

TASK FORCE #1 ISSUE FORM

09/12/2002

<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						
Income Tax						
1. Conformity with federal law - conformity or deconformity, fixed date [Jt. Sub.]¹	If language had not been included in the current budget to create a fixed date conformity the fiscal impact would have been as follows: FY 03 (\$191.42 mil) FY 04 (89.24 mil) FY 05 (17.38 mil) FY 06 51.13 mil Source: TAX	1. Estimated Fiscal Impact on VA of The Victims of Terrorism Relief Act of 2001 & The Job Creation and Worker Assistance Act of 2002- TAX 6/24/02 Tab 7-A 2. Va's Conformity with the IRC TAX 8/15/02 Tab 5 3. Reactions of Other States TAX 8/15/02 Tab 5 4. Changing VA's Individual Inc. Tax Starting Point from FAGI to FTI TAX 8/15/02 Tab 5	Efficiency	VA Retail Merchant's	Currently, language in budget conforms to Federal law as of 12/31/01	Conform as much as possible; deconform only when necessary
2. Eliminate the age deduction [Morris]	FY 03 \$288.3 mil FY 04 304.2 mil FY 05 320.9 mil FY 06 338.5 mil Source: TAX	1. Options for making Age Deduction Dependent on Income-- TAX 5/29/02 Tab 7-A ² 2. Morris (pp. 31-32) 3. Reducing Individual Income Tax Rates by Eliminating the Age Deduction TAX 8/19/02 Tab 5	Equity	NARFE AARP	Instead of outright elimination, consider grandfathering or making it needs based	Defer until 2003

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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2. Eliminate the age deduction (Cont'd)		4. Grandfathering the Age Deduction TAX 8/19/02 Tab 5				Defer until 2003
3. Increase the standard deduction for married persons from \$5,000 to \$7,000 and for single persons from \$3,000 to \$3,500 [Morris]	FY 04 (\$33.1 mil) FY 05 (66.3 mil) FY 06 (65.6 mil) Source: TAX	1. Synergies in Multiple Changes to VA Ind. Inc. Tax TAX 5/29/02 Tab 7-A 2. Morris (pp. 30-31)	Adequacy	Taxpayers		Defer until 2003
4. Provide a "personal exemption" tax credit in the amount of \$125 per person and eliminate the current deduction for personal exemptions, including the additional personal exemption for the elderly (this \$125 tax credit effectively increases the current personal exemption from \$800 to \$2,500), or consider increasing the personal exemption [Jt. Sub, Morris]	FY 04 (\$237.2 mil) FY 05 (475.2 mil) FY 06 (469.6 mil) Source: TAX	1. Synergies... TAX Tab 7-A 2. Morris (pp. 30-31) 3. Increasing the Personal & Dependant Exemptions TAX Tab 7-A	Adequacy	Taxpayers		Defer until 2003
5. Adopt two individual income tax brackets: with a rate of 5% applied to the first \$50,000 of taxable income and a rate of 5.75% applied to amounts above \$50,000 (phase out 1923 rates of 2%, 3%) [Morris]	FY 04 (\$35.2 mil) FY 05 (59.1 mil) FY 06 (34.5 mil) Source: TAX	1. Synergies... TAX Tab 5-A 2. Morris Comm (p. 30)	Efficiency Adequacy	Taxpayers		Defer until 2003
6. Make social security subject to the individual income tax [Morris]	FY 04 (\$50.9 mil) FY 05 (104.7 mil) FY 06 (109.4 mil) Source: TAX	1. Eliminating VA Soc. Sec. Subtraction TAX 5/29/02 Tab 7-A 2. Morris (p. 32)	Equity	NARFE AARP		Remove from consideration
7. Increase the tax credit for low-income taxpayers and make it refundable [Morris]	FY 04 (\$105.5 mil) FY 05 (109.6 mil) FY 06 (113.8 mil) Source: TAX	1. Morris (p. 32) 2. Non-refundable EITC equal to 20% of the Federal EITC TAX 8/16/02 Tab 5	Equity Adequacy	VA Interfaith Center for Public Policy	Consider an increase but make it non-refundable	Defer until 2003
8. Eliminate income taxes and replace with higher sales tax (replacement state and local sales tax could exceed 14.5%) [Jt. Sub.]	Unknown		Adequacy	VA Retail Merchant's		Remove from consideration

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9. Examine tax preferences (subtractions, deductions, tax credits) [Jt. Sub.]	Total tax relief in addition to car tax: FY 02 (\$494.9 mil) FY 03 (550.6 mil) FY 04 (594.7 mil) Source: TAX and SFC; TAB 7-G	1. Tabs 7-F and 7-G 2. Individual Income Tax Credits Claimed in TY 1999 TAX 7/15/02 Tab 5 3. Corp. Inc. Tax Credits Claimed in TY 1999 TAX 8/16/02 Tab 5	Equity Adequacy			Defer until 2003
10. Overwithholding of income	Unknown			Taxpayers		Defer action now but eventually Allow taxpayers to adjust withholding to match their tax liability
PERSONAL PROPERTY TAX/LOCAL TAXES						
1. Car tax phase out-- How to integrate with other tax laws? Complete phase-out or revise administrative procedures. [Jt. Sub.]	Costs of reimbursing 100% tax for all vehicles: FY 02 (\$1,407.4) FY 03 (1,423.6) FY 04 (1,474.1) FY 05 (1,540.4) FY 06 (1,618.0)	Tab 8-B (p. 8)	Adequacy	VML/VACO		Defer until 2003
2. Telecommunications tax -- Consider Del. Bryant's Subcommittee recommendations (HJ 209) [Jt. Sub.]	Unknown (HJR 209 recommendations to be issued in September)	Report to be issued September 2002	Adequacy Efficiency	VML/VACO Tele-communications Companies		Wait for 9/30 report from Del. Bryant but probably defer until 2003
OTHER						
1. Appropriate mix of general fund taxes (Individual income tax equals 64% of general fund revenues and sales tax equals 21% of general fund revenues) [Jt. Sub.]	N/A	Tab 7-A (pp. 1-3)	All			Do not shift burden from business to individuals-Defer until 2003

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2. Distribute at least 6% of the state's annual individual income tax collections to local governments [Morris]	Based on FY 2002 income tax collections of \$6.7 million, the estimated amount returned to localities would be approximately \$405 million.	Tab 8-E (p. 27) Morris (p. 26)	Adequacy	VML/VACO Localities		Defer until 2003
3. Constitutional amendment requiring a sharing of state income tax revenues with localities and eliminating the personal property tax on all non-business vehicles [Bliley]	Cost of eliminating the personal property tax on all non-business vehicles: FY 02 (\$1,196.3 mil) FY 03 (1,210.1 mil) FY 04 (1,253.0 mil) FY 05 (1,309.3 mil) FY 06 (1,375.3 mil) Source: TAX	Bliley (pp. 27-28)	Adequacy	VML/VACO Localities		Defer until 2003
4. Maintain a low tax burden on businesses [Bliley]	Unknown	Bliley (p. 25)	Equity Adequacy Efficiency	VMA VA Chamber VA Retail Merchant's		Support the concept
5. Tax incentives for economic growth [Bliley]	Unknown	Bliley (p. 25)	Equity Adequacy Efficiency	VA Chamber		
6. Equalization of the taxing authority of counties and cities [Jt. Sub., Morris, Bliley]	Unknown	Morris (p. 33) Bliley (p. 30)	Equity	VML/VACO		Defer until 2003
7. No new unfunded mandates on local governments by the Commonwealth [Bliley]	None	Bliley (p. 31)	Equity	VML/VACO		Support the concept Defer specifics until 2003

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8. Creation of a tribunal, not located within or reporting to the Department to Taxation, to hear taxpayer appeals [Bliley]	Unknown	Bliley (p. 35)	Equity Efficiency		Possibly have an appeals office within TAX that only deals with appeals	Will hear recommendations from TAX at 9/30 mtg. Support the concept
9. Creation of a permanent body to analyze, on a continuing basis, the fiscal needs and resources of Virginia's state and local governments [Morris]	Unknown	Morris (p. 34)	All		JLARC, the Senate Finance Committee Staff, the House Appropriations Committee Staff and DPB currently do much of this analysis	No new organization needed; maybe formalize more what currently is done
10. Tax simplification - more user friendly [Jt. Sub.]	Unknown		Efficiency			Support the concept
11. User Fees--Consider expanding use [Jt. Sub.]	Unknown	Tab 3 - April 29th mtg. summary	Equity			Defer until 2003
12. 2002 Referred Legislation [HFC, SFC]	Unknown	Tab 9	All	Bill Patrons		Review at 9/30 mtg.