

TASK FORCE #2 ISSUE FORM

6/26/2002

<u>Issues for Consideration</u>	<u>Fiscal Impact</u>	<u>References to Source Documents</u>	<u>Tax Principles</u>	<u>Interested Parties</u>	<u>Comments/Other</u>	<u>Task Force Recommendations</u>
STATE TAXES						
Sales and Use Tax						
1. Exemptions--(consider Orrock Sub. recommend, to be reported in Aug.) [Jt. Sub.]¹	All exemptions (including services) estimated to have resulted in lost revenue of \$3.57 billion in FY 1999 [Source: Tax Dept.]	TAB 7-C ² ; Morris p. 27-28; Legislator's Guide to Taxation in Va. p. 48-53	Equity Efficiency Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
2. Extension of sales tax to services/commerce [Jt. Sub.]	Estimated that it would have generated additional \$1.1 billion of revenue in FY 1999 [Source: Tax Dept.]	TAB 7-C; Morris p. 27	Equity Efficiency Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
3. Broaden the sales and use tax base to include personal services, amusements, and repair services [Morris]	Estimated that would have generated \$146 million additional revenue in FY 1999 [Source: Morris p. 27]	TAB 7-C; Morris p. 27	Equity Efficiency Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		

¹ Designates the source of the recommendation (Jt. Sub.= HJR 60 Joint Subcommittee; Morris = Report of the Commission on Virginia's State and Local Tax Structure for the 21st Century ("Morris Commission" House Doc. 22 (2001); and Bliley = Report of the Governor's Commission on Government Finance Reform for the 21st Century ("Bliley Commission Report") (Dec. 17, 2001).

² "TAB" refers to Jt. Subcommittee notebook; Morris refers to Morris Commission Report; and Bliley refers to Bliley Commission Report.

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4. Moratorium on new sales and use tax exemptions and consideration of eliminating existing sales and use tax exemptions [Morris]	See # 1 and # 2 regarding eliminating existing exemptions	TAB 7-C; Morris p. 27-28; Legislator's Guide to Taxation in Va. p. 48-53	Equity Efficiency Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
5. Increase taxes and fees on motor fuels, vehicles, watercraft and aircraft as well as other special taxes and dedicate the revenues to meet transportation needs [Morris and Jt. Sub.]		Morris p. 28-29; Legislator's Guide to Taxation in Va. p. 129-135 and p. 137-141	Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
6. Use tax modifications; efficiency in collecting the tax [Jt. Sub.]		TAB 7-C; Legislator's Guide to Taxation in Va. p. 42-46 and p. 53-55	Efficiency	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
7. Streamlined Sales Tax Project Ongoing activities of the project Virginia's level of participation [Morris and Jt. Sub.]		Morris p. 27-28	Equity Efficiency Adequacy	Va. Retail Merchants Association, Va. Chamber of Commerce, Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		

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8. Maintain status quo of no new taxes on Internet access or digital downloads [Bliley]		Bliley p. 31-32 (Recommendation No. 9); Legislator's Guide to Taxation in Va. p. 53-55	Efficiency (competitiveness) Predictability	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		
Estate Tax						
9. Conformity with federal law repealing death and estate taxes [Bliley]	FY 03 (\$23.8 mil.) FY 04 (\$55.8 mil.) FY 05 (\$87.7 mil.) FY 06 (\$119.5 mil.) FY 07 (\$127.5 mil.) Source: TAX	TAB 7-H; Bliley p. 34-35; Legislator's Guide to Taxation in Va. p. 95-97				
Misc.						
10. Replace some tax revenues with user fees [Jt. Sub.]				Va. Interfaith Center for Public Policy		

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LOCAL TAXES						
1. Enact or expand use of urban revitalization tax credits and increase state funding to promote revitalization of blighted commercial and industrial properties [Bliley]		Bliley, p. 31				
2. Local authority to impose gas/sales tax for roads [Jt. Sub.]	An additional 1% local sales and use tax would generate approximately \$778 million in fiscal year 2002-2003. Each additional 1¢ increase in the fuels tax would generate an additional \$45 million statewide.		Equity Adequacy			
3. Eliminate BPOL, machinery and tools, and merchants' capital tax--replace with an increase in the corporate income tax [Jt. Sub.]	Fiscal cost of eliminating BPOL, merchants' capital, and machinery and tools tax is \$640 million. Each 1% of the corporate income tax in 2002-2003 is expected to generate \$60 million.	TAB 7-B, "Selected Revenue Estimates"		Virginia Chamber of Commerce, Retail Alliance, Colony Condominium, Va. Retail Merchants Association		
4. Increase the threshold at which BPOL taxes apply [Morris]		TAB 8-B; Morris, p. 35-36				

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5. Elimination of the BPOL tax [Jt. Sub.]	Fiscal cost of eliminating the BPOL tax is \$427 million in 2002-2003	TAB 7-B, "Selected Revenue Estimates"; TAB 8-B; Morris, p. 35-36		Virginia Chamber of Commerce, Retail Alliance, Colony Condominium, Va. Retail Merchants Association		
6. Localities should be required to impose service charges on all tax-exempt property and the current restrictions of (a) basing service charges on police, fire protection, and refuse services and (b) limiting the charge to no more than one-fifth of the local real estate rate should be re-examined [Morris]		Morris, p. 33-34	Adequacy		12 cities and 8 counties impose a service charge on state-owned or privately-owned property that is exempt from real property taxes. The service charge rate is based upon the locality's cost of furnishing police and fire protection and for collection and disposal of refuse.	
7. Increase the service charges localities may assess for state-owned property [Jt. Sub.]			Adequacy			

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8. Localities should be permitted to continue to exercise their current authority to levy merchants' capital taxes and BPOL taxes [Morris]		TAB 7-B, "Selected Revenue Estimates"; TAB 8-B; Morris, p. 35-36			The merchants' capital tax rate may not be increased above the locality's rate in effect in 1978.	
9. Localities should continue to designate or expand enterprise zone tax credits in both urban and rural areas [Bliley]		Bliley, p. 31				

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OTHER						
1. Appropriate alignment of responsibility to provide services and the ability to raise revenues between the state and the localities [Morris and Jt. Sub.]		TABS 8-D and 8-E; Morris p. 24-26	Equity Adequacy			
2. Revise Standards of Quality to accord greater recognition to (A) the number of teachers actually employed by local school divisions; (B) the salaries required by differing local conditions; (C) the necessity of continued professional development; and (D) the cost of technology. The Commonwealth should then assume a full 55% of such revised Standards of Quality [Morris]		Morris p. 24-25; TAB 8-E p. 5-14	Equity			
3. The composite index of ability-to-pay should be modified in recognition of a locality's comparative fiscal effort [Morris]		Morris p. 24-25				
4. The Commonwealth should develop permanent revenue sources and a distributional mechanism, apart from the Standards of Quality and other programs, to support the capital requirements of local school divisions. [Morris]		Morris p. 25; TAB 8-E p. 5-14	Equity Adequacy		Outstanding debt for educational purposes for all localities as of June 30, 2001, equaled \$5.6 billion.	

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5. Localities should be accorded greater flexibility to address on a regional basis their economic development concerns [Morris]		Morris p. 36	Adequacy			
6. The Commonwealth should assume the full operational costs of all mandated services provided through the Comprehensive Services Act, the public health departments, the Community Services Boards, the local and regional jails, and the social service/welfare departments [Morris]	Cost of \$400 million per year [Source: Morris p. 25]	Morris p. 25	Equity			
7. Use of special taxation districts for transportation projects [Bliley]		Bliley p. 30-31				
8. Taxpayers should not be required to pay an assessment before they are afforded an opportunity for a hearing before an independent arbiter [Bliley]		Bliley p. 35	Equity	Va. Manufacturers' Association, Apartment and Office Building Association of Greater Washington, Virginia Association for Commercial Real Estate, Individual taxpayer, Commissioners of the Revenue Association, Virginia Municipal League, Virginia Association of Counties		

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9. Costs of administering state taxes [Jt. Sub.]		TAB 7-D	Efficiency			
10. Effectiveness and simplicity of administrative appeals and property tax assessment process [Jt. Sub.]		TAB 2 p. 1-2 of 12/17/01 Summary	Equity Efficiency	Va. Manufacturers' Association, Apartment and Office Building Association of Greater Washington, Virginia Association for Commercial Real Estate, Individual taxpayer, Commissioners of the Revenue Association, Virginia Municipal League, Virginia Association of Counties		
11. More revenue opportunities for localities (particularly for transportation and education) [Jt. Sub.]			Adequacy	Virginia Municipal League, Virginia Association of Counties, Homebuilders Association of Va., Va. Interfaith Center for Public Policy, Commissioners of the Revenue Assoc.		
12. Referred Legislation (see Tab 9)		TAB 9				