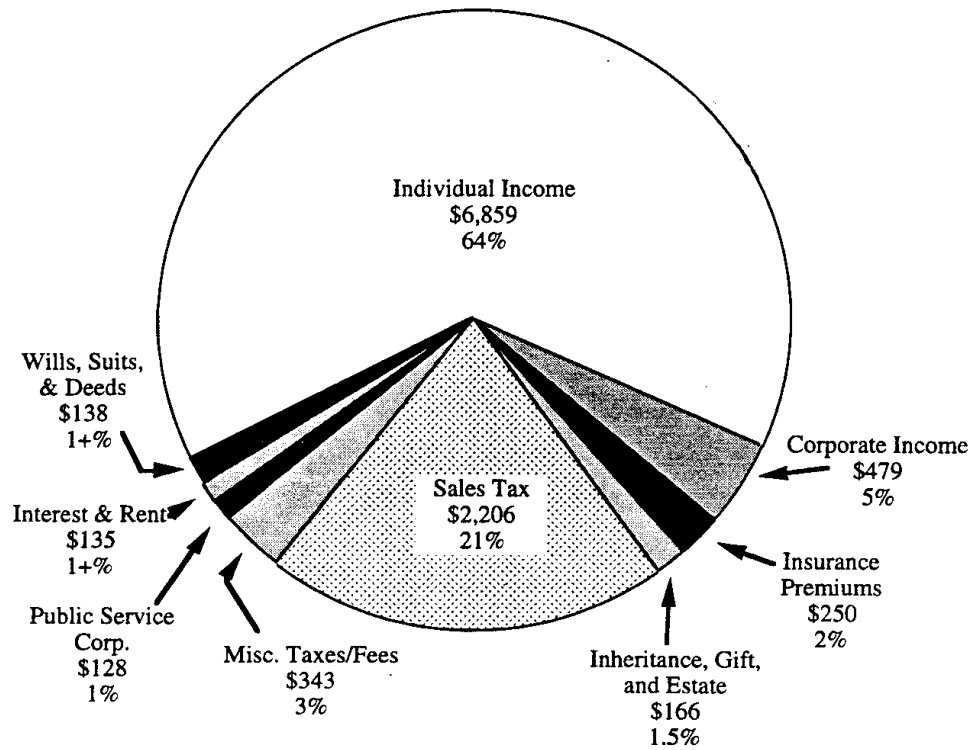


Virginia's General Fund Taxes

- About 90 percent of Virginia's general fund taxes (excluding Lottery and ABC profits) come from the following three sources:
 - individual income taxes;
 - sales and use taxes; and
 - corporate income taxes.
- The Commonwealth continues to become more reliant on individual income taxes and less reliant on other tax sources. This trend has been developing for more than three decades.
- In recent years, the increasing number of tax credits, subtractions, and deductions enacted have made Virginia's tax laws more complex and more difficult to administer. Such preferences also tend to shift the tax burden from some taxpayers to other taxpayers.

Major Sources of General Fund Revenue*
FY 2000
(\$ in millions)

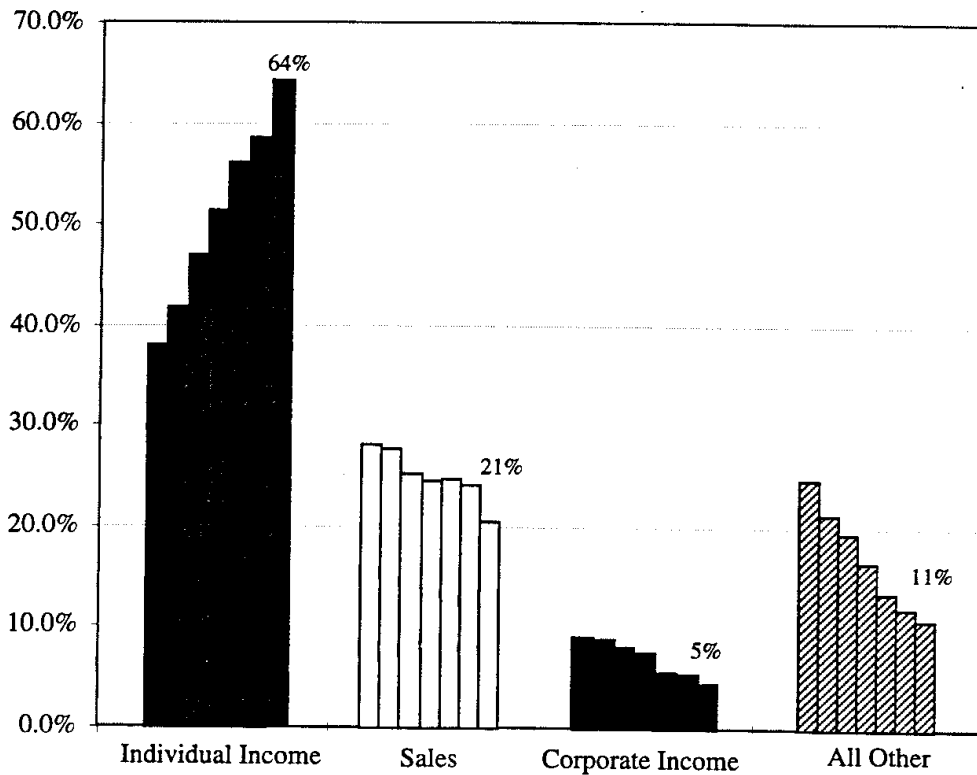


Total General Fund Revenues = \$10,697

* Excludes Transfers and Balances

Over Time, the General Fund Has Become Markedly More Dependent on Individual Income Taxes

Composition of GF Revenues, FY 70 to FY 00
(5 Year Increments)



- Dependence on Sales Taxes, Corporate Income and Other Sources has declined significantly.

Individual Income Taxes

- Virginia is one of 40 states (plus the District of Columbia) that levies a broad-based tax on individual income.
 - 1 state taxes dividends and interest only.
- Virginia applies a graduated income tax on the net income of individuals.

Tax liability is determined by:

- 1) Starting with federal adjusted gross income (FAGI);
- 2) Applying Virginia-specific additions and subtractions (to get Virginia Adjusted Gross Income (VAGI));
- 3) Subtracting either the standard deduction or itemized deductions (and child and dependent care deductions);
- 4) Deducting personal exemptions;
- 5) Applying tax rates.

<u>Va. Taxable Income</u>	Rate
First \$3,000	2%
\$3,001- \$5,000	3%
\$5,001 - \$17,000	5%
\$17,001 or more	5.75%

- 6) Finally, deduct any tax credits.

In Computing Income Tax, Virginia Conforms to Federal Definitions of Income

- Like most states, Virginia uses federal tax provisions as the basis for its individual income tax.
 - 40 states conform to some degree to federal tax provisions.
 - 27 states, including Virginia, use federal AGI as the starting point for computing state tax liability.
 - 7 states use federal taxable income as the starting point.
 - 2 states define state tax liability as a percent of federal tax liability.
 - 16 states have frozen conformity at a fixed point in time.
- Conforming to federal tax laws makes administration of income taxes more straightforward, and reduces complexity for the taxpayer.
 - At the same time, however, it makes Virginia's tax policy subject to changes in federal tax law.
 - It also has led the Tax Department to rely on IRS enforcement efforts to ensure compliance with income tax laws.

Evolution of Virginia's Income Tax

- There have been relatively few changes in the basic structure of the individual income tax over time.
 - The first 2 income tax brackets that we currently have were established in 1926, and have not been changed.
 - In 1971, Virginia conformed its income definitions to federal law, and raised the top tax rate to 5.75%.
 - In 1987, in response to federal tax changes, Virginia enacted a number of changes:
 - The minimum filing threshold was raised from \$3,000 to \$5,000 (\$8,000 married);
 - The personal exemption was increased from \$600 to \$800;
 - The standard deduction was increased from a maximum of \$2,000 to a flat \$3,000 (\$5,000 married); and
 - The threshold for the 5.75% tax bracket was raised from \$12,000 to \$17,000.
 - The result of these changes was to reduce the income tax burden at lower income levels.
 - The 2000 action to provide a tax credit to individuals and families below the federal poverty level will reduce further the income tax burden at low income levels.

An Increasing Number of Tax Preferences Have Been Adopted in Recent Years

- Although there have been few changes in basic structure, there is a growing tendency to adopt specific tax preferences in the form of:
 - 1) *Tax credits*, which directly reduce tax liability, dollar-for-dollar;
 - 2) *Subtractions*, which exclude amounts of income from the determination of tax liability; and
 - 3) *Deductions*, which reduce the amount of income which is ultimately taxable.
- Such income tax preferences are generally intended to stimulate (or subsidize) certain kinds of economic behavior, or to shift the tax burden away from certain groups.
- In the 1998, 1999 and 2000 sessions, tax policy actions were particularly extensive.
 - Between 1990 and 1997, about 15 significant changes were enacted. ("Significant" means having a measurable fiscal impact.)
 - In the 1998, 1999, and 2000 sessions, 50 significant changes were enacted. (Note: Includes all state taxes.)
 - For the individual income tax, there are now 22 subtractions and deductions, as well as 26 tax credits.
- The fiscal impact of changes enacted since 1990 (including the car tax) totals about \$1.1 billion in FY 2001 and \$1.4 billion in FY 2002.
 - The impact will grow to about \$3.5 billion in FY 2002-04. (Note: Does not include further food tax reductions.)

Selected Tax Preferences Affecting Individual Income Tax Filers

	<u>Enacted/ Last Amended</u>
Subtraction for up to \$600 for Lottery prizes	1989
Subtraction for wages from National Guard service	Before 1990
Subtraction for reward for information	Before 1990
Subtraction for qualified agricultural contributions	1998
Subtraction for Qualified Research Expenses	1993
Subtraction for those aged 65 or older and 62-64	1994
Subtraction of Disability Income	2000
Subtraction for Contributions to Prepaid Tuition Plan; Deduction for Savings Trust	1998
Subtraction for Military Wages - Up to \$15,000	1999
Subtraction for Federal and State Employees - Up to \$15,000	1999
Subtraction of Capital Gain for Land Dedicated to Open Space	1999
Subtraction for Unemployment Benefits	1999
Subtraction for Income from Tobacco Settlement	2000
Subtraction for Income Received by Holocaust Victims	2000
Subtraction for Military Pay Received by Medal of Honor Recipients	2000
Deduction for Child Care Expenses	Before 1990
Deduction for Foster Care (\$1,000)	Before 1990
Deduction for Contributions to Public School Construction Grants Program	1998
Deduction for Teacher Continuing Education Costs	1999
Deduction for Long-Term Care Health Insurance	1999
Tax Credit for Taxes Paid to Other States	1999
Tax Credit for Taxes Paid to a Foreign Country on Retirement Income	1998
Tax Credits for Providing VITA Low-Income Housing	1990
Tax Credit for Purchase of Equipment for Purchasing Recyclable Materials	1998
Tax Credit for Providing Rent Reductions	2000
Tax Credit for Historic Rehabilitation	2000
Tax Credit for Equity and Subordinated Debt Investments	1998
Tax Credit for Contributions to Political Candidates	1999
Tax Credit for Retrofitting a Residence with Accessibility Features	1999
Tax Credit for Technology Investment in Tobacco-Dependent Localities	2000
Tax Credit for Research and Development Expenses in Tobacco-Dependent Localities	2000

Tax Preferences (Continued)

	Enacted/ <u>Last Amended</u>
Tax Credits for Riparian Buffers	2000
Tax Credit for Individuals and Families Below the Poverty Level	2000
Tax Credit for Donations Under the Neighborhood Assistance Act	2000
Tax Credit Under the Enterprise Zone Act	1995
Tax Credit for Vehicle Emissions Testing Equipment, Clean- Fuel Vehicle and Job Creation	1998
Tax Credit for Conservation Tillage Equipment	1990
Tax Credit for Fertilizer And Pesticide Application Equipment	1996
Tax Credit for Foreign Source Retirement Income	1998
Tax Credit for Day-Care Facility Investment	1996
Tax Credit for Low-Income Housing	1996
Tax Credit for Employers Hiring Recipients Of Temporary Assistance to Needy Families	1998
Tax Credit for Agricultural Best Management Practices	Before 1990
Tax Credit for Worker Retraining	1997
Tax Credit for Waste Motor Oil Burning Equipment	1998
Tax Credit For Employers Of Disabled Individuals	1999

- Once enacted, tax preferences tend to "fly below the radar screen" from then on.
 - Few have sunsets, and the cost of providing them is deducted from revenue estimates.
 - There is no re-visiting to determine whether their original purpose is being met.
- Tax preferences substantially increase the complexity of administration, given Virginia's status as a conformity state.
- They also shift the burden of supporting government services away from some groups toward the balance of taxpayers.

Impact of Virginia's Income Tax Policies

- Virginia's heavy reliance on individual income tax collections kept revenue growth high, particularly during the 1980s and most of the 1990s.
 - Income tax growth in the past 2 decades has averaged 9.6%-- compared to 6.8% for the sales tax and 4.7% for the remainder of the general fund.
- Over time, increases in personal income and inflation have produced "bracket creep" -- more income has become subject to the 5.75% tax bracket. But even with this bracket creep, Virginia's overall effective tax rate has increased slightly over time (3.5% in 1987 to 3.7% in 1997).
- Increasingly, income tax is paid by those in the top income tier -- a trend that has been evident for years.
 - 26 percent of the filers pay 73 percent of Virginia's income tax.

Income Taxes Paid By Income Group, 1997

VAGI Classes	% of Returns	% of VAGI	% of Tax Paid
\$0 to 9,999	25%	1%	<1%
\$10 - 24,999	25	9	7
\$25 - 49,999	24	20	19
\$50 - 74,999	13	19	18
\$75 - 99,999	6	13	13
\$100,000 --	7	39	42

- Virginia's income tax is the principal state tax which remains deductible at the federal level for filers who itemize.

Corporate Income Tax

History

- The corporate income tax dates back to 1843. It was first imposed on "dividends of profit".

- The corporate income tax is the third largest source of general fund revenues.
 - Corporate income tax revenues for FY 2000 were \$566 million. Revenues have more than doubled (102.7% increase) since 1991.
 - Corporate income tax revenues accounted for about 5% of all general fund revenues in FY 2000, a 0.7% increase from FY 1991.

- The lion's share of the tax is paid by corporations with taxable income greater than \$10 million.
 - These corporations filed 0.1% of all corporate tax returns in FY 1999, but accounted for about 49.9% of total corporate income tax revenues.

Structure of the Tax

- Both domestic corporations (incorporated in Virginia) and foreign corporations with income from Virginia sources pay corporate income tax.
 - The tax does not apply to certain public service corporations (with the exception of electricity and natural gas companies beginning in 2001), insurance companies and interinsurance exchanges, electing small business corporations (S corporations), state and national banks, credit unions, and

nonprofit religious, educational, benevolent, and other nonprofit corporations.

- Insurance companies and state banks pay a gross insurance premiums tax and a bank franchise tax, respectively, in lieu of the corporate income tax.
- The tax is a net income tax imposed on 'bottom-line' profit.
 - The tax equals 6% of Virginia taxable income. This rate was last increased January 1, 1972, from 5% to 6%. Prior to this change, the last increase was in 1948 when the tax increased from 3% to 5%.
 - Virginia taxable income is federal taxable income, as adjusted by Virginia law.
- Virginia is one of 45 states that imposes a corporate income tax.
 - Only 8 states impose a lower rate than Virginia.

Income Apportionment

- The corporate income tax is applied to income earned on economic activity occurring in the Commonwealth.
- Income of multistate corporations must first be apportioned to Virginia to determine Virginia's taxable share.
 - This assures that there is no double taxation of the income of multistate corporations.
 - A corporation's worldwide income is not subject to tax in Virginia.

- Virginia apportions income by using a weighted average of three factors as follows:
 1. The property factor is the portion of the total real estate and personal property that is owned and used in Virginia (25% weight);
 2. The payroll factor is the portion of the total payroll paid to Virginia employees (25% weight); and
 3. The sales factor is the portion of the total sales in Virginia (50% weight).
- The sales factor is double-weighted (i.e., it counts twice as much as any other factor) beginning in taxable year 2000.
 - This places less emphasis on payroll and property for purposes of tax liability. Multistate corporations with a significant presence in Virginia (many employees and much property) generally benefit under a double-weighted sales factor approach.
- Income from rendering services is apportioned to Virginia only if more of the service is performed in Virginia (on a cost basis) than in any other state.
 - This is an all-or-nothing rule for apportioning the income from the performance of services.
- Special apportionment rules exist for motor carriers, financial corporations, construction corporations, and railway companies.

Tax Policy

- Corporate income tax revenues are the most volatile of Virginia's general fund revenues. Annual growth during the past decade was as follows:

<u>Tax Year</u>	<u>Annual Growth</u>
1991	-10.0%
1992	- 1.3%
1993	34.6%
1994	-16.0%
1995	20.6%
1996	6.9%
1997	7.4%
1998	4.2%
1999	- 6.7%
2000	34.6%

- Corporations are able to manipulate their 'bottom-line', which impacts revenue collections.
- The tax is a flat rate of 6%. Of the 45 states imposing a corporate income tax, 33, including Virginia, impose a flat rate.
 - Virginia's tax rate does not change as corporate profits increase. This is in contrast to a graduated tax, such as the individual income tax.
- Electricity and natural gas companies will begin to pay the corporate income tax beginning in 2001.
 - This may increase corporate income tax revenues without a change in corporate profits.
- The General Assembly has passed many subtractions and tax credits that operate to reduce corporate income tax revenue. There are 26 tax credits and 5 subtractions available to corporations, which effectively reduce corporate income tax revenues. They are as follows:

<u>Credit/Subtraction</u>	<u>Enacted</u>
Virginia Coal Employment and Production Incentive Tax Credit	1986
Telecommunications Income Tax Credit	1988
Tax Credit for Creating Jobs Involved in Clean Fuel Vehicles	1995
Tax Credit for Qualifying Cogenerators & Small Power Producers	1988
Major Business Facility Job Tax Credit	1994
Tax Credit for Qualifying Steam Producers	1995
Alternate Tax Credit for Purchasing Machinery and Equipment for Processing Recyclable Materials	1998
Enterprise Zone Business Tax Credit	1982
Real Property Investment Tax Credit	1995
Forested Buffers Tax Credit	2000
Neighborhood Assistance Act Tax Credit	1981
Tax Credit for Vehicle Emissions Testing Equipment	1993
Tax Credit for Purchase of Waste Motor Oil Burning Equipment	1998
Tax Credit for Investment in Day-Care Facilities	1996
Tax Credit for Employees Hiring Recipients of TANF	1998
Subtraction for Qualified Agricultural Contributions	1985
Subtraction for Qualified Research Expenses	1994
Subtraction for Tobacco Farmers	2000
Subtraction of Capital Gains for Land Dedicated to Open-Space Use	1999
Subtraction for Contributions to Virginia Public School Construction Grants Program and Fund	1998
Energy Income Tax Credit	1982
Tax Credit for Providing Low-Income Housing	1989
Tax Credit for Purchase of Pesticide and Fertilizer Application Equipment	1996
Tax Credit for Providing Rent Reductions	1990
Tax Credit for Historic Rehabilitation	1996
Tax Credit for Conservation Tillage Equipment	1985
Tax Credit for Hiring Employees with Disabilities	1999
Coalfield Employment Enhancement Tax Credit	1995
Tax Credit for Agricultural Best Management Practices	1996
Tax Credit for Worker Retraining	1997
Tax Credit for Land Preservation	1999

SALES AND USE TAX

I. Origin

- A. 1932 -- Mississippi
- B. 1935 -- Half of states had sales and use tax
- C. Today -- Sales tax in 45 states and D.C. and localities in 2/3 of such states

II. Sales and Use Tax in Virginia

- A. Evolution
 - 1. 1966 -- 2% state with half to localities; and authorized 1% for localities
 - 2. 1968 -- 3% state
 - 3. 1987 -- 3 1/2% state
 - 4. Exemptions -- increase

B. Amount of Revenue

1. Va. State and Local Retail Sales and Use Tax Fiscal Years 1990 - 2000

Fiscal Year Ending June 30	State Sales and Use Tax	Local Sales and Use Tax
1990	\$1,608,231,078	\$472,023,633
1991	\$1,674,566,335	\$491,496,790
1992	\$1,574,218,000	\$458,617,000
1993	\$1,679,895,000	\$482,585,000
1994	\$1,795,183,000	\$522,998,000
1995	\$1,935,237,000	\$561,707,000
1996	\$2,010,402,000	\$581,227,000
1997	\$2,133,947,000	\$618,188,000
1998	\$2,240,174,000	\$645,109,000
1999	\$2,410,366,000	\$695,425,000
2000	\$2,574,006,000	\$735,246,000

2. FY 2000 -- \$2.2 billion to general fund, 21% of total general fund

C. Comparison of Rates in Other States

1. Va.'s 3.5% rate one of lowest in U.S. -- lowest is Colorado (2.911%), highest is Rhode Island and Mississippi (7%)
2. Va. ranks lowest in sales tax per capita and sales tax as percentage of income

D. Distribution Formula (of 3.5 cents)

1. 2 cents -- general fund
2. 1 cent -- local school divisions based on school-age population
3. 1/2 cent -- Transportation Trust Fund

E. Mechanics of the Tax

1. Sales tax levied on price of tangible personal property sold or leased at retail in Virginia
2. Use tax levied on price of tangible personal property used in Virginia
3. Imposed on Purchaser
4. Dealers compensated for collections of the first 3 cents of state (3.5 cents) sales tax (none of the local sales tax)

F. Exclusions

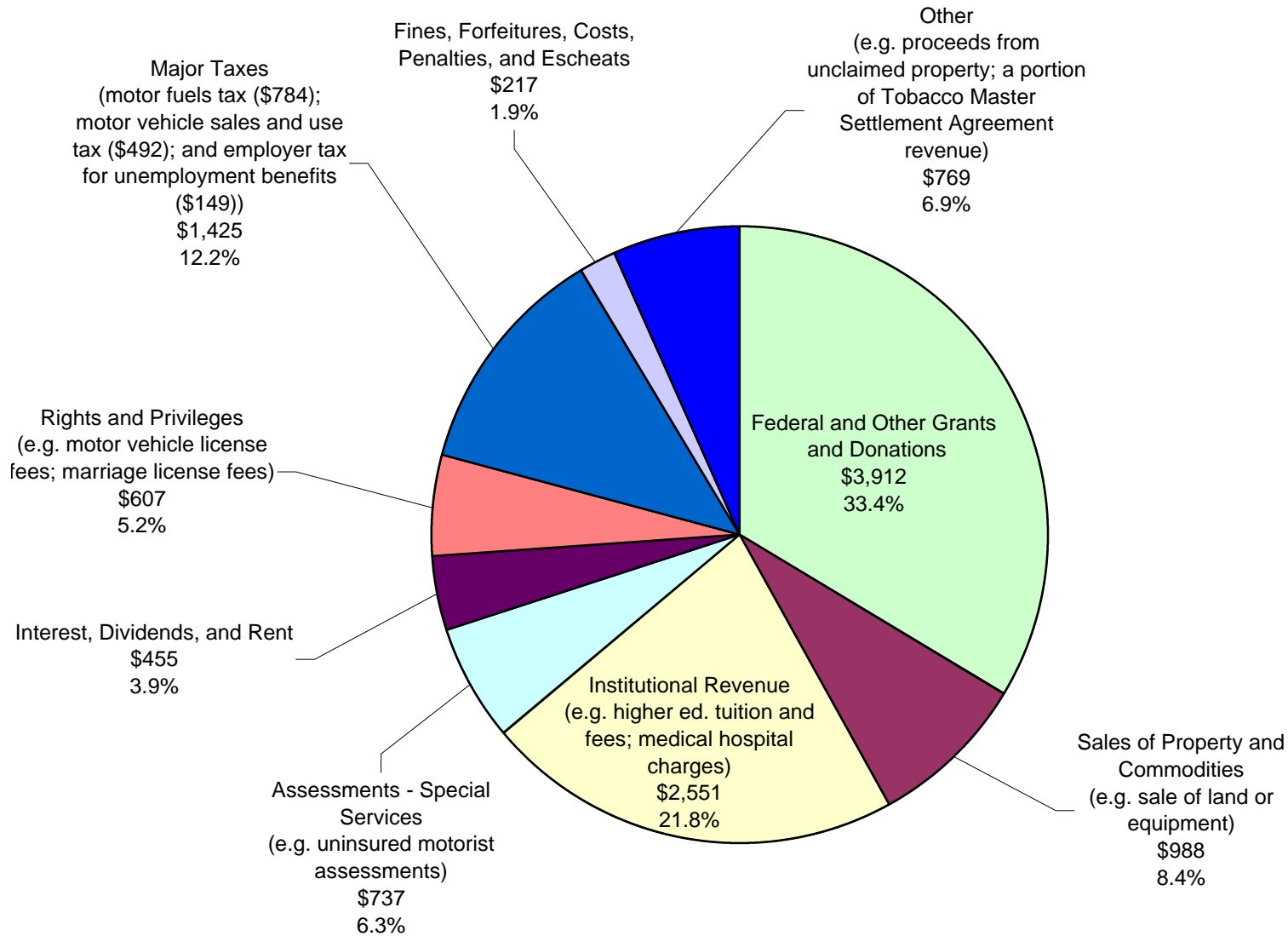
1. Purchases for resale
2. Manufacturing Inputs
3. Property used in agricultural production for market
4. Property used in research and development
5. Occasional sales
6. Food (partial, gradual reduction)
7. Prescription and non-prescription drugs
8. Non-profit organizations

G. Services

1. Pure services -- not taxed
2. Services plus goods -- look to "true object" of purchaser
 - a. if true object is goods -- tax entire price of services and goods
 - b. if true object is services -- no tax on services or goods

H. Internet and Mail-order

Major Sources of Non-General Fund Revenue FY 2000 (\$ in millions)



Total Non-General Fund Revenues = \$11,704

Examples of Nongeneral Fund Taxes

DEPARTMENT OF MOTOR VEHICLES

- Total revenue collections for DMV for the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Annual Growth</u>
1998	\$1.6 billion	
1999	\$1.7 billion	5.3%
2000	\$1.8 billion	6.7%

- None of the money collected by DMV is deposited into the general fund.
- The Department of Motor Vehicles collects both the Virginia Fuels Tax and the Virginia Motor Vehicles Sales and Use Tax.
 - These taxes account for 73.8% of the \$1.8 billion in fees and taxes collected by DMV in FY 2000.

Virginia Fuels Tax

History

- The Virginia fuels tax dates back to 1923 when the tax was applied only to gasoline.
- The Virginia fuels tax is the largest source of nongeneral fund revenue collected by DMV.
 - Fuels tax revenues in FY 2000 were \$784.4 million. This is a 27.2% increase since 1991.
 - Fuels tax revenues accounted for 43.5% of all nongeneral fund revenues collected by DMV in FY 2000.

- Fuels tax revenues are distributed to the Transportation Trust Fund, the Highway Maintenance Operating Fund, and DMV.
 - Revenues attributable to the two and one-half cent rate increase enacted in 1986 are distributed to the Transportation Trust Fund. Of the remaining revenues, 99% are distributed to the Highway Maintenance Operating Fund and 1% are distributed to DMV for funding of the agency's operations.

Structure of the Tax

- Prior to January 1, 2001, the fuels tax was collected and remitted to DMV when the fuel was in the chain of distribution.
 - Fuel could be sold and purchased numerous times by distributors and jobbers before the fuels tax was actually paid to DMV. This could result in a long audit trail for purposes of determining who actually owed the tax.
- The General Assembly passed legislation during the 2000 Session that provided that the fuels tax is assessed at the point the fuel was removed from the terminal rack. The legislation was effective January 1, 2001.
 - The ‘tax at the rack’ legislation made licensed suppliers (i.e., oil companies and producers) responsible for collecting and submitting the tax to DMV as opposed to distributors and jobbers. Suppliers and terminal operators are required to file a \$2 million liability bond.
 - Nineteen other states impose their fuels tax ‘at the rack’.
 - Licensed suppliers are required to remit the tax to DMV by the 20th day of the second month after the transaction.

- DMV expects increased fuel tax revenues from imposing the fuels tax ‘at the rack’. The increase is expected to come from increased accuracy in filing fuels tax returns and an increase in matching federal funds.
- The fuels tax rates for motor fuels are as follows:

<u>Fuel</u>	<u>Tax Rate</u>
Gasoline and gasohol	17.5 cents per gallon
Diesel fuel	16 cents per gallon
Aviation gasoline	5 cents per gallon
Aviation jet fuel used by aviation consumers	5 cents per gallon on the first 100,000 gallons and a half cent per gallon in excess of 100,000 gallons

- The fuels tax rate for alternative fuels (combustible gas, liquids, and other non-motor energy sources) used to operate a highway vehicle is 16 cents per gallon.
- Federal, state, and local governments and certain nonprofit charitable organizations are exempt from Virginia’s fuels taxes.

Comparison with Other States

- All 50 states impose fuels taxes on gasoline and diesel fuel.
 - Only 15 states impose a lower fuels tax on gasoline than Virginia does.

- Nine states impose a lower tax on diesel fuel, and 4 states (Hawaii, Indiana, South Carolina, and Vermont) tax diesel fuel at the same rate as Virginia does.

Virginia Motor Vehicle Sales and Use Tax

History

- The motor vehicle sales and use tax was first imposed in 1966 at a rate of 2% of the gross sales price paid for motor vehicles. It was imposed at the same rate and enacted at the same time as the retail sales and use tax.
 - The tax was last increased in 1986 to 3%.
- The motor vehicle sales and use tax is the second largest source of nongeneral fund revenue collected by DMV.
 - Sales and use tax revenues were \$492 million in FY 2000. This accounted for 30.4% of all revenue collected by DMV in FY 2000.
 - Motor vehicle sales and use tax revenues have more than doubled (116.2% increase) since FY 1991. The annual growth in these revenues has eclipsed 10% in five out of the last eight years (1993, 11.8%; 1994, 21.8%; 1995, 10.3%; 1999, 10.6%; and 2000, 12.8%).
- Revenues from the motor vehicle sales and use tax are distributed to the Transportation Trust Fund and the Highway Maintenance Operating Fund.
 - Revenues attributable to the 1% rate increase enacted in 1986 are distributed to the Transportation Trust Fund. Revenues attributable to the remaining 2% are distributed to the Highway Maintenance Operating Fund.

Structure of the Tax

- The tax is assessed on the gross sales price of motor vehicles and manufactured homes (in lieu of the retail sales and use tax). The tax is paid at the time the purchaser applies to DMV for a Certificate of Title to the vehicle. That is why it is sometimes referred to as the 'titling tax'.
- The motor vehicle sales and use tax is imposed at the following rates:

<u>Transaction</u>	<u>Tax Rate</u>
Sale or use of a motor vehicle	3% of the gross sales price
Sale or use of a manufactured home	3% of the gross sales price
Long-term rental of a motor vehicle	4% of the gross proceeds
Short-term rental of a motor vehicle (daily rental vehicles)	4% of the gross proceeds

- The minimum tax is \$35.
- The sales price upon which the tax is based is not reduced for motor vehicles that are traded in.
- The tax applies both to the sale and use of motor vehicles in Virginia.
 - Vehicles purchased outside Virginia but used or stored in Virginia are subject to the tax (the tax is reduced by the amount of sales and use tax paid in the state of purchase).
- There are numerous exemptions from the tax including:
 - Sales to federal, state, and local governments;

Vehicles registered in the name of nonprofit fire department and rescue squads;
Manufactured homes permanently attached to real estate;
Gifts to close relatives;
Motor vehicles titled in the name of a motor vehicle dealer and held for resale;
Certain sales to nonprofit churches; and
Sales by a lessor to a lessee at the end of a lease term if the lessee previously paid a sales and use tax on the vehicle.

- Revenues from the sale or use of manufactured homes and the short-term rental of motor vehicles are distributed to counties, cities, and towns.

Comparison with Other States

- All 50 states impose a motor vehicle sales and use tax.
 - Only 7 states have a lower rate than Virginia. Fifteen states impose the tax at a rate of 6% or more.
 - Virginia is 1 of only 8 states that does not allow a deduction for the value of trade-ins.

STATE CORPORATION COMMISSION

- The State Corporation Commission, like DMV, is a nongeneral fund agency.
 - Unlike DMV, the revenues collected by the State Corporation Commission are (i) distributed to the general fund (e.g., taxes on gross premiums of insurance companies and state license taxes) and (ii) dedicated to nongeneral fund purposes (in some cases revenues are distributed to private companies as a form of reimbursement).
This outline focuses on just the nongeneral fund taxes collected by the State Corporation Commission.
- Total nongeneral fund revenue collections for the SCC for the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Annual Growth</u>
1998	\$ 74.6 million	
1999	\$ 94.9 million	27.3%
2000	\$112.2 million	18.2%

- The special revenue regulatory tax accounts for approximately 17% of all nongeneral fund revenues collected by the SCC in FY 2000.

Special Revenue Regulatory Tax

- Regulatory tax revenues were \$11.4 million in FY 1999 and \$19.1 million in FY 2000.
 - Revenues increased 68% between FY 1999 and FY 2000. The special revenue regulatory tax was increased to provide funds for a mandated consumer education plan relating to deregulation.

- The tax equals 0.2% of gross revenue or gross income before deductions for expenses (i.e., gross receipts).
 - The tax is paid by corporations furnishing water, heat, light, or power; certain telegraph companies owning and operating a telegraph line necessary to communicate by telecommunications in the Commonwealth; telephone companies with gross receipts in excess of \$50,000; the Virginia Pilots' Association; railroads, except those exempted from state taxes under federal law; and certain common carriers of passengers.

- Revenues from the tax support the making of appraisals and assessments against public service companies, investigating the properties and services of public service corporations, and the administration of laws relating to public service companies.
 - The SCC is authorized to reduce the tax below 0.2%.

- Legislation passed by the General Assembly deregulating the electricity industry in 1999 and the natural gas industry in 2000 excludes electric suppliers, gas utilities, gas suppliers, and pipeline distribution companies from the tax.
 - Electricity and natural gas consumption taxes replace the special revenue regulatory tax paid by these corporations. A natural gas consumption tax of \$0.002 per CCF consumed monthly replaces the special revenue regulatory tax previously paid by natural gas companies. The special revenue regulatory tax previously paid by electricity companies is replaced with an electric utility consumption tax as follows:

Monthly Consumption

Tax Rate

2,500 kilowatt hours or less	\$0.00015 per kilowatt hour
More than 2,500 but not in excess of 50,000 kilowatt hours	\$0.00010 per kilowatt hour
More than 50,000 kilowatt hours	\$0.00007 per kilowatt hour

- The SCC is authorized to reduce the electricity and natural gas consumption tax rates relating to the special regulatory revenue tax.

GENERAL FUND TAX SOURCES

Tax	Tax Base	First Imposed	Fiscal Year 1991 - 2000 Revenues			
			Fiscal Year	Revenue	Annual Growth	Percent of General Fund
Individual Income	The tax is applied to Federal Adjusted Gross Income, as modified by Virginia tax laws. Individual income is taxed at the following rates: \$1,000 - \$3,000 2.00% \$3,001 - \$5,000 3.00% \$5,001 - \$17,000 5.00% \$17,001 and over 5.75%	1843	1991	\$3.2 billion	5.0%	59.1%
			1992	\$3.3 billion	2.6%	59.1%
			1993	\$3.6 billion	7.9%	58.4%
			1994	\$3.8 billion	6.3%	58.6%
			1995	\$4.0 billion	5.7%	58.5%
			1996	\$4.3 billion	7.9%	59.1%
			1997	\$4.7 billion	8.7%	58.2%
			1998	\$5.4 billion	14.3%	61.6%
			1999	\$6.1 billion	12.6%	62.7%
			2000	\$6.8 billion	12.2%	63.3%
Insurance Premiums	The tax is applied to the gross income of insurance companies from premium and subscription sales of accident and sickness, fire, life and other insurance. The tax rate is 2.25% of the gross income from accident and sickness, fire damage, water damage, burglary and theft.	1842	1991	\$157.7 million	-11.7%	2.9%
			1992	\$174.8 million	10.9%	3.1%
			1993	\$180.3 million	3.2%	2.9%
			1994	\$196.4 million	8.9%	3.0%
			1995	\$208.2 million	6.0%	3.0%
			1996	\$218.0 million	4.7%	3.0%
			1997	\$219.0 million	0.5%	2.7%
			1998	\$237.0 million	8.2%	2.7%
			1999	\$244.9 million	3.4%	2.5%
			2000	\$251.1 million	2.5%	2.3%

GENERAL FUND TAX SOURCES

		Fiscal Year 1991 - 2000 Revenues				
		First Imposed	Fiscal Year	Revenue	Annual Growth	Percent of General Fund
Tax	Tax Base					
	personal injury liability, property damage, title, motor vehicle damage, life insurance, and accidental death and dismemberment policies; 1.00% of the gross income from industrial sick benefit insurance policies; and 0.75% of the gross income from insurance contracts to individuals for certain health services.					
Recordation	The tax is based on the fair market value of (1) deeds that are recorded and (2) instruments by which real estate is sold. The tax rate is \$.15 per \$100 of the higher of the fair market value or consideration paid for deeds that are recorded, and \$.50 per \$500 of value for	1843	1991	\$71.9 million	-21.6%	1.3%
			1992	\$83.7 million	16.4%	1.5%
			1993	\$99.6 million	19.0%	1.6%
			1994	\$114.9 million	15.4%	1.8%
			1995	\$84.7 million	-26.3%	1.2%
			1996	\$95.5 million	12.7%	1.3%
			1997	\$103.4 million	8.3%	1.3%
			1998	\$126.8 million	22.6%	1.4%
			1999	\$157.9 million	24.5%	1.6%
			2000	\$146.3 million	-7.3%	1.4%

GENERAL FUND TAX SOURCES

		Fiscal Year 1991 - 2000 Revenues				
Tax	Tax Base	First Imposed	Fiscal Year	Revenue	Annual Growth	Percent of General Fund
	instruments by which real estate is sold.					
Bank franchise tax	The tax is imposed on the capital of banks and trust companies, as 'capital' is modified by Virginia tax laws.	1980	1991	\$5.1 million	-2.0%	0.1%
			1992	\$4.3 million	-15.7%	0.1%
			1993	\$4.6 million	8.3%	0.1%
			1994	\$5.9 million	28.4%	0.1%
			1995	\$7.5 million	26.1%	0.1%
			1996	\$8.4 million	12.3%	0.1%
			1997	\$8.8 million	4.8%	0.1%
			1998	\$8.4 million	-4.2%	0.1%
			1999	\$13.3 million	58.1%	0.1%
			2000	\$12.3 million	-7.8%	0.1%
Sales and Use Tax	The tax is imposed on the sale or use of tangible personal property	1966	1991	\$1.33 billion	-2.2%	24.0%
			1992	\$1.35 billion	1.0%	24.0%
			1993	\$1.44 billion	6.6%	24.0%
			1994	\$1.54 billion	6.9%	24.0%
			1995	\$1.65 billion	7.1%	24.0%
			1996	\$1.7 billion	3.0%	23.0%
			1997	\$1.8 billion	5.8%	22.0%

GENERAL FUND TAX SOURCES

Tax	Tax Base	First Imposed	Fiscal Year 1991 - 2000 Revenues			
			Fiscal Year	Revenue	Annual Growth	Percent of General Fund
ABC Taxes	Wine liter tax (forty cents/liter);	1933	1998	\$1.9 billion	5.5%	21.6%
	Distilled spirits (20% of sales price);		1999	\$2.1 billion	10.0%	21.6%
	License tax (varies depending on type of license);		2000	\$2.2 billion	4.7%	21.0%
	Beer and beverage (\$7.95 per 31 gallon barrel; two cents per bottle of 7ozs. or less; 2.65 cents per bottle of 7-12 ozs.; and 2.22 mills per oz. For bottles over 12 ozs.);		1991	\$102.6 million		1.8%
	and state sales tax		1992	\$102.4 million	-0.2%	1.8%
			1993	\$113.5 million	10.8%	1.9%
			1994	\$112.7 million	-0.7%	1.7%
			1995	\$113.5 million	0.7%	1.6%
			1996	\$114.3 million	0.7%	1.5%
			1997	\$117.8 million	3.0%	1.4%
Corporate Income	The tax is imposed on the net income (profits) of corporations doing business in the Commonwealth. There is a flat 6% rate.	1843	1998	\$118.1 million	0.30%	1.3%
			1999	\$122.9 million	4.0%	1.3%
			1991	\$279.2 million	-10.0%	5.1%
			1992	\$275.9 million	-1.3%	4.9%
			1993	\$371.5 million	34.6%	6.1%
			1994	\$312.1 million	-16.0%	4.8%
			1995	\$376.4 million	20.6%	5.5%

GENERAL FUND TAX SOURCES

Tax	Tax Base	First Imposed	Fiscal Year 1991 - 2000 Revenues			Annual Growth	Percent of General Fund
			Fiscal Year	Revenue			
Estate & Gift	The federal estate tax allows for a state tax credit based on a specified formula. The credit amount is paid to the state for each estate with a federal estate tax liability.	1926*	1996	\$402.3 million	6.9%	5.5%	
			1997	\$432.3 million	7.4%	5.4%	
			1998	\$450.8 million	4.2%	5.1%	
			1999	\$420.4 million	-6.7%	4.3%	
			2000	\$565.9 million	34.6%	5.2%	
			1991	\$46.9 million	-25.7%	0.9%	
			1992	\$48.8 million	4.1%	0.9%	
			1993	\$47.9 million	-1.9%	0.8%	
			1994	\$83.0 million	73.3%	1.3%	
			1995	\$77.7 million	-6.4%	1.1%	
Gross Receipts Tax on Public Service Corporations**	The tax is imposed at the rate of 2% on the gross receipts of companies furnishing water,	1898	1996	\$69.4 million	-10.7%	0.9%	
			1997	\$92.2 million	32.8%	1.2%	
			1998	\$122.3 million	32.7%	1.4%	
			1999	\$154.1 million	26.0%	1.6%	
			2000	\$150.1 million	-2.6%	1.4%	
Gross Receipts Tax on Public Service Corporations**	The tax is imposed at the rate of 2% on the gross receipts of companies furnishing water,	1898	1991	\$95.5 million	-6.1%	1.7%	
			1992	\$102.4 million	3.8%	1.8%	
			1993	\$97.8 million	-4.5%	1.6%	

* Note: Virginia's first death tax was an inheritance tax that was enacted in 1844. The gift tax was enacted in 1934.

GENERAL FUND TAX SOURCES

<u>Tax</u>	<u>Tax Base</u>	<u>First Imposed</u>	<u>Fiscal Year 1991 - 2000 Revenues</u>			
			<u>Fiscal Year</u>	<u>Revenue</u>	<u>Annual Growth</u>	<u>Percent of General Fund</u>
heat, light, or power			1994	\$118.7 million	17.3%	1.8%
			1995	\$108.6 million	-8.6%	1.6%
			1996	\$115.5 million	6.0%	1.5%
			1997	\$126.3 million	8.6%	1.5%
			1998	\$101.8 million	-19.5%	1.1%
			1999	\$111.9 million	9.1%	1.1%
			2000	\$104.2 million	7.0%	1.0%

***Note: The gross receipts tax on electric power companies and gas power companies will end January 1, 2002, and be replaced by the corporate income tax and energy consumption taxes.

Electric Utility The tax is imposed on consumers 2001
Consumption Tax of electricity at the following
rates:

<u>KWh Used</u>	<u>Rate</u>
0-2,500	\$0.001555/KWh
2,501-50,000	\$0.000099/KWh
over 50,000	\$0.000075/KWh

N/A

N/A

N/A

GENERAL FUND TAX SOURCES

Tax	Tax Base	First Imposed	Fiscal Year 1991 - 2000 Revenues			
			Fiscal Year	Revenue	Annual Growth	Percent of General Fund
Natural Gas Consumption Tax	The tax is imposed on the first 50,000 cubic feet of natural gas consumed at the rate of \$0.0195 per 100 cubic feet of gas used per month.	2001	N/A	N/A	N/A	
Cigarette Tax	The tax is imposed on each pack of cigarettes purchased by retailers at the rate of 2.5 cents per pack.	1960	1991	\$15.3 million	-5.4%	0.3%
			1992	\$15.2 million	-0.9%	0.3%
			1993	\$14.8 million	-2.4%	0.2%
			1994	\$14.9 million	0.6%	0.2%
			1995	\$15.8 million	6.2%	0.2%
			1996	\$15.9 million	0.9%	0.2%
			1997	\$16.0 million	0.5%	0.2%
			1998	\$15.7 million	-1.9%	0.2%
			1999	\$15.4 million	-2.2%	0.2%
			2000	\$15.2 million	-1.1%	0.1%

Key Provisions of R n t Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Computation and Limitation</u>	<u>Start</u>	<u>Associate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
1. Subtraction for up to \$600 for Lottery prizes	58.1-322 C. 10.	Subtracts from federal adjusted gross income any amount less than \$600 from a prize awarded by the State Lottery Department.	None	None	N/A	1989
2. Subtraction for wages from National Guard service	58.1-322 C. 11.	Subtracts from federal adjusted gross income 39 days of wages and salaries for National Guard service, up to \$3,000 for captains or below.	None	None	N/A	Prior to 1990
3. Subtraction for reward for information	58.1-322 C. 12.	Subtracts from federal adjusted gross income up to \$1,000 received for information provided to a law enforcement agency.	None	None	N/A	Prior to 1990
4. Subtraction for qualified agricultural contributions	58.1-322 C. 14.; 58.1-402 C. 13.	Subtracts from federal adjusted gross income the wholesale market price of an agricultural product donated to a § 501 (c) (3) organization.	Jan. 1, 2004	None	N/A	1998
5. Subtraction for qualified research expenses	58.1-322 C. 17.; 58.1-402 C. 14.	Subtracts from federal adjusted gross income any qualified research expenses or basic research expenses eligible for a federal deduction but which were not deducted.	None	None	N/A	1994
6. Subtractions for those 65 or older and for those 62-64	58.1-322 D 5.	For those 65 or older, subtracts \$12,000 from federal adjusted gross income. For those 62-64, subtract \$6,000 from federal adjusted gross income.	None	None	N/A	1994

Key Provisions of Recent Tax Policy Changes

Description	Code	Computation and Limitation	Summed	Assessable Cap	Carryover Provisions	Enacted/Last Amended
7. Subtraction and Deduction for Pre-paid Tuition Contracts or Savings Trusts	58.1-322 C. 20.; 58.1-322 D. 7.	Subtracts any income attributable to a distribution of benefits or a refund from a prepaid tuition contract; limited to \$2,000 per taxable year. Deduction of \$2,000 per year until contribution is fully deducted. No limit for contributors 70 or older.	None	None	until fully deducted	1998; 1999
8. Subtraction for Military Wages	58.1-322 C. 23.	Excludes \$15,000 of military pay, for those earning \$15,000 or less. Exclusion is reduced dollar-for-dollar for pay exceeding \$15,000. Phased out at \$30,000.	None	N/A	N/A	1999
9. Subtraction for State and Federal Employees	58.1-322 C. 24.	Excludes \$15,000 of G39 pay, for those earning \$15,000 or less. Exclusion is reduced dollar-for-dollar for pay exceeding \$15,000. Phased out at \$30,000.	None	N/A	N/A	1999
10. Subtraction of Capital Gains for Land Dedicated to Open Space	58.1-322 C. 22.; 58.1-402 C. 16.	Effective January 1, 2000, excludes the gain derived from the sale or exchange of real property which results in the real property being devoted to open-space use.	None	N/A	N/A	1999
11. Subtraction for Unemployment Benefits	58.1-322 C. 25.	Exempts unemployment benefits from income tax.	None	N/A	N/A	1999
12. Deduction for Contributors to Public School Construction Grants Program	58.1-322 D 8.; 58.1-402 C. 15.	Deducts from federal adjusted gross income the total amount an individual contributed to the Public School Construction Grants Program, provided the amount was not claimed as a federal deduction.	None	N/A	N/A	1998

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Computation and Limitation</u>	<u>Sunset</u>	<u>Aggregate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
13. Deduction for Teacher Continuing Education Costs	58.1-322 D 9.	Deducts from federal adjusted gross income 20% of the costs of continuing teacher education costs, provided the costs were not claimed as a federal deduction.	None	N/A	N/A	1999
14. Deduction for Long Term Care Health Insurance	58.1-322 D 10.	Deducts from federal adjusted gross income annual premiums paid for long term care insurance, provided the costs were not claimed as a federal deduction.	None	N/A	N/A	1999
15. Tax Credit for Tax Paid to Other States	58.1-332	Provides a tax credit for the full amount of tax paid to other state for earned income, business income, or capital gain from a residence.	None	None	N/A	1999
16. Tax Credit for Taxes Paid to a Foreign Country on Retirement Income	58.1-332.1	Provides a tax credit for the full amount of tax paid to another country for retirement income derived from foreign sources as a result of past employment in a foreign country.	None	None	N/A	1998
17. Tax Credit for Providing Low-Income Housing	58.1-336; 58.1-435	Provides a credit equal to percentage of the federal low-income housing credit.	None	\$1.0 million	5 yrs.	1989
18. Tax Credit for Purchase of Equipment for Processing Recyclable Materials	58.1-338; 58.1-439.7	Provides a tax credit equal to 10% of qualifying purchase, not to exceed 40% of tax liability of a taxpayer.	Jan. 1, 2001	None	10 yrs. or until the credit is fully used	1998
19. Tax Credit for Providing Rent Reductions	58.1-339.9	Provides a tax credit equal to 50% of total rent reductions, up to total tax	Dec. 31, 2005	50,000	5 yrs	1990; 2000

Key Provisions of Recent Tax Policy Changes

Description	Code	Competition and Limitation	Sunset	Associate Cap	Carryover Provisions	Enacted/Last Amended
20. Tax Credit for Historic Rehabilitation	58.1-339.2	Provides a credit equal to 20% of eligible expenses for rehabilitating a certified historic structure (25% for 2000 and after)	None	None	10 yrs or until full credit is used	1996; 2000
21. Tax Credit for Equity and Subordinated Debt Investments	58.1-339.4	Beginning January 1, 1999, provides a tax credit equal to 50% of cash investments in qualified businesses, with a limit of \$50,000 per year.	None	\$5 million	15 yrs	1998
22. Earned Income Credit for Low-Income Families w/ Children (a.k.a. Work Incentive Payment)	58.1-339.5	75% of Federal EITC or \$30 per dependent child under 18, with further adjustments for family size and VAGI.	Budget provision expires Jun. 30, 2000.	None	None	1998
23. Tax Credit for Contributions to Political Candidates	58.1-339.6	Provides a tax credit of 50% of the amount contributed by taxpayer to a candidate, not to exceed \$25 per individual or \$50 per joint return.	None	None	None	1999
24. Tax Credit for Retrofitting Accessibility Features for the Disabled	58.1-339.7	Beginning January 1, 2000, provides a tax credit of 25% of the cost of retrofitting a residence with accessibility features for the disabled, up to a maximum credit of \$500.	None	\$ 1.0 million	5 yrs	1999
25. Double weighting of Sales Tax in Corporate Apportionments	58.1-408	Sales weighted 50 percent in determining tax liability of multi-state corporations.	None	N/A	N/A	1999
26. Neighborhood Assistance Act	58.1-430; 58.1-333	Provides a tax credit equal to 45% of value of qualifying donations to neighborhood organizations	July 1, 2000	\$8.0 million	5 yrs	1993; 1997

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Commencement and Limitation</u>	<u>Sunset</u>	<u>Aggregate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
27. Tax Credit for Conservation Tillage Equipment	58.1-432	Provides a tax credit equal to 25% of the cost of purchasing and installing conservation tillage equipment. The credit is limited to \$2,500.	None	None	5 yrs	1985
28. Tax Credit for Qualifying Cogenerators & Small Power Producers	58.1-433	Provides a tax credit for electricity co-generators equal to \$2 per ton of coal mined in Virginia, which was purchased by a cogenerator which sells electric power to a public service corporation in Virginia.	Dec. 31, 2001	None	5 yrs	1988
29. Virginia Coal Employment & Production Incentive Tax Credit	58.1-433.1	Provides a tax credit of \$3 per ton of coal mined in Virginia for electricity generators. Provides that no generator may claim more than \$3 per ton.	None	None	5 yrs	1999
30. Tax Credit for Advanced Technology Pesticide & Fertilizer Application Equipment	58.1-436	Provides a tax credit equal to 25% of the cost of equipment providing "more precise pesticide and fertilizer" application, provided the firm has an approved nutrient management plan in place. The credit is limited to \$3,750.	None	None	5 yrs	1990
31. Tax Credit for Vehicle Emissions Testing Equipment	58.1-438.1	Provides a tax credit equal to 20% of the price of qualifying emissions testing equipment, or equal to 10 percent of the federal deduction allowed for purchasing clean-fuel vehicles.	None	None	5 yrs	1993

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Computation and Limitation</u>	<u>Sunset</u>	<u>Assessable Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
32. Major Business Facility Job Credit	58.1-439	Provides a tax credit equal to \$1,000 for each full-time permanent job above 100 jobs added through a firm's location or expansion. One-third of the credit may be taken each year for 3 years.	Jan. 1, 2005	None	10 yrs	1994
33. Tax Credit for Creating Jobs Involved in Clean Fuel Vehicles	58.1-439.1	Provides a tax credit equal to \$700 for each job created to manufacture or convert vehicles to clean fuels. The credit is allowed for 3 years. No credit is allowed if the Major Business Facility Tax Credit is taken.	Dec. 31, 2006	None	5 yrs	1995
34. Tax Credit for Purchase of Waste Motor Oil Burning Equipment	58.1-439.10	Beginning January 1, 1999, provides a tax credit equal to 50% of the price of equipment used exclusively for burning waste motor oil, with a limit of up to \$5,000 per tax year.	None	None	None	1998
35. Tax Credit for Hiring Employees with Disabilities	58.1-439.11	Provides a tax credit equal to 20% of first \$4,000 wages for first 2 yrs. of employment for employers who hire persons with disabilities.	Dec. 31, 2002	None	3 yrs	1999; 2000
36. Coalfield Employment Enhancement Tax Credit	58.1-439.2	Provides a tax credit against any state tax - \$2 per ton for seams 36" and under, \$1 per ton for over 36". If the credit exceeds tax liability, 90 percent of it is redeemable. The potential credit is multiplied by the proportion of total mining jobs an employer maintains in any year. Also provides a tax credit against any state tax of 1 cent per 1 million BTUs of coalbed methane.	Eligibility for the credit expires on Jan. 1, 2002.	None	Credits earned on a phased schedule, beginning in FY 1996 and ending in FY 2008.	1995

Key Provisions of Internal Tax Policy Changes

Description	Code	Computation and Limitation	Sunset	Aggregate Cap	Carryover Provisions	Enacted/Last Amended
37. Tax Credit for Qualifying Steam Producers	58.1-439.3	Provides a tax credit for steam producers equal to \$3 per ton of coal mined in Virginia.	Jan. 1, 2001	None	5 yrs	1995
38. Tax Credit for Investment in Day-care Facilities	58.1-439.4	Provides a credit equal to 25% of qualifying expenses paid or incurred	None	\$100,000 per year	3 yrs	1996
39. Tax Credit for Agricultural Best Management Practices	58.1-439.5	Provides a tax credit equal to 25% of first \$70,000 in expenditures for agricultural best management practices, provided an approved soil conservation plan is in place. The credit may not exceed \$17,500.	None	None	5 yrs	1996
40. Tax Credit for Worker Retraining	58.1-439.6	Beginning January 1, 1999, provides a tax credit equal to 30% of qualified expenses for retraining employees, or up to \$100 per employee annually for courses taken at a private school.	None	\$2.5 million	3 yrs	1997
41. Alternate Tax Credit for Purchasing Machinery and Equipment for Processing Recyclable Materials	58.1-439.8	For corporations investing at least \$350 million before Jan. 1, 2003, provides a tax credit equal to 10% of the purchase price of recycling equipment, provided the credit does not exceed 60% of tax liability.	None	None	20 yrs. until the credit is fully used.	1998
42. Tax Credit for Employers Hiring Recipients of Temporary Assistance to Needy Families	58.1-439.9	Beginning January 1, 1999, provides a tax credit equal to 5% of annual salary paid to each TANF recipient employed, up to \$750 per employee.	None	Yes	3 yrs	1998

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Classification and Limitation</u>	<u>Sunset</u>	<u>Aggregate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
43. Tax Credit for Land Preservation	58.1-513	Effective January 1, 2000, provides a tax credit equal to 50% of the value of any land conveyed for the purpose of agricultural, forest, open space, or natural resource.	None	Credit may not exceed \$50,000 for 2000, \$75,000 for 2001, and \$100,000 thereafter.	5 yrs	1999
44. Sales Tax Exemption for Internet Computer Servers and Equipment	58.1-602	Provides a sales tax exemption for computers, software, and equipment in providing internet service where the provider supplies proprietary content.	None	N/A	N/A	1999
45. Sales Tax Exemption for Book Distribution	58.1-609.10	Exempts from sales tax books from publishers for free distribution to individuals who have an educational focus	None	N/A	N/A	1998
46. Sales Tax Exemption for Non-prescription Drugs	58.1-609.7	Exempts non-prescription drugs from sales tax.	None	N/A	N/A	1990
47. Sales Tax Exemption for Optometrists & Medical Practitioners	58.1-609.7	Provides a sales tax exemption for purchases of eyeglass cases, contact lens, storage containers, solutions, and sterilization kits when distributed free of charge	None	N/A	N/A	1999
48. Sales Tax Exemption for For-Profit Hospitals	58.1-609.7	Provides a sales tax exemption for medicines and drugs purchased for use by a licensed hospital	None	N/A	N/A	1999
49. Reduction in Sales Tax Charged on Food	58.1-611.1	Decreases sales tax on food tax by one-half percent annually, contingent upon 1 percent revenue surplus	N/A	N/A	N/A	1999

Key Provisions of Rent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Competition and Limitation</u>	<u>Sunset</u>	<u>Appropriate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
50. General Business Tax Credit (under Enterprise Zone Program)	59.1-280	Small Firms: Provides a tax credit against income taxes for business activity within an enterprise zone. The credit is equal to 80 percent of tax liability in year 1 and 60 percent in years 2 through 10. To qualify, 25% of new full-time employees must meet low to moderate income standards or reside within the zone. For large firms , investing \$25 million and creating 100 full-time jobs, the credit is negotiable, within limits.	None	Small firms: general business credit plus investment credit may not exceed \$16 million. Large firms: general business credit plus investment credit may not exceed \$3 million.	None	1998
51. Real Property Improvement Credit (under Enterprise Zone Program)	59.1-280.1	Small Firms: Provides a refundable tax credit equal to 30 percent of the cost of property rehabilitation (at least \$30,000) or new construction (at least \$250,000) in an enterprise zone. The cap is \$125,000 within a 5-year period. For large firms , investing \$100 million and creating 200 full-time jobs, the credit is negotiable, up to 5 percent of total investment.	None	See above.	Large firms: May be carried over until used.	1998
52. Electrical Utility Deregulation	58.1-440.1	Replaces gross receipts tax with corporate income tax and a consumption tax.	None	N/A	N/A	1999
53. Tax Credit for Refractory Tax on Insurance Companies	58.1-2510	Provides a tax credit equal to equal to the refractory costs incurred during a tax year as a result of the difference between other states' lower premium tax rates and Virginia's tax rates. Unused credits not exceeding \$800,000 annually are refunded.	None	None	5 yrs.	1998

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Consultation and Limitation</u>	<u> Sunset</u>	<u>Associate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
54. Interest Equalization	58.1-15	Charges interest on omitted taxes at same rate as interest paid on refunds.	None	None	N/A	1999
55. Additional Withholding Allowances	58.1-461, 462, 470	Allows individuals to increase withholding exemptions to match estimated tax liability.	N/A	N/A	N/A	1990
56. Subtraction for Congressional Medal of Honor winners	58.1-322 C, 26	Effective January 1, 2001, military retirement income received by Congressional Medal of Honor winners may be subtracted from federal adjusted gross income.	None	None	N/A	2000
57. Subtraction for Master Settlement Agreement and Tobacco Loss Assistance Program payments	58.1-322 C, 27	Effective for taxable years beginning on or after January 1, 1999, a subtraction for payments under the Master Settlement Agreement and Tobacco Loss Assistance Program to tobacco farmers, persons holding tobacco marketing quotas or tobacco farm acreage allotment, and any person having the right to grow tobacco.	None	None	N/A	2000
58. Tax Credit for Riparian Forest Buffer Protection	58.1-339.10, 58.1-439.12	Effective on and after January 1, 2000, any individual or corporation that owns land abutting a waterway on which timber is harvested and who does not harvest the timber in the buffer (which must be no less than 35 ft. and no more than 300 ft.) receives an income tax credit equal to 25% of the value of the timber in the buffer but no more than \$17,500. Taxpayer must apply to State Forester, who determines amount of the credit.	None	None	5 yrs.	2000

Key Provisions of Important Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Computation and Limitation</u>	<u>Sunset</u>	<u>Aggregate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
59. Tax Credit for Investing in Technology Industries in Tobacco-Dependent Localities	58.1-439.13	Allows taxpayers that invest in information technology or biotechnology companies located in tobacco-dependent localities a tax credit equal to 50% of the qualified investment. The credit shall not exceed \$500,000 in the aggregate for such investments and \$500,000 per taxable year for capital investments. May be taken to the extent moneys are deposited into the Technology Initiative in Tobacco-Dependent Localities Fund. If credits exceed amount in Fund, allocated on pro rata basis by Tax Dept. Taxpayers must hold on to investment for 5 years (w/ limited exceptions) or forfeit used and unused tax credits.	Jan. 1, 2010	\$500,000 for qualified investments	10 yrs.	2000
60. Tax Credit for Research and Development Activity Occurring in Tobacco-Dependent Localities	58.1-439.14	Allows a tax credit to taxpayers that have their place of business in tobacco-dependent localities and at which eligible research and development activities occur. The credit equals 50% of the amount paid or incurred for the eligible R&D activity, not to exceed \$500,000 per taxable year. May be claimed to the extent moneys are deposited in the Technology Initiative in Tobacco-Dependent Localities Fund. Any excess is allocated on pro rata basis by Tax Dept.	Jan. 1, 2010	None	10 years	2000

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Characterization and Limitation</u>	<u>Sunset</u>	<u>Assessable Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
61. Tax Credit for Low-Income Taxpayers	58.1-339.8	Allows a tax credit to individuals and persons filing joint returns whose family Virginia adjusted gross income does not exceed 100% of the poverty guideline amount corresponding to a household of an equal number of persons as listed in the poverty guidelines in an amount equal to \$300 each for the individual, his spouse, and any person claimed as a dependent on the income tax return. Amount of credit shall not exceed the taxpayer's income tax liability.	None	None	None	2000
62. Subtraction for Payments made to Victims of Nazi Persecution	58.1-322 C. 28	Subtracts from federal adjusted gross income amounts received related to assets stolen from, hidden from, or otherwise lost by a victim or target of Nazi persecution or damages or reparations payments by such victims for their work in labor camps.	None	None	N/A	2000
63. Subtraction for Disability Income	58.1-322 B. 4b	Subtracts from federal adjusted gross income up to \$20,000 of disability income, as defined in the IRC.	None	None	N/A	2000
64. Partial Sales Tax Exemption for Modular Housing	58.1-610.1	Provides that the retail sale of a modular building by a modular building manufacturer (MDB) or retailer is subject to the sales and use tax upon 60% of the retail sales price. Also allows MDB to credit any sale tax paid on cost price of materials incorporated in modular building for sale but not installed.	None	None	N/A	2000

Key Provisions of Recent Tax Policy Changes

<u>Description</u>	<u>Code</u>	<u>Computation and Limitation</u>	<u>Sunset</u>	<u>Associate Cap</u>	<u>Carryover Provisions</u>	<u>Enacted/Last Amended</u>
65. Natural Gas Deregulation	59.1-2904 thru 59.1-2907	Replaces gross receipts tax with corporate income tax and a consumption tax.	None	None	N/A	2000

Fiscal Impact of Tax Policy Changes Made in Recent Years

	Enacted / Last Amended	FY 01	FY 02	FY 03	FY 04
1. Subtraction for up to \$600 for Lottery prizes	1989				
2. Subtraction for wages from National Guard service	before 199				
3. Subtraction for reward for information	before 199				
4. Subtraction for qualified agricultural contributions	1998				
5. Subtraction for Qualified Research Expenses	1993	(0.5)	(0.5)	(0.5)	(0.5)
6. Subtraction for those aged 65 or older and 62-64	1994	(264.5)	(278.9)	(294.1)	(310.2)
7. Subtraction for Contributions to Prepaid Tuition Plan; Deduction for	1998	(0.6)	(0.8)	(1.0)	(1.3)
8. Subtraction for Military Wages -- Up to \$15,000	1999	(9.2)	(9.4)	(9.7)	(9.7)
9. Subtraction for Federal and State Employees -- Up to \$15,000	1999	(0.6)	(1.1)	(1.1)	(1.1)
10. Subtraction of Capital Gain for Land Dedicated to Open Space	1999	minimal	minimal	minimal	minimal
11. Subtraction for Unemployment Benefits	1999	(7.8)	(7.9)	(8.2)	(8.2)
12. Deduction for Contributions to Public School Construction Grants	1998				
13. Deduction for Teacher Continuing Education Costs	1999				
14. Deduction for Long-Term Care Health Insurance	1999				
15. Tax Credit for Taxes Paid to Other States	1999	(1.0)	(1.0)	(1.0)	(1.0)
16. Tax Credit for Taxes Paid to a Foreign Country on Retirement Income	1998				
17. Tax Credits for Providing VHDA Low-Income Housing	1990			(1.0)	(1.0)
18. Tax Credit for Purchase of Equipment for Purchasing Recyclable	1998				(0.8)
19. Tax Credit for Providing Rent Reductions	1990 2000	(0.1)	(0.1)	(0.1)	(0.1)
20. Tax Credit for Historic Rehabilitation	1999 2000	(3.0)	(1.6)	(1.6)	(1.6)
21. Tax Credit for Equity and Subordinated Debt Investments	1998	(5.0)	(5.0)	(5.0)	(5.0)

Fiscal Impact of Tax Policy Changes Made in Recent Years

	Enacted / Last Amended	FY 01	FY 02	FY 03	FY 04
22. Earned Income Credit for Low Income Families w/ Children (a.k.a. Work Incentive Payment)	1999				
23. Tax Credit for Contributions to Political Candidates	1999				
24. Tax Credit for Retrofitting a Residence with Accessibility Features	1999				
25. Double Weighting of Sales Tax in Corporate Apportionments	1999	(23.8)	(24.4)	(24.9)	(25.1)
26. Neighborhood Assistance Credit	1997 2000	(8.0)	(8.0)	(8.0)	(8.0)
27. Tax Credit for Conservation Tillage Equipment	1985				
28. Tax Credit for Qualifying Cogenerators & Small Power Producers	1988				
29. Virginia Coal Employment & Production Incentive Tax Credit	1999 2000	(21.7)	(21.7)	(21.7)	(21.7)
30. Tax Credit for Advanced Technology Pesticide & Fertilizer Application Equipment	1990				
31. Tax Credit for Purchase of Vehicle Emission Equipment	1997				
32. Major Business Facility Job Tax Credit	1994	(4.9)	(6.2)	(7.4)	(8.7)
33. Tax Credit for Creating Jobs Involved in Clean Fuel Vehicles	1995				
34. Tax Credit for Purchase of Waste Motor Oil Burning Equipment	1998				
35. Tax Credit for Employing Persons with Disabilities	1999	(0.5)	(0.5)	(0.5)	(0.5)
36. Coalfield Employment Enhancement Tax Credits	1998 2000	(14.0)	(15.2)	(23.2)	(24.1)
37. Tax Credit for Qualifying Steam Producers	1995				
38. Tax Credit for Investment in Day Care Facilities	1996				
39. Tax Credit for Agricultural Best Management Practices	1996				
40. Tax Credit for Worker Retraining	1997	(0.2)	(0.2)	(0.2)	(0.2)

Shad a means no fiscal impact is available.

Fiscal Impact of Tax Policy Changes Made in Recent Years

	Enacted / Last Amending	FY 01	FY 02	FY 03	FY 04
41. Alternate Tax Credit for Purchasing Machinery and Equipment for Processing Recyclable Materials	1998				
42. Tax Credit for Hiring Recipients of Temporary Assistance to Needy Families (TANF)	1998				
43. Tax Credit for Land Preservation	1999				
44. Sales Tax Exemption for Equipment used in providing Internet Services	1999	(2.6)	(2.6)	(2.6)	(2.6)
45. Sales Tax Exemption for Free Book Distribution	1998	(0.1)	(0.1)	(0.1)	(0.1)
46. Sales Tax Exemption for Non-prescription Drugs (deferred)	1990	(11.7)	(12.4)	(13.1)	(13.9)
47. Sales Tax Exemption for Optometrists & Medical Practitioners	1999	(1.4)	(1.6)	(1.6)	(1.6)
48. Sales Tax Exemption for For-Profit Hospitals Use of Drugs	1999	(1.6)	(1.8)	(1.8)	(1.8)
49. Reduction in Sales Tax on Food (one-half percent only)	1999	(45.7)	(47.0)	(48.1)	(49.4)
0-51. Enterprise Zone -- General and Investment Tax Credits	1998	(17.4)	(14.8)	(3.6)	(17.6)
52. Electrical Utility Deregulation	1999	(11.6)	(26.1)	(25.5)	(32.6)
53. Tax Credit for Retailatory Tax on Insurance Companies	1998	(2.4)	(2.4)	(2.4)	(2.4)
54. Interest Equalization	1999	(2.4)	(2.5)	(2.5)	(2.5)
55. Additional Withholding Allowances (Deferred through 2002)	1990	n/a	n/a	n/a	(5.6)
56. Subtraction for Military Pay Received by Medal of Honor Recipients	2000	minimal	minimal	minimal	minimal
57. Subtraction for Income from Tobacco Settlement	2000				
58. Tax Credits for Riparian Buffers	2000				
59. Tax Credit for Technology Investment in Tobacco-Dependent	2000				
60. Tax Credit for Research and Development Expenses in Tobacco-Dependent Localities	2000				
61. Tax Credit for Individuals and Families Below the Poverty Level	2000	(19.9)	(21.7)	(23.7)	(25.8)
62. Subtraction for Income Received by Holocaust Victims	2000				

Shaded area means no fiscal impact is available.

Fiscal Impact of Tax Policy Changes Made in Recent Years

	Enacted / Last Amended	FY 01	FY 02	FY 03	FY 04
63. Subtraction of Disability Income	2000	(0.3)	(0.7)	(0.7)	(0.7)
64. Sales Tax Exemption for Modular Housing	2000	(0.3)	(0.4)	(0.4)	(0.4)
65. Natural Gas Deregulation	2000	(1.3)	1.0	1.1	(1.8)
Sub-Total of Changes Listed Above		(\$484.1)	(\$515.6)	(\$534.2)	(\$587.6)
Personal Property Tax Program		(\$598.7)	(\$888.9)	(\$1,132.3)	(\$1,176.6)
Total Fiscal Impact of Tax Policy Changes Made in Recent		(\$1,082.8)	(\$1,404.5)	(\$1,666.5)	(\$1,764.2)
49. Reduction in Sales Tax on Food (assuming continued phase-in)		(10.5)	(74.3)	(141.2)	(199.0)

Shaded areas means no fiscal impact is available.