Remarks to...
Commission on the Revision of Virginia's Tax Code
Sub-committee on Personal Income and Sales Tax

General Assembly Building
House Room D
September 25, 2003

Good morning. I am Don Messmer, President of The Wessex Group, a strategic business and economic consulting firm in Williamsburg, and J.S.Mack Professor of Business at the College of William and Mary. Last year, at the request of the Virginia Hospitality and Travel Association, my co-author, Dr. Roy Pearson and I examined the economic impact on the Commonwealth of including Admissions as a Sales and Use Tax Category. Our study focused exclusively on the impact it would have on the **Hospitality and Tourism** industry **and** we considered only the addition of **admissions** as a taxable category of sales.

The study was accomplished by first speaking with 630 households who previously had visited one or more of Virginia's attractions. Our respondents were asked to tell us their likely behavior when presented with an increase in an admission price equal to the amount of the new tax. We asked about their likely behavior for a wide range of activities including the Performing Arts, Spectator Sports, Museums, Historical Sites, and Amusement and Recreational attractions.

The findings are striking and of very real and understandable concern to the industry. For example, almost half of our respondents indicate that taxes on admissions do have a moderate **or** high impact on their choice of a travel destination. Many told us they would decide to **not** visit the attraction if the admission price were increased by the amount of the proposed tax. Our premise was that **all** businesses will raise prices **when and only if** they believe doing so will increase their total revenues. For this reason, we assume that if admissions were to be taxed, it would result in increasing the total price of admission. Increased ticket prices, in turn, will reduce the number of people attending the various attractions resulting in a loss of revenues, a loss, our research shows, which is not made up for by the increased prices.

Based on our study, we estimate that business sales (for those attractions that charge admissions) in Virginia would be reduced by almost ***a half***

billion dollars with the corresponding loss of over ***11,000 jobs*** representing paychecks of ***$192 million***. Keep in mind, when someone decides to not attend an event, then all of the collateral sales of food and merchandise that might be sold to that person also are lost. Put simply, our research demonstrates that, "There is no free lunch (or perhaps I should say no free hot dog) when it comes to changing admission prices."

On the positive side, and considering ***only*** the changing of admissions as a category of taxable sales, we estimate it would generate a combined total of approximately **$77.8 mil. in net new** tax revenues for the Commonwealth, of which $17.3 mil. typically is set-aside for the Education Fund and another $17.3 mil automatically goes to the localities, leaving the state with only **$43.2 mil**. Further, the reductions in admission sales are likely to reduce income tax collections by another $5.8 mil leaving the state with only **$37.4 mil in net new revenues**. Now, if the sales tax rate concurrently is lowered to 4.0% then the revenue gains from the change would be correspondingly lower, with the state ultimately deriving a mere **$28.8 mil. in new revenues.**

You have the Hobson's choice of deciding whether $37.4 mil or possibly only $28.8 mil in net new tax revenues for the state treasury is worth **taking up to a half billion dollars in business revenues away from Virginia's Hospitality and Tourism industry, eliminating over 11,000 jobs and canceling $192 mil in paychecks to Virginians.**

I would be pleased to respond to your questions.

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