

Sales and Use Tax Alternatives

The following data are based solely on the document from the Department of Taxation entitled "Analysis of Sales and Use Tax Exemptions in Virginia."

1. If all sales and use tax exemptions (including the exemption for services) were removed, the additional tax revenue generated (\$3.6 billion) would permit a reduction in the tax rate from 4.5% to approximately 2.25% to be revenue neutral.
2. If all sales and use tax exemptions were removed except for the exemptions for motor fuels, motor vehicles, aircraft, and watercraft, the additional tax revenue generated (\$2.8 billion) would permit a reduction in the tax rate from 4.5% to 2.5% to be revenue neutral.
3. If all sales and use tax exemptions were removed except for the exemptions for services, motor fuels, motor vehicles, aircraft, and watercraft, the additional tax revenue generated (\$1.7 billion) would permit a reduction in the tax rate from 4.5% to 3.25% to be revenue neutral.
4. Currently each 1% of the 4.5% sales and use tax generates approximately \$800 million. Therefore, each \$800 million of additional tax revenue generated by expanding the tax base would permit a 1% reduction in the tax rate to be revenue neutral (and each \$100 million of additional such revenue would permit a reduction of approximately 1/8 of 1% of the tax rate.)