staff Presentations

Next, the Commission heard from legislative staff and a National Conference of State Legislatures (NCSL) representative. Legislative staff first explained how this commission evolved from the Hanger/McDonnell Commission [SJR 387/HJR 685 (2001); HJR 60 (2002)] and proceeded to review the recommendations of that commission. Other issues that the Hanger/McDonnell Commission discussed during its two-year existence were also mentioned.

An area receiving more focus was the individual income tax. The particular issues that received the most attention were the standard deduction, personal exemptions, tax rates, tax preferences (i.e. deductions, exemptions, credits), and conformity with the federal tax code.

Finally, staff presented a list showing the estimated fiscal impact of certain tax-related items. The list consisted of items that would cost the government money and those that would produce money for government services. Some of those costing money would

be the elimination of the local BPOL tax; the phaseout of the sales tax on food; phaseout of the property tax on certain automobiles; repeal of the estate tax; elimination of the marriage penalty in the income tax; repeal of the accelerated sales tax payments by dealers; and the continuation of the age deduction as it currently exists. Those items that would produce money include the elimination of certain sales tax exemptions; the reduction of certain income tax deductions, subtractions and credits; and the increase in certain tax rates.

The Streamlined Sales Tax Project was the topic presented by Mr. Neal Osten from the National Conference of State Legislatures (NCSL). He gave a brief history of the Project including how it came about, what its purpose is, and where the Project currently stands. Basically, the issue involves requiring out-of-state retailers to collect the sales tax from consumers who owe the tax when they buy goods over the Internet and through catalogues. There currently are two federal cases that prohibit such collection due to the complexity of states' sales tax systems and the burden it puts on out-of-state retailers to determine the tax owed. Therefore, the goal of the Streamlined Sales Tax Project has been to develop an agreement that the states can adopt and that simplifies the sales and use tax systems, allowing them to remain as useful cogs in the wheels of state taxes. Once enough states voluntarily adopt the agreement, it is hoped that Congress will grant the states the power to require all retailers, wherever they are located, to collect the sales and use taxes owed. One of the issues the Commission will address is whether Virginia should adopt the Streamlined Sales Tax Agreement.

Work Plan of the Commission

Delegate Parrish explained that the Commission has four meetings in which to accomplish its task of state tax reform. To assist in the process there was some discussion regarding the possible use of subcommittees. Letters will be sent to the Commission members once the co-chairmen determine what the best approach is for keeping to the schedule and following the charge given them in Senate Joint Resolution 347. Future meeting dates will be set later.