

TASK FORCE #2 ISSUE FORM

8/23/02

<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. recommendations for nonprofit entities, reported 8/19/02) [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 6 (Issue sheet fr. 6/26/02 mtg); 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	Orrock Subcommittee of House Finance Report of 8/19/02 deals only with exemptions for nonprofit entities	Adopt Orrock Subcommittee's recommendations for nonprofit entities, but maintain current moratorium until budget pressures ease (see issue # 4)
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 6 (Issue sheet fr. 6/26/02 mtg);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	Del. McDonnell and Sen. Whipple to examine this issue as a work group	
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 6 (Issue sheet fr. 6/26/02 mtg);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		Impose tax on personal services and repair services, and examine if should be imposed on public service corporations

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 6 (Issue sheet fr. 6/26/02 mtg);TAB 7-C; Morris p. 27-28; Legislator's Guide to Taxation in Va. p. 48-53; Orrock Subcommittee Report regarding nonprofit entities	Equity Efficiency Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		Continue moratorium at least until budget pressures ease
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.]	Each additional 1¢ increase in the fuels tax would generate an additional \$45 million statewide. Increasing the motor vehicle sales and use tax from 3% to 4% would generate an additional \$165.2 million annually. Increasing the aircraft sales and use tax from 2% to 3% would generate an additional \$1.7 million annually. Increasing the watercraft sales and use tax from 2% to 3% would generate an additional \$2.9 million annually.	TAB 6 (Issue sheet fr. 6/26/02 mtg);Morris p. 28-29; Legislator's Guide to Taxation in Va. p. 129-135 and p. 137-141; Projected Additional Revenue from Increasing the Motor Vehicle, Aircraft, and Watercraft Sales and Use Taxes	Adequacy	Va. Chamber of Commerce, Va. Retail Merchants Assoc., Va. Manufacturers' Assoc., Va. Interfaith Center for Public Policy		Defer

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6. Use tax modifications; efficiency in collecting the tax [Jt. Sub.]		TAB 6 (Issue sheet fr. 6/26/02 mtg); 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		Table
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		Defer
8. Accelerated Sales Tax Payments by Vendors (added at mtg. on 7/30/02)	Repealing this provision would result in lost revenue of \$155 mil. to State and \$40 mil. to localities	§ 3-501 of the Budget Bill 2002-2004	Equity	Virginia Retail Merchants Association; 6,800 vendors are affected	This provision affects approximately 6,800 vendors	Eliminate
9. Maintain status quo of no new taxes on Internet access or digital downloads [Bliley]	No new fiscal impact because not currently being taxed. Unknown amount of new revenue if the services were taxed	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		Maintain status quo

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Estate Tax						
10. Conformity with federal law repealing death and estate taxes [Bliley]	<p>If Va. repeals the 1978 "freeze date" the revenue lost would be: FY 03 (\$23.8 mil.) FY 04 (\$47.8 mil.) FY 05 (\$87.7 mil.) FY 06 (\$119.5 mil.) FY 07 (\$127.5 mil.).</p> <p>If Va. leaves estate tax statute as it is, the reduction in revenue due to increases in the federal taxable estate threshold will be : FY 03 (\$8.6 mil.) FY 04 (\$11.5 mil.) FY 05 (\$16.2 mil.) FY 06 (\$15.0 mil).</p> <p>If Va. repeals the estate tax effective 1/1/04 the reduction in revenue will be: FY 05 (\$97.7 mil) FY 06 (\$129.8 mil) Source: TAX</p>	TAB 6 (Issue sheet fr. 6/26/02 mtg and handout fr. 7/30/02mtg).;TAB 7-H; Bliley p. 34-35; Legislator's Guide to Taxation in Va. p. 95-97	Equity Adequacy		Three aspects of changes in fed'l estate tax are involved: (i) gradual increases in the federal taxable estate threshold, and (ii) reduction in federal tax credit allowed for state estate taxes paid, and (iii) the potential elimination of the federal estate tax in 2011	Repeal 1978 "freeze date" and thereby eliminate Va. estate tax within 4 years

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Misc.						
11. Replace some tax revenues with user fees [Jt. Sub.]				Va. Interfaith Center for Public Policy	Sen. Stosch to examine this issue with Weldon Cooper and DLS	Defer
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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				Table
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			Table at least until the Nov. regional referenda

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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 6 (Issue sheet fr. 6/26/02 mtg);TAB 7-B, "Selected Revenue Estimates"		Virginia Chamber of Commerce, Retail Alliance, Colony Condominium, Va. Retail Merchants Association	The BPOL Task Force discussed several options for eliminating the BPOL tax. These were replacing it with one flat fee charged to all businesses, a graduated fee determined by gross receipts level, a sales tax, a combination of an increase in the corporate income tax with a fee charged to all businesses, and a net income tax on business income (this would include corporations, partnerships, proprietorships, limited liability companies and all other business entities). The Task Force also discussed adjustments to the current BPOL tax rates. Estimates for certain of these proposals can be found behind TAB 6.	Wait for recommendations fr. BPOL Work Group
4. Increase the threshold at which BPOL taxes apply [Morris]		TAB 6 (Issue sheet fr. 6/26/02 mtg);TAB 8-B; Morris, p. 35-36				Wait for recommendations fr. BPOL Work Group

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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 6 (Issue sheet fr. 6/26/02 mtg);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		Wait for recommendations fr. BPOL Work Group
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.	Defer
7. Localities should be permitted to continue to exercise their current authority to levy merchants' capital taxes and BPOL taxes [Morris]		TAB 6 (Issue sheet fr. 6/26/02 mtg);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.	Wait for recommendations fr. BPOL Work Group

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8. Increase the service charges localities may assess for state-owned property [Jt. Sub.]		Tab 9 (SB 479, carryover leg.)	Adequacy		See SB 479 (carryover leg.)	Defer
9. Localities should continue to designate or expand enterprise zone tax credits in both urban and rural areas [Bliley]		Bliley, p. 31				Table
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		Del. Hamilton and Del. Melvin to examine the issue of appropriate services for State to assume cost	Defer
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		Del. Hamilton and Del. Melvin to examine the issue of appropriate services for State to assume cost	Table

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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				Table
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. Del. Hamilton and Del. Melvin to examine the issue of appropriate services for State to assume cost	Table
5. Localities should be accorded greater flexibility to address on a regional basis their economic development concerns [Morris]		Morris p. 36	Adequacy			Table
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		Del. Hamilton and Del. Melvin to examine the issue of appropriate services for State to assume cost	Defer
7. Use of special taxation districts for transportation projects [Bliley]		Bliley p. 30-31				Defer at least until after Nov. regional referenda

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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	Del. Johnson to examine this issue with Ken Thorson	Thorson to examine further and report
9. Costs of administering state taxes [Jt. Sub.]		TAB 7-D	Efficiency			Defer
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	Del. Griffith to work with the work-group of interested parties who have been meeting on this issue	Wait for recommendation by Del. Griffith

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11. More revenue opportunities for localities (particularly for transportation and education) [Jt. Sub.]	A statewide local income tax of 1% would generate in the aggregate approximately \$1.16 bil. (See Tab 6 handout fr. 7/30/02 mtg. for revenue for each locality)	TAB 6 (Issue sheet fr. 6/26/02 mtg);	Adequacy	Virginia Municipal League, Virginia Association of Counties, Homebuilders Association of Va., Va. Interfaith Center for Public Policy, Commissioners of the Revenue Assoc.		Bring to full committee for consideration
12. Referred Legislation (see Tab 9)		TAB 9				

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