# Commission on the Revision of Virginia's State Tax Code and the Streamlined Sales Tax Project [SJR 347 (2003)]

August 18, 2003

The Commission on the Revision of Virginia's State Tax Code and the Streamlined Sales Tax Project [SJR 347 (2003)] held its second meeting in Richmond on August 18, 2003. The full Commission met briefly in the morning to charge the following five subcommittees, created by the co-chairmen, with their responsibilities:

1. Business, Professional and Occupation License (BPOL) Tax Subcommittee (Delegate Thelma Drake, Chair; Delegate Johnny Joannou, and Delegate Allen Louderback);

2. Transportation Subcommittee (Delegate Leo Wardrup, Chair; Delegate Kenneth Melvin; and Delegate Harry Parrish);

3. Personal Income and Retail Sales and Use Tax Subcommittee (Delegate Allen Louderback, Chair; Delegate Thelma Drake; and Senator Walter Stosch);

4. Other Miscellaneous State and Local Taxes Subcommittee (Senator Emmett Hanger, Chair; Senator Charles Colgan; and Delegate Kenneth Melvin); and

5. State and Local Government Services and Responsibilities Subcommittee (Senator John Chichester, Chair; Senator Charles Colgan; and Delegate Johnny Joannou).

The full Commission then adjourned so that the subcommittees could meet and report back to the full Commission later in the afternoon.

**BPOL Tax Subcommittee Meeting (10:00 a.m. - 11:00 a.m.)**

The BPOL Tax Subcommittee chair, Delegate Drake, began the meeting by explaining that legislative staff would be reviewing what the Hanger/McDonnell Joint Subcommittee did over the last two years regarding the BPOL tax followed by comments from interested parties. Delegate Drake ended her comments with a brief history of the tax.

According to legislative staff, the Hanger/McDonnell Commission formed a working group made up of representatives from local government and the business community to address issues relating to the BPOL tax.

The business community believes the BPOL tax should be repealed. Some objections raised at the meetings were: (i) the tax does not take into account the taxpayer's ability to pay because the tax is imposed on the gross receipts of businesses; (ii) the tax does not favor economic growth; (iii) the tax is not equitable and broad-based due to the numerous exemptions from the tax; and (iv) the tax is difficult to administer.

However, the business community believes that local governments need to be made whole in terms of lost revenue from any repeal of the BPOL tax.

Representatives of Virginia's local governments stated that the BPOL tax generated more than $459 million in local revenue in fiscal year 2001 (BPOL tax revenues for the fiscal year ending June 30, 2002, were $434.4 million).

Local governments believe that the BPOL revisions passed by the 1996 General Assembly have improved administration of the BPOL tax. Under the 1996 legislation, taxpayers were given a right to appeal BPOL taxes to the Department of Taxation.

Several replacement options for the BPOL tax were proposed by various members of the business community. They included replacing the tax with (i) one flat fee charged to all businesses, (ii) a graduated fee determined by gross receipts level, (iii) a sales tax, (iv) a combination of an increase in the corporate income tax with a fee charged to all businesses, and (v) a net income tax on business income (this would include corporations, partnerships, proprietorships, limited liability companies and all other business entities).

In lieu of repealing the BPOL tax, the business community proposed an adjustment to the current tax on retailers, which is imposed at a rate of $0.20 per $100 of gross receipts. The business community proposed reducing the rate on retailers to $0.10 per $100 of gross receipts to take into account the smaller profit margins realized by retailers (in comparison to the profit margins realized by contractors and services providers).

For various reasons, no agreements on BPOL were reached by the business community and local government representatives so no action was taken by the Hanger/McDonnell Commission.

The BPOL Tax Subcommittee next heard comments from interested parties including the Hampton Roads Chamber of Commerce, the Virginia Municipal League, Retail Merchants Association, the Virginia Association of Realtors, the Virginia Manufacturers' Association, and two commissioners of the revenue. The one certainty at the end of the meeting is that the business community and local government have come no closer to resolving their differences over the BPOL tax.

**Transportation Subcommittee Meeting (10:00 a.m. - 11:00 a.m.)**

Delegate Wardrup, as chair of the Transportation Subcommittee, opened the meeting by saying that the purpose of the first meeting would be "educational," for the members to learn where the money for transportation comes from and how it is spent.

The subcommittee first heard from Dr. Alan Wambold from the Division of Legislative Services on the status of the Joint Subcommittee to Study JLARC Recommendations on Aspects of Virginia's Transportation Programs (HJR 211 (2002)). Dr. Wambold stated that the Joint Subcommittee was specifically charged with determining:

1. The level of responsibility that the Department of Transportation should bear for the maintenance of roads in private developments;

2. The desirability and feasibility of shifting the primary responsibility for mass transit programs in Northern Virginia from local governments to the Department of Transportation; and

3. The desirability and feasibility of shifting the primary responsibility for construction and maintenance of secondary roads from the Department of Transportation to local governments.

The Joint Subcommittee has met three times (twice in 2002 and once in 2003) and has discussed, among other things: the JLARC recommendations; the highway construction fund allocation formulas; the interplay of the allocation formulas and the budgetary process -- both state and federal; Virginia's Statewide Transportation Plan; and the Commonwealth Transportation Board's tentative six-year improvement plan for fiscal years 2004 through 2009.

The Joint Subcommittee decided in 2002 to postpone consideration of potential legislative recommendations for most of these issues, if at all, until the 2004 Session. To date, the Joint Subcommittee has not recommended any legislation for the 2004 Session.

Delegate Wardrup noted that examination of the allocation formula likely is beyond the purview of his Subcommittee.

Next, Barbara Reese, CFO of VDOT, presented a broad overview of transportation financing in which she covered three main topics: (i) the sources of revenues that go to transportation, (ii) the allocation of such revenues, and (iii) an update on projects under the Public Private Transportation Act.

The state taxes and fees that support transportation are:

1. State Motor Fuels Taxes -- The current rate of 17.5 cents per gallon is estimated to generate approximately $840 million in FY 04, with each 1cent accounting for about $48 million. Virginia's motor fuels tax rate ranks 41st among all states. Ms. Reese noted that this tax and the motor vehicles sales and use tax (that follows immediately below) have lost 40% of their buying power to inflation since 1986, and, at the same time: (i) the number of licensed drivers grew 34%; (ii) the number of registered vehicles grew 53%; and (iii) the number of vehicle miles traveled grew by 79%.

2. Motor Vehicle Sales and Use Tax -- The current rate of 3% of sales price is estimated to generate approximately $540 million in FY 04, with each 1 percent accounting for about $189 million.

3. Motor Vehicle License Fee -- The current fee of $29.50 generates approximately $283 million annually.

4. State Sales and Use Tax -- The one-half cent of the 3.5 cents of the state sales and use tax is dedicated to the Transportation Trust Fund and generates approximately $398 million annually.

5. Tolls -- There are three toll facilities operated by VDOT that generate approximately $54 million annually. The seven other toll facilities located in Virginia are operated by various authorities, localities, and private entities. Ms. Reese noted that federal law prohibits the imposition of tolls on interstate highways without special federal approval as a pilot project.

In addition to these revenues from state taxes and fees, localities may dedicate revenues for transportation. In FY 02 localities dedicated $542 million to transportation maintenance and construction.

The largest single source of revenues for transportation is from the federal Highway Trust Fund. In FY 04 Virginia's share of these funds is estimated to be approximately 1.07 billion, comprising about 30% of the state's total transportation revenues. However, this amount equates to only 90.5% of the total transportation taxes and fees Virginians pay into the federal Highway Trust Fund, making Virginia a "donor" state.

Ms. Reese noted that, in addition to the foregoing funds, the Commonwealth has increasingly relied on the issuance of debt to fund transportation, with current outstanding debt totaling approximately $2.1 billion.

On the allocation side, Ms. Reese said that allocation of transportation revenues is determined by the interplay of state laws and policies with federal law and regulations. State law includes various codified provisions, the

Appropriations Act, the Virginia Transportation Act of 2000, and policies of the Commonwealth Transportation Board.

The Commonwealth Transportation Board's total allocations for FY 04 are depicted in the following chart:

| **Allocations** | **Budget FY04** |
|---|---|
| Debt Service | $ 247 mil |
| Other Agencies | $ 126 mil |
| Maintenance | $ 1.14 bil |
| Operations & Administration | $ 217 mil |
| Other Modes | $ 224 mil |
| Earmarks & Special Financing | $ 711 mil |
| Systems Construction | $ 940 mil |
| Cash Reserve | $ 50 mil |
| **Total** | **$ 3.65 bil** |

Regarding the relationship between maintenance and construction costs, Ms. Reese noted that in 1986 VDOT spent 73 cents on maintenance for every $1 spent on construction, compared to $1.85 spent on maintenance for every $1 spent on construction in 2003.

Allocations from the Transportation Trust Fund among four modes of transportation are as follows: 2.4% on Airports, 4.2% on Ports, 14.7% on Mass Transit, and 78.7% on highway construction.

Federal funding is divided into the following six major programs: Interstate Maintenance, National Highway System, Bridge, Surface Transportation Program, Minimum Guarantee, and Congestion Mitigation and Air Quality. Each of these programs has its own set of rather complex allocation rules.

Ms. Reese concluded her presentation by providing a brief update on the ten projects being pursued under the Public Private Transportation Act. One (Pocahontas Parkway) has been completed, one (Powhite Parkway Western Extension) is still in the "conceptual proposal" stage, and the remaining eight are either under construction, in negotiations, or at the stage where detailed proposals have been requested.

**Personal Income and Retail Sales and Use Tax Subcommittee Meeting (11:00 a.m. - 1:00 p.m.)**

A proposal containing changes to the individual income tax and the sales and use tax was presented by the subcommittee's chair, Delegate Louderback, following his opening remarks. He made it clear that this is only a starting point for discussion but encouraged everyone to think outside the box.

Under this proposal, all additions, subtractions, credits and deductions would be eliminated from the computation of an individual's Virginia taxable income with the exception of the deduction for social security income. However, Virginia must also allow individuals to subtract income earned on any obligation of the federal government. This is the one subtraction that is not simply a Virginia policy decision. The Supreme Court of the United States has ruled that states are not allowed to tax income earned on an obligation of the United States government. Therefore, under this proposal, an individual's taxable income would be equal to their FAGI minus any social security income and income earned on any obligation of the federal government included in FAGI. This proposal would be effective for taxable year beginning on and after January 1, 2004.

This revision to how Virginia taxable income is computed for individuals would be done in conjunction with a revision to the tax tables and tax rates for the individual income tax. The following shows the revised tables and rates along with the associated impact:

**Individual Income Rate Tables**

| Virginia Taxable Income Level | SINGLE Taxpayer Tax Rate | MARRIED Taxpayer Tax Rate |
|---|---|---|
| $0 - $14,999 | 0% | 0% |
| $15,000 - $24,999 | 3.5% | 0% |
| $25,000 - $29,999 | 4% | 0% |
| $30,000 - $49,999 | 5.5% | 5.5% |
| $50,000 & above | 6.25% | 6.25% |

**Revenue Impact**

| FY 2004 | FY 2005 | FY 2006 |
|---|---|---|
| <$241.6 Million> | <$469.1 Million> | <$459.4 Million> |

The second half of the proposal calls for reducing the sales and use tax rate from 4.5% to 4% and repealing all the exemptions except for those in the government and commodities section of the Virginia Code (Section 58.1-609.1) as well as the manufacturing exemption. This then would make most goods and all services subject to a 4% sales and use tax. The resulting increase in revenues is estimated to be approximately $1.5 billion. That amount would cover the revenue loss created by the proposed changes in the individual income tax and possibly allow for the repeal of other taxes such as the BPOL tax and the estate tax.

The remainder of the subcommittee meeting was spent hearing public comment. Remarks were made by individuals representing themselves as well as those representing organizations. Those organizations included the Northern Virginia Republican PAC, the Hampton Roads Chamber of Commerce, the Coalition of Virginia Nonprofits, National Association of Retiree Federal Employees (NARFE), the Virginia Interfaith Center, Paramount Kings Dominion, EDS, MidAtlantic Association of Cleaners, Virginia Association of Broadcasters, and the Virginia Press Association. Most of the speakers began by saying they wanted more time to study the proposal but nevertheless they did have comments as an initial reaction.

Many did not like the fact that most services would be subject to the sales and use tax even though the rate would be one half percent less than that which is currently imposed. Those specifically opposed to the tax on services are Paramount Kings Dominion, EDS, MidAtlantic Association of Cleaners, Virginia Association of Broadcasters, and the Virginia Press Association. NARFE is opposed to eliminating the age deduction and the use of any kind of means testing for determining who qualifies for the deduction. The Virginia Interfaith Center spokesperson reminded the subcommittee to remember the working poor and those living in poverty.

At the conclusion of the public comments, Senator Stosch reminded everyone that the subcommittee and the entire Tax Commission would be looking for equity and fairness in developing any changes in the tax code. He also emphasized that tax policy can only be established completely when it is determined what services are most important. Public input is crucial to these decisions according to the senator and Delegate Drake.

**Other Miscellaneous State and Local Taxes Subcommittee Meeting (11:00 a.m. - Noon)**

Senator Hanger, as chair of the subcommittee, stated that he would like to see if the following two matters could be disposed of quickly, since they were studied at length under HJ 60 (2002), and there was general agreement on them: (i) repeal the estate tax, and (ii) repeal the portion in the budget bill providing for accelerated sales and use tax payments by vendors. The Subcommittee voted to recommend these two items to the full Commission.

Senator Hanger then raised the issue of whether legislation should be proposed to align Virginia's Sales and Use Tax laws with the requirements of the

Streamlined Sales Tax Agreement ("SSTA"). Senator Hanger stated that he would support such legislation because it would simplify the tax, reduce the costs of compliance and administration, and increase revenues.

Mike Edwards from the Virginia Municipal League ("VML") stated that VML supports such legislation "in concept," but that a more formal endorsement would have to wait until his members could work through the potential problems created by the SSTA "sourcing" rule. The sourcing rule requires that sales and use tax revenues be paid to the state and locality at the point of delivery. Virginia law already conforms to this rule (i) for interstate sales, and (ii) for intrastate sales where the goods or services are received ("carried away") at the time of purchase. However, under current law, Virginia credits local sales tax to the point of sale when goods are purchased in one locality and then delivered to the purchaser in a different locality.

The Virginia Retail Merchants Association stated that its members are in complete support of legislation to conform Virginia law to SSTA. Senator Hanger stated that he believes that the point of delivery rule is equitable because it represents the locality from which the money came to pay the taxes. However, he added that another alternative could be to conform Virginia law to the SSTA in all other respects and then see if the SSTA governing committee would rule if the Virginia law was in "substantial compliance." Delegate Wardrup stated that he had strong reservations on conforming Virginia's laws to the SSTA. The subcommittee agreed to postpone a vote on any recommendation on SSTA until a future meeting.

The subcommittee then looked at personal property taxes, and the consensus of the subcommittee was to move to 100% removal of the personal property tax on vehicles without regard to the value of each vehicle. Regarding car tax reimbursement to localities, Senator Hanger stated that the subcommittee should explore alternatives that do not continue the current disparity among localities (caused by the happenstance of each locality's tax rate on vehicles immediately prior to the initial car tax relief program).

Senator Hanger suggested that another issue for the subcommittee to explore is whether counties and cities should have the same taxing authority. In particular, he said the subcommittee should take a special look at the equality and uniformity of local cigarette taxes. Senator Colgan stated that he favors giving counties the same taxing authority as cities.

Other issues raised by Senator Hanger for the subcommittee to deal with in future meetings were: (i) real estate tax caps or at least more citizen input in the process; (ii) the potential of a dedicated source of revenue for land conservation; (iii) tax on telecommunications (with a report from Delegate Bryant who Chairs a special subcommittee looking at these taxes); and (iv) whether to eliminate the entire local and state sales tax on food. Senator Colgan stated that he would like the subcommittee to examine other utility taxes in addition to telecommunications.

**State and Local Government Services and Responsibilities Subcommittee (Noon - 1:00 p.m.)**

Kirk Jonas, Deputy Director of JLARC, presented JLARC's 1992 Report on State/Local Relations and Service Responsibilities, with selected updates. Overall JLARC found that Virginia's governmental structure was and still is sound. Strengths include streamlined government size and structure compare to other states; sound financial management; and low rates of state/local taxation. However, service responsibilities for the State and localities have sometimes developed in a piecemeal fashion, and have not always kept up with the changing social and economic conditions in the State.

Mr. Jonas then presented JLARC's specific findings on the alignment of service and funding responsibilities in six major areas: transportation, education, human services, environmental protection, administration of justice, and general administration.

Regarding transportation, the State is responsible for construction and maintenance of the primary system, interstate system, and most county roads. Cities and two counties are responsible for most aspects of their streets and roads, although the State provides significant financial assistance. In general, JLARC found the current assignment of responsibility for providing transportation services to be appropriate.

Education services are locally provided with a high level of State regulation and funding. Education constitutes the highest expenditure for localities and accounts for the largest share of State aid to localities. Many localities provide total funding for services that exceed the Constitutionally mandated Standards of Quality as determined by the General Assembly. This additional funding varies greatly from locality to locality.

Health and human services are provided through a variety of State, regional, and local entities that have evolved piecemeal in response to specific problems. As a result, State and local officials cite the need for a more integrated approach. Social Services are State-supervised, but locally-administered, with substantial federal funding and regulation. The system was described as complex and involving multiple levels of government, often resulting in a blurring of the division of responsibility.

Environmental protection is mandated by the Constitution of Virginia and implemented largely by localities.

Administration of justice includes law enforcement, jails and correctional facilities, and courts. A relatively recent development in this arena has been the creation of regional jails. The JLARC report found that services in this area generally are being performed and funded by the appropriate level of government.

The JLARC Report found that most general administration service responsibilities are local in nature and are appropriately assigned.

Finally, regarding the adequacy of revenues, the JLARC Report found that: (i) national indicators show that Virginia has above-average revenue raising potential and below average tax effort; and (ii) Virginia's State taxes are typically lower than surrounding states while local taxes are higher.

Senator Chichester stated that he was particularly interested in identifying and exploring those local services that have substantial funding from localities and that are heavily regulated by the State. He asked Mr. Jonas to provide this information and other updates to the JLARC Report, to the extent possible, at the next meeting of the Subcommittee. Senator Chichester suggested that the State Compensation Board may be of assistance in gathering this information.

Next, Wayne Turnage, Deputy Secretary of Health and Human Services, spoke to the Subcommittee on the design and implementation of Virginia's Comprehensive Services Act (CSA). His presentation included: (i) problems leading to development of CSA, (ii) how CSA works and who it serves, (iii) JLARC's study findings and current expenditure trends, and (iv) status of the Secretary of Health and Human Services' action plan.

Problems that led to the creation of CSA included: a fragmented system for treating troubled children, service duplication among agencies, unequal access to care, reliance on more expensive forms of care, and expenditure increases of approximately 22% per year.

The Comprehensive Services Act contains State and local components. At the State level there is a two-tiered management structure to set broad policies and provide technical assistance. The State Executive Council develops policies and provides oversight, while the State and Local Advisory Team makes policy recommendations to the State Executive Council and provides training and technical assistance to localities.

The local level somewhat mirrors the State level, and consists of two main entities: (i) a Community Policy and Management Team, and (ii) a Family Assessment Planning Team. The Community Policy and Management Team handles finances, develops policies, and organizes Family Assessment Planning Teams. The Family Assessment Planning Team conducts assessments, determines client eligibility, develops service plans, and recommends plans to the Community Policy and Management Team.

Services under CSA are mostly reserved for children who have behavior or emotional problems that either: (i) are persistent or critical in nature, (ii) are significantly disabling and present in several settings, (iii) require resources that are beyond the scope of normal agency services, or (iv) place the child in imminent risk of residential care. Priority is given to special education students who are to be enrolled in private schools, and to children in foster homes.

A study by JLARC found that CSA had achieved certain laudable goals, but also had some shortcomings. On the positive side CSA: (i) provided a mechanism for involving agencies at the local level in a collaborative process, (ii) was successful in serving most children in the least restrictive and less expensive environments, and (iv) appeared to stabilize the behaviors of children who received services once they left the program.

On the other hand, JLARC also found: (i) a failure of localities to consistently use collaborative planning, (ii) inadequate client assessments by local planning teams, (iii) inattention to provider fees and limited program oversight, and (iv) lack of patient data.

Mainly due to concerns about the increasing cost of CSA services, in 2002 the General Assembly directed the Secretary of Health and Human Services to establish and Action Plan to address this and other concerns. Mr. Turnage provided a brief overview of the status of the Action Plan. Some of the changes that will be made pursuant to the Action Plan include: (i) having the Secretary of Health and Human Services serve as Chairperson of the State Executive Council, (ii) expand the scope of Medicaid coverage for CSA services, (iii) evaluate local best practices for possible statewide application, and (iv) develop a statewide patient level database.

**Reconvened Full Commission Meeting (1:45 p.m. - 2:30 p.m.)**

The full Commission convened again to hear reports from each of the five Subcommittees.

**BPOL Tax Subcommittee Report** --

Delegate Drake said that her subcommittee reviewed work of the last year's BPOL work group created by the Hanger/McDonnell Commission. Her subcommittee then received substantial and helpful information from numerous business and local government entities. She said that most interested parties agree that there are aspects of the BPOL tax that would make it an appropriate tax to eliminate, if suitable replacement could be found for the lost revenue (approximately $500 million annually). Accordingly, she said that a main focus for future subcommittee meetings would be examining potential sources to replace BPOL revenues.

**Transportation Subcommittee Report** --

Delegate Wardrup reported that the first meeting of his subcommittee was educational in nature, so that the subcommittee members could understand the complex structure of where revenues for transportation come from, and how they are spent. He briefly reviewed Dr. Wambold's presentation to his subcommittee on the status of the work of the Joint Subcommittee to Study JLARC Recommendations on Aspects of Virginia's Transportation Programs (HJR 211 (2002). Delegate Wardrup stated that because that joint subcommittee is examining the transportation allocation formula, and because of time constraints in examining such a complex issue, this topic is beyond the purview of his subcommittee.

As an introductory remark to his overview of Barbara Reese's (CFO of VDOT) presentation to his Subcommittee, Delegate Wardrup noted that it clear that there is insufficient money in transportation to permit us to be able to "pave" our way out of the current situation any time soon.

He then gave a brief overview of Ms. Reese's presentation noting among other things: (i) that the imbalance between maintenance funding and construction funding continues to grow, (ii) that Virginia continues to be "donor" state with regard to federal transportation funding, (iii) the toll facilities around the State are doing alright, (iii) that the State has 10 ongoing public/private transportation enterprises at various stages of development; (iv) that demographics show an ever-increasing number of licensed drivers, number of registered vehicles, and number of vehicle miles driven; and (v) that the State sources of revenue for transportation are: the 17.5 cents per gallon Motor FuelsTax ($843 million per year, with each 1 cent generating $48 million); the 3% Motor Vehicle Sales and Use Tax ($540 million per year, with each 1% generating $180 million); that portion of the $29.50 per year Motor Vehicle License Fee that is allocated for transportation ($178.2 million per year, with each $1.00 generating $8.2 million); and the 1/2 cent of the 4.5 cents state and local sales tax that goes to the Transportation Trust Fund ($400 million, with each 1 cent equivalent to $800 million).

Regarding tolls, Delegate Parrish (who is a member of the Subcommittee) noted that Ms. Reese stated that federal law prohibits tolls on interstate highways without specific federal approval for a pilot project, and that Virginia has made such a request as a possible approach for I-81.

**State and Local Government Services and Responsibilities Subcommittee Report --**

Senator Chichester presented an overview of the two presentations to his subcommittee on JLARC's study of the allocation of funding and service responsibilities between the State and localities, and the status of programs provided under the Comprehensive Services Act.

Senator Chichester noted that public education is the primary State/local service provided, and that in no other area does the State regulate so heavily. He said that localities pay about half of the costs of education, relying mainly on real estate taxes to pay for it. He stated that the State pays for about 55% of SOQ costs (statewide average), but that many localities provide services over and above the SOQ services and pay 100% of the cost for such additional services.

Regarding the delivery of human services, Senator Chichester stated that it is accomplished through a complex combination of State and local structures. He noted that, unlike education, human services are not constitutionally mandated. He also advised the members regarding the worrisome growth in the costs of services provided under the Comprehensive Services Act.

In conclusion, Senator Chichester said that his subcommittee will examine how the State and localities can share responsibilities more equitably and efficiently.

**Personal Income and Retail Sales and Use Tax Subcommittee Report** --

The two-part proposal dealing with the personal income tax and the sales and use tax was explained to the full Commission by Delegate Louderback. He emphasized how much simpler and fairer both taxes would be for taxpayers and administration purposes if the proposal were adopted. He also emphasized that the proposal is a starting point and is intended to generate discussion that hopefully will lead to the creation of a revenue neutral tax reform package that everyone will support.

**Other Miscellaneous State and Local Taxes Subcommittee Report** --

Senator Hanger reported that the first action of his subcommittee was to recommend to the full Commission (i) repeal of the estate tax, and (ii) repeal of accelerated sales tax payments by vendors. Proceeding with these two items one at a time, Senator Hanger then made a motion that the full committee vote to include repeal of the estate tax as part of the Commission's final report. Most members, however said they were not ready to vote on tax modifications piecemeal, without knowing what the other components of the ultimate tax reform package would contain. Accordingly, Senator Hanger withdrew his motion.

Senator Hanger then gave an overview of his subcommittee's discussion on whether Virginia should conform its laws to the Streamlined Sales Tax Agreement. He stated that while he supports such action, other members of the subcommittee wanted additional information and discussion before deciding.

Regarding personal property taxes on vehicles, Senator Hanger reported that it was the consensus of the subcommittee to move to 100% removal of the personal property tax on vehicles without regard to the value of each vehicle. He also said that the subcommittee believes we should explore alternatives to the present car tax relief program that do not continue the current disparity among localities, and may eliminate the need to continue assessing vehicles.

Senator Hanger advised that another issue his subcommittee will explore in future meetings is whether counties and cities should have the same taxing authority. In particular, he said the subcommittee will take a special look at the equality and uniformity of local cigarette taxes.

Other issues that his subcommittee will look at in future meetings are: (i) real estate tax caps or at least more citizen input in the process; (ii) the potential of a dedicated source of revenue for land conservation; (iii) taxes on utilities telecommunications (with a report from Delegate Bryant on his special subcommittee's study on telecommunication taxes); (iv) whether to eliminate the entire local and state sales tax on food.

**Future Meetings --**

After hearing the subcommittee reports, the Commission discussed future meetings. There was general agreement to have a meeting in September, October, and November, with specific dates and times to be determined. The Commission also expressed a preference to follow the same format of having full Commission and subcommittee meetings on the same day.