THE COMMONWEALTH'S REVENUE STRUCTURE

REPORT

of

THE REVENUE RESOURCES AND ECONOMIC STUDY COMMISSION

to

THE GOVERNOR

and

THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 8

COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1969

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Richmond, Virginia
December 31, 1969

To: HONORABLE MILLS E. GODWIN, JR., *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

I. INTRODUCTION

Change and the impact of change dictate the contents of this Report. Within the past decade, tremendous improvements and alterations have affected all phases of the Commonwealth's economy, programs of services for the public provided by State government, and the tax structure utilized to finance such programs. Population growth, the shift of population to urban centers, inflation and expanded government activity contribute to a constant pressure on the State's revenue resources.

It has been the task of this Commission to examine these factors and to review the present status of the State's revenue resources to determine basically (1) whether this pattern of change and pressure has rendered present resources inadequate to meet the demands upon them and (2) whether the present revenue and tax structure as it has developed under pressure is equitable in nature. These are two fundamental questions among the many assigned to this Commission by the General Assembly in 1968 when it created this Commission by adopting Senate Joint Resolution No. 15. That Resolution states:

SENATE JOINT RESOLUTION NO. 15

Creating a commission to study the sources of revenue which are available to the State, to provide for its composition and to prescribe its powers and duties.

Whereas, Virginia is presently involved in an expanding economy which affects every facet of her social, cultural and educational composition; and

Whereas, there has been launched under the leadership of Governor Mills E. Godwin, Jr., a great program of advancement and progress in almost every sphere of human endeavor, including particularly, public education, higher learning, mental health and mental institutions, parks and recreation, highways and industrialization; and

Whereas, urban growth has been rapidly accelerated in various sections of the Commonwealth requiring increased demands for services to an ever-growing population; and

Whereas, the need for continued State expenditures, including a continuation of our prodigious program for capital improvements as well as the ordinary and regular costs of operations, presents a special and urgent governmental problem in which increased demands are constantly exceeding anticipated and forseeable

Whereas, it is necessary in the public interest and essential to the continued growth and prosperity of Virginia that present sources of revenue as well as new and additional sources be studied, examined and explored, that ways and means be developed to produce adequate funds to meet the ever-expanding and growing requirements of the Commonwealth, and foster the continued constructive growth and efficient administration thereof; now, therefore, be it

Resolved by the Senate, the House of Delegates concurring, That a Commission is hereby created to be known as the Revenue Resources and Economic Study Commission, which shall consist of fifteen members, of whom four shall be appointed by the President of the Senate, four shall be appointed by the Speaker of the House of Delegates, and seven shall be appointed by the Governor. Insofar as practicable, all segments of the economy and all interests concerned shall be afforded representation upon the Commission.

The Commission shall make a study and report upon the following matters:

(a) The present system of taxation and the various sources and areas of existing revenues.

(b) Whether or not these sources are adequate under present rates or require revision upward or downward.

(c) To explore additional and new potential sources of revenue.

(d) To examine all existing taxes and potential taxes with the determination of achieving the committed objectives of State Government in a manner designed to prevent undue burdens upon our taxpaying citizens.

(e) To develop solutions to the increasing revenue problems of Virginia in a manner so as to encourage the business, economic and industrial expansion of the State.

(f) To generally review, study and explore the continuing need for increased State expenditures that the orderly progress and growth of the Commonwealth may be furthered, and productive governmental responses to the needs and interests of all inhabitants of Virginia may be facilitated.

(g) To canvass the experience of other states of the United States and examine all relevant provisions of their law, as well as Virginia law to determine whether or not existing laws are adequate to meet present and future needs and make such recommendations for modification or change as may be requisite.

(g) (a) To study the present system of assessment of public service corporation property; to consider whether or not this should be a function of the Department of Taxation; and whether public service corporation easements should be subject to taxation as an interest in real estate.

(h) To report on any related matters which the Commission deems appropriate, including particularly the sales, use and titling tax laws of the Commonwealth. The Commission is also directed to make a study and report on the returns to the localities of moneys derived from the Virginia Retail Sales and Use Tax to determine the equity of such distribution.

The members of the Commission shall receive no compensation for their services, but shall be paid their necessary expenses incurred in the performance of their duties. The Commission may employ such secretarial, technical, clerical, professional and other assistance as may be required.

For the purpose of carrying out its study, the sum of twenty-five thousand dollars is hereby appropriated from the contingent fund of the General Assembly.

All agencies of the State and the governing bodies of all political subdivisions of the State shall cooperate with and assist the Commission upon request.

The Commission shall conclude its study and make its report to the Governor and the General Assembly not later than September one, nineteen hundred sixty-nine.

In examining the fundamental issue raised by this Resolution concerning the adequacy and fairness of our present revenue structure, the Commission was particularly aware of the enactment of the general sales and use tax effective September 1, 1966 at the rates of two percent for the State tax and one percent for the local option tax and the increase in the State rate to three percent effective July 1, 1968. Certainly, a prime consideration in any evaluation of the revenue structure must be the impact of this major new revenue source.

While the 1966 and 1968 Sessions of the General Assembly initiated major changes in our revenue picture through adoption of and increases in the sales tax, this action did not mean an end to change. The General Assembly in 1969 again initiated a major alteration in our revenue structure through proposed amendments to our State Constitution's provisions on borrowing for capital outlay purposes. The proposed amendments which concern general obligation and revenue bond financing have yet to be finally adopted and must be agreed to by the next General Assembly and approved by the people. While the proposed provisions on general obligation bond financing definitely do not presage a shift to the financing of all capital outlay projects through borrowing, it is anticipated that approval of these proposed amendments would mean that the public has permitted the State government to utilize another new revenue source for the purpose of financing major capital outlay projects of Statewide importance. The impact of the $81 million bond issue authorized this past Session and of the proposed Constitutional amendments on borrowing must be examined along with existing sources such as the sales and income taxes before a full appreciation and analysis of the State's revenue structure can be properly developed and prepared.

II. ORGANIZATION AND WORK OF THE COMMISSION

In accordance with Senate Joint Resolution No. 15, the following individuals were appointed to the Commission—

From the Senate:

Senator Leroy S. Bendheim	Alexandria
Senator Edward L. Breeden, Jr.	Norfolk
Senator Garland Gray	Waverly
Senator George M. Warren, Jr.	Bristol

From the House of Delegates:

Honorable Edward E. Lane	Richmond
Honorable Willis M. Anderson	Roanoke
Honorable Robert E. Gibson	Chesapeake
Honorable Carrington Williams	Fairfax

By the Governor:

Dr. Thomas C. Atkeson, Chancellor Professor of Taxation, College of William and Mary, Williamsburg

Mr. Lawrence H. Camp, Chesapeake Corporation, West Point

Mr. W. Wirt Shapard, Fidelity National Bank, Halifax

Mr. J. Cleveland Lucy, Board of Supervisors, Brunswick County, Lawrenceville

Mr. C. H. Morrissett, State Tax Commissioner, Richmond

Mr. Herbert C. Moseley, Bank of Virginia, Richmond

Mr. Richard D. Robertson, American Safety Razor Division, Philip Morris, Inc., Staunton

The Commission elected Senator Bendheim to serve as Chairman and Mr.

Lane to serve as Vice-Chairman. It requested Mr. T. Edward Temple, Director of the Division of State Planning and Community Affairs, Mr. John L. Knapp, Chief of the Research Section of that Division, and Dr. Lorin A. Thompson, Chancellor of George Mason College, to serve as consultants.

At the outset, the Commission authorized the Chairman to appoint working committees to investigate specific areas outlined for investigation by the study Resolution. Of particular value and interest was the work accomplished by the committees on research and tax matters.

Special acknowledgement is made for the excellent contributions of Dr. Atkeson, a most diligent and faithful member of the Commission. Dr. Atkeson, with the assistance of some of his students, prepared several memoranda which were most helpful to the Commission in its consideration of such basic units of our tax structure as the individual and corporate income taxes, the inheritance and gift taxes, and the sales and use taxes. Dr. Thompson's counsel and ability to draw on past experience gained through work with similar studies was of much assistance.

Members of the Research Section, headed by Mr. Knapp, of the Division of State Planning and Community Affairs served as the staff for the working committees as well as for the Commission. The research which they conducted was at all times of the highest professional quality and an invaluable aid in our deliberations. The basic research document which Mr. Knapp and members of his staff produced for the use of the Commission is being published for the purpose of providing information. This document is labeled the Staff Report to the Revenue Resources and Economic Study Commission, and, as stated therein, is the product of the work of the authors and does not necessarily represent the views of this Commission or the Division of State Planning and Community Affairs.

The Staff Report examines alternative possible changes in the State's revenue structure and the impact of such changes on revenues. It does not pretend to be complete but does cover a variety of items ranging from the broad-based taxes such as the income tax to the more limited revenue sources such as the inheritance or liquor tax. Much of the data in the Staff Report is in the nature of estimates and projections. As always such figures should be used with care.

By publishing the Staff Report, the Commission hopes to provide to the public, and particularly the General Assembly, information which will be of use in evaluating tax matters which may be of concern to them. Nothing in that Report should be viewed as, or purports to be, a recommendation for action by the Legislature or change in the State's tax structure.

The work of the committees progressed into 1969 simultaneously with the preparation of the Staff Report and much valuable background data. The advent of the Special Session of the General Assembly on revision of the Constitution in February, however, had inevitable impact on the Commission's work. First, the Session pre-empted the time of the members of the Commission who are members of the Senate and House of Delegates. As a consequence, eight of the fifteen members of the Commission were unable to devote appreciable amounts of time to the many problems of the Commission until the late spring of 1969.

Second, the work of the Session and resulting proposals (1) concerning bond financing referred to earlier and (2) relating to tax matters such as the proposals concerning property taxation, classifications of real property for tax purposes, potential exemptions from real property taxation for older homeowners and potential provisions for service charges on exempt classes of property in lieu of property taxation, all have direct relevance to this study and possible impact on the State's revenue structure, its adequacy and fairness.

Thus, at the midpoint of our deliberations, we faced a possibly changing tax and revenue structure.

Keeping these matters in mind, the Commission pursued its investigations and scheduled a series of public hearings to ascertain the views, suggestions and concerns of the public throughout the State. Four public hearings were scheduled and held as follows:

Norfolk—June 9, 1969
Alexandria—June 23, 1969
Roanoke—June 30, 1969
Richmond—July 28, 1969

Each of the hearings was publicized well in advance of the date to provide an opportunity for all who wished to present their views about tax and revenue matters to the Commission. Many presentations dealing with a variety of tax matters were presented at the hearings. The viewpoints expressed and recommendations offered were helpful to the Commission in placing the technical aspects of taxation into perspective. These views and suggestions are summarized briefly in the next section of this Report.

Following additional committee work, the Commission as a whole met frequently to develop this final Report and recommendations. The basic conclusions we have reached are set forth in Part IV below.

III. PUBLIC HEARINGS

The many subjects presented and discussed at the public hearings may be grouped into proposals for modifying the State tax structure, proposals for strengthening the tax base of local governments by extending the subjects of taxation and proposals for increasing the amount of State aid to localities.

A. State Tax Structure

Suggestions for increasing the rates on the individual income taxes for taxable income above $10,000 were made in several presentations. Most of those making presentations on this subject suggested conforming the Virginia individual income tax to the federal individual income tax by increasing the standard deduction from five to ten percent with a $1,000 maximum and making all exemptions equal $600 for the taxpayer, his spouse and each dependent. One proposal was made to allow deductions for the full amounts spent on college tuition, medical and dental expenses.

There were other proposals to tax income received from all State and municipal bonds and dividends from Virginia corporations which are now exempt. One proposal suggested that such dividends be handled in the same way as under federal tax law. Unrelated business income of charities, fraternal and eleemosynary organizations was suggested as a proper source to be subject to the income tax. Suggestions for increasing State taxes on liquor and tobacco products were also made.

Several persons recommended modifying the State sales tax. There were some who advocated the exemption of food and nonprescription drugs from the State sales tax or the establishment of an income tax credit to offset part of the impact of the sales tax on such items as food. Others recommended extension of the sales tax base to include services not now taxed. Some suggestions proposed that sales taxes be extended to professional services. One proposal was to modify the present motor vehicle sales and use tax by allowing a deduction for the value of the trade-in from the sales price and increasing the rate of the tax from two to three percent.

A number of suggestions were made that the inheritance and gift taxes in Virginia would be suitable subjects for increased rates of taxation. Generally speaking, such suggestions were that there should be larger initial exemptions but higher rates as the amounts subject to the inheritance and gift taxes increase. There was some discussion also that life insurance proceeds to a named beneficiary should be considered in the same manner as the basic estate for tax purposes. This concept, however, was contested by many.

B. Local Taxation and State Aid to Localities

Many speakers asserted that local governments with their expanding responsibilities have found it increasingly difficult to obtain adequate funds from local sources of taxation to finance the growing requests for more and better governmental services. The recommended solution of some was to increase the amount of State support for education and transfer more fiscal responsibility for welfare to the federal government. It was suggested that all welfare costs should be borne by the State and federal governments rather than in part by local communities.

As a source for financing local services, the recommendation was made several times in the public hearings that provision be made to permit local income taxes. Such a tax would be in the nature of a piggy-back tax on the State income tax. There were suggestions, also, that in the event that a local income tax is impractical, that a local payroll tax be levied on employees. Other suggestions were made to extend authority of local governments to tax the tangible personal property of manufacturing corporations, except machinery and tools now taxed by localities. The tangible personal property referred to is now included in capital subject to State tax.

Local cigarette taxes were proposed as a source of revenue for localities. Some city governments already impose cigarette taxes under authority of their charters.

Another proposal was to extend the local sales tax to non-professional services.

In the hearing in Alexandria, where Northern Virginia's needs for rapid transit are most topical, a suggestion was made by a number of witnesses to permit local governments to levy gasoline taxes of three cents on top of the present gasoline taxes. Two cents would go to the local government and one cent to the State. It was suggested by some that the State's one cent could be used to help finance major investments in the development of a rapid transit system. Another tax suggestion made was that a two percent local tax on new automobile sales be authorized and that the revenues therefrom be dedicated to the Northern Virginia Transit district.

In the Hampton Roads area where there is great interest in the State Ports Authority, a recommendation was made that the annual registration fees of corporations throughout Virginia be doubled and that the proceeds of such revenue be devoted to the State Ports Authority.

Many city spokesmen favored a revision of the tax distribution system relating to the localities' share of the State sales tax. The request was made that the amounts returned to the localities from the State sales tax should equal the amounts obtained through the local one percent.

The subject of real estate taxation by local governments was also mentioned in a number of presentations. The practice in Virginia of allowing local governments to fix the ratio of assessment value to true value (sales value) of real estate was criticized. There were also discussions pertaining to the ways in which land and improvements should be taxed by local governments. Some felt that taxation of these two items at different rates would improve local property taxation. Others expressed the opinion that land should be assessed according to its present use, rather than according to its "highest and best" use.

The assessment of public service properties by the State Corporation Commission was supported by a number of proponents. Others expressed the view that public service properties should be assessed locally or by the State Department of Taxation rather than by the State Corporation Commission. This dispute grows out of the disparity in the true rates of taxation between real estate and public service properties in many localities.

Several speakers favored the taxation of public service easements. Speakers opposing this suggestion appeared at several hearings and outlined the complexities and the difficulties that would be encountered in the administration of such a proposal.

In recent years, many localities have utilized local taxes on utility subscribers as a source of additional revenue. Public utility services which have been made subject to such taxes are telephone, electric power and light, gas, and in some instances water. It was suggested that other competitive forms of fuel be similarly taxed. Other speakers recommended that ceilings be placed on the imposition of local utility consumer taxes and emphasized their support of the recommendation for a ten percent ceiling in the 1963 Report of the Commission on State and Local Revenues and Related Matters and suggested that where present localities had exceeded the ten percent rate that these rates be adjusted downward as rapidly as possible.

IV. BASIC FINDINGS AND RECOMMENDATIONS

As we pursued our investigations, reviewed the many suggestions received at the public hearings, considered the numerous written presentations submitted directly to the Commission and individual members, and held extensive discussions on the results of research done for the Commission, we became convinced that there is a basic need for a careful, thorough review of the revenue and tax structure of the Commonwealth to determine its adequacy and fairness and that such a review will require more time and should be conducted at a point in time when that structure is relatively stable. We wish to place special emphasis on the need to examine the tax structure as it affects the taxpayer and in terms of the fairness of the distribution of the overall tax burden.

We have concluded that the coming interim following action on the proposed Constitutional amendments will provide the ideal time for such review and that this Commission should be continued for that purpose.

Up to this time, the sales tax's impact has still been very new and difficult to evaluate insofar as it affects the relative equities of our various tax sources vis-a-vis the taxpayer. The pending Constitutional issues contribute further to the unsettled nature of our tax structure. We believe that the proposed revisions will have a beneficial effect on our tax structure and that the results of the votes on these proposals are very germane to our study.

We believe that these major tax revisions, recent and proposed, will constitute the bulk of the tax changes for the Commonwealth through the coming biennium. It is our belief that neither the outgoing nor incoming administrations will propose extensive tax programs or new taxes and we know of no sentiment in the General Assembly to undertake major tax programs or extensions. Indeed, it appears that there is much feeling in the Commonwealth at large that the time is appropriate for a respite from major general revenue program changes or increases.

Such a respite will provide a proper time for a continuation of this study and a fair and full evaluation of the present tax structure.

Moreover, as the review of comments submitted at the public hearings in Part III of this Report and the detailed catalogue of tax sources carried in the published Staff Report suggest, there are many specific and complex tax matters this Commission has been requested to investigate and has initiated study on but has not had time to investigate completely because of the intervening Special Session. The coming interim will be a time during which the voluminous background data gathered for the Commission by its staff can be analysed and refined to lead to specific recommendations. Thus the coming interim will provide necessary additional time as well as a more stable revenue and tax picture conducive to further study.

Therefore, we recommend:

A. That, apart from giving favorable consideration to the proposed Constitutional amendments affecting finance and taxation, the General Assembly refrain from enacting major new tax programs during the coming biennium.

B. That this Commission be continued with directions to pursue its studies and utilize the background information and research developed for it to date for the purpose of completing the assignments given to it by Senate Joint Resolution No. 15 and with particular emphasis on those matters relating to the equities of present tax resources vis-a-vis the taxpayer.

V. CONCLUSION

The Commission submits herewith a Joint Resolution to provide for its continuation. The Resolution appears in the Appendix.

We wish to express again our appreciation to our consultants, Mr. Temple and Dr. Thompson, and to Mr. Knapp and the members of his staff, all of whom worked long and hard on this study. We commend the Staff Report to you as an informative, comprehensive survey of State tax sources with the stated reservation that the publication of this source material is for the purpose of providing information only and in no way indicates any suggestion or recommendation on the part of this Commission that any change or increase in any tax is indicated at this time.

Respectfully submitted,

†Leroy S. Bendheim, Chairman
*Edward E. Lane, Vice-Chairman
†Willis M. Anderson
†Thomas C. Atkeson
Edward L. Breeden, Jr.
**Lawrence H. Camp
***Robert E. Gibson
Garland Gray
J. Cleveland Lucy
C. H. Morrissett
Herbert C. Moseley
†Richard D. Robertson
W. Wirt Shapard
†George M. Warren, Jr.
†Carrington Williams

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†See *Minority Report* of Senator Bendheim, Mr. Anderson, Dr. Atkeson, Mr. Robertson, Senator Warren and Mr. Williams and Additional Statement of Mr. Williams, beginning at page 9.
*See Additional Statement of Mr. Lane, page 9.
**See Additional Statement of Mr. Camp, page 9.
***See Additional Statement of Mr. Gibson, page 9.

ADDITIONAL STATEMENT OF EDWARD E. LANE

I am signing this Report with the reservation that I believe that the present Commission should not be continued but that it should be concluded and a new commission appointed at a later date should this appear advisable. Considerable time will elapse before the proposed Constitutional revision, which involves matters of finance, can become law. The type of study and commission which will be most desirable depends, in part, on the outcome of the votes on the proposed Constitutional revisions.

ADDITIONAL STATEMENT OF LAWRENCE H. CAMP

I am in agreement generally with the Majority Report, but I must qualify my approval by the following comments.

While it is true that the call of the Special Session of the General Assembly in 1969 made it impossible for the Commission to complete the assignments enumerated in Senate Joint Resolution No. 15, I am strongly of the opinion that the Commission should have resolved some of these issues to its satisfaction and submitted appropriate recommendations in this Report.

I fully concur that the studies begun by this Commission should be completed by a commission appointed at a subsequent date. However, I do not agree with the provision of the proposed Senate Joint Resolution that an effort should be made "insofar as possible to preserve the present membership of the Commission." In my opinion, much will be gained by the appointment of new members who will have available to them all of the material assembled by the present Commission, but who will be free to take an entirely fresh look at the issues under consideration.

ADDITIONAL STATEMENT OF ROBERT E. GIBSON

Due to the comprehensive study made of State tax sources, time did not permit a thorough study of local taxation and state aid to localities and the existing equities of the present tax structures.

However, in order to give relief to localities, I strongly support the proposal that welfare costs be borne by the State and Federal governments rather than local communities.

Also, there should be advanced a program under the State Department of Taxation to bring about uniform local taxation within the respective boundaries of the counties, cities and towns with emphasis upon appraisals and assessments so that there will in fact be a true local effort to meet the needs of the various localities.

Some of the localities that are clamoring for more revenue on a state level are not in fact implementing uniform and fair local assessment and taxation within their boundaries.

MINORITY REPORT
OF

Leroy S. Bendheim, Willis M. Anderson, Thomas C. Atkeson, Richard D. Robertson, George M. Warren, Jr. and Carrington Williams.

INTRODUCTORY STATEMENT

All members of the Commission are in agreement on Part I, Introduction, Part II, Organization and Work of the Commission and Part III, Public Hearings, of the Commission report. This minority report, however, proceeds to include a discussion of the Commission's work, summarizes the findings of the staff report and discusses some of the implications of tax changes. The minority is not recommending change in the State's tax structure. To do so would be improper and encroach upon the duties of the General Assembly.

The minority report herewith differs from that of the majority in that the members of this group feel that they are obligated to present and discuss the findings of the entire Commission's deliberations and summarize them. The minority group believes, further, that the public interest will be served best by discussing tax matters openly and fully. In making such information available, it is hoped that State taxes, and their impact on all taxpayers, will be better understood.

The staff report, which is being printed as an independent document, presents the economic factors which underlie the State's revenue structure and shows in some detail how changes in the provisions of many of the State's major sources of revenue would affect the amount of General Fund revenue during the 1970-72 biennium and thereafter.

THE COMMISSION'S WORK

The Commission, in undertaking its work, realized the far reaching effects of taxation on the lives of *all* citizens of the Commonwealth. Moreover, the Resolution creating the Commission outlined a wide range of matters to be considered during a period in which the legislative members of the Commission were involved in a Special Session for revision of the State Constitution. This situation required that the Commission limit the scope of its inquiries and studies to those portions of its total assignment which it deemed most pressing and which could be completed before the Session of the General Assembly in 1970.

The research staff has prepared a most valuable report which includes a review of the historic changes in population and economic development in the State, recent State taxes, their impact on taxpayers and the State's revenue and projections of revenue from the existing tax structure for the next five biennia.

The requests for new and improved services have been increasing more rapidly than prospective State revenues. This growth may be illustrated by the ratio of General Fund Revenue to personal income payments. In 1958-60 this ratio was 3.0 percent; in 1962-64, 3.5 percent; and in 1968-70, 4.9 percent. Almost all of this relative increase has come from the State's general sales and use tax. With the enactment of the sales tax in 1966, the State committed itself to a statewide system of community colleges, to expansion and strengthening of its four-year colleges and universities, and to improving and strengthening its programs in mental health and many other State services in which the level of service is less satisfactory than the same services in other states. The budget for the State for the next biennium, 1970-72, includes no recommendation for increasing present State taxes. The increase in tax revenues resulting from general economic growth is estimated to be about 20 percent for 1970-72 over budget projections for 1968-70.

The undersigned are aware of the increasing complexity of the many aspects of change in the economic, social, political and cultural life of the Commonwealth. The tempo of these developments has been and will be accelerated by increasing urbanization and the consequent changes in the styles of life among our citizens. The increase in the State's general fund revenues for 1966-68 over 1964-66 was 41 percent. The increase in budget projections for 1968-70 over 1966-68 was 35.7 percent. The initial M & O requests for 1970-72 were about 50 percent larger than corresponding appropriations for 1968-70. General fund revenues as projected in the budget increased 91 percent between 1964-66 and 1968-70. About one third of this increase was from economic growth. Most of the remaining two thirds was from the State's general sales and use tax.

The budget requests for the biennium 1970-72, however, proposed further increases in the amount and kind of State services. The present Commission had as one of its principal assignments that of indicating how and where additional revenue could be obtained if the General Assembly deemed such revenue to be necessary. Since the Commission's role was not to recommend priorities among the *many* claimants for State revenue, it had no way of knowing whether additional revenue would be recommended. The undersigned feel that the studies undertaken and the earnest effort made provide a body of information which will indicate where additional revenues may be obtained if needed, and where matters of equity can be considered. The undersigned are aware of the fact that tax increases or decreases do not affect the different groups of taxpayers uniformly.

Among the more sensitive issues as regards revenues in Virginia is the way in which capital outlays are to be funded. During the present biennium (1968-70), the voters approved a bond issue of $81 million for capital outlays among the institutions of higher education and mental hospitals. This, of course, was a one-time measure and cannot be repeated again under the provisions of the present constitution for several bienniums. One of the separate matters to be considered in the forthcoming meeting of the General Assembly on the new proposed constitution is that of funding capital outlays. Is it the wish of Virginians to fund capital improvements by general obligation and/or revenue bonds in addition to general fund appropriations?

The minority believes that thorough consideration of all revenue resources and their impact upon the ways in which the total fiscal obligations of the State are met will shed light on the provision in the proposed constitution regarding the use of the State's bonding power to provide funds for capital improvements. The staff report deals with the present State taxes, their provisions and how such provisions compare with practices in other states. The following table summarizes estimated revenue yields from those sources of taxation which now contribute substantially to the General Fund or which pose problems of equity either in terms of present practice or when compared to other states and the nation. Full discussion of these matters will be found in the staff report. The summary table is presented here as a matter of information. *The undersigned wish to emphasize that no increases in taxes are recommended and the presentation of this information is solely for the convenience of the readers.* More complete and adequate explanations occur in the staff report.

The order in which the several tax considerations are presented follows the order used in the Comptroller's reports.

Projected Revenues from Present and Alternative Changes in Tax Structure, 1970-72

	(Millions of Dollars)	
	Projected	Change from Present Tax
Public Service Corp. Taxes		
Present Tax	$ 70.8	$ —
20% increase in effective rates	84.9	+ 14.1
Capital Not Otherwise Taxed		
Present Tax	$ 9.2	$ —
Increase from .30¢ per $100 to 65¢ per $100	20.0	10.8
Individual Income Tax		
Present structure, present rates	$671.6	$ —

	(Millions of Dollars)	
	Projected	Change from Present Tax
Proposed structure IV, Rate Schedule C	758.3	+ 86.7
Proposed Structure IV, Rate Schedule D	786.2	+ 114.6
Present Structure, Rate Schedule C	731.3	+ 59.7
Present Structure, Rate Schedule D	758.2	+ 86.6
Corporate Income Tax		
Present Structure & Rate	$110.8	$
6% Rate	133.0	+ 22.2
Inheritance Tax		
Present structure	$ 29.3	$ —
Proposed structure new rates	32.3	+ 3.0
Gift Tax		
Present structure & rates	$ 1.4	$ —
10% increase in effective rate	1.6	+ 0.2
Alcoholic Beverages State Tax		
Present Structure & rates	$ 33.7	$ —
Increase from 10% to 14%	47.2	+ 13.4
Tobacco Products Tax		
Present Structure & rates	$ 27.8	$ —
Increase from 2½ to 5¢ per pack on cigarettes	55.6	+ 27.8
Soft Drink Tax (estimate)		
Present Structure & Rates	$ 0	$ —
1¢ cap. tax (16 oz. or less) (syrups and dry mixture)	25.4 to 33.2	+25.4 to +33.2
3% Sales & Use Tax (excluding local option)		
Present Tax	$482.2	$ —
Adding consumer expenditures now excluded	885.8	+ 403.6
Adding all services now excluded	827.4	+ 345.2
Adding selected services now excluded	516.9	+ 34.7
Adding ABC store sales	492.4	+ 10.2
Excluding food purchased from stores	368.4	− 113.8
Excluding food and non-prescription drugs	360.6	− 121.6
Tax Credit to compensate for tax on food & non-prescription drugs. $9 exemption per person	− 80.0	− 80.0
$9 credit for adjusted gross incomes of $5000 or less	− 29.7	− 29.7

	(Millions of Dollars) Projected	Change from Present Tax
Motor Vehicle Sales and Use Tax		
Present structure & rate	$ 52.4	$ —
Change to 3% with allowance for trade-ins	61.9	+ 9.5
Change to 3% with allowance for trade-in with inclusion of federal excise tax in the tax base	65.0	+ 12.6
Retail Merchants License Tax		
Present Tax	$ 7.7	$ —
Restore former retail license tax	42.9	+ 35.2
Wholesale Merchants Tax		
Present tax	$ 0	0
Restore 1966 tax	8.8	+ 8.8
Special State & Local Tax		
Present State & Local Sales Taxes including Motor Vehicle Sales & Use Tax	$693.7	—
Proposed State & Local Sales Taxes	$590.8	– 102.9
Proposed Employment Tax	$132.4	+ 132.4

NOTE: Chapter III in the staff report gives detailed discussions of the foregoing taxes except capital not otherwise taxed, the soft drink tax, the Wholesale and Retail Merchants License Taxes, and the special State and local tax.

In the ensuing discussion *no recommendations are made for the adoption of any of the tax changes discussed. As in the preceding table, the purpose is to show what changes (increases or decreases) in State revenue would occur in the event that any of the proposals were adopted.*

Public Service Corporations

If taxes on public service corporations were increased by 20 percent, the yield for the biennium 1970-72 would be about $14.1 million. It is the opinion of the undersigned, however, that public service corporation taxes should be increased *only* if the corporate income tax is increased and by the same proportionate amount.

Capital Not Otherwise Taxed

The Commission was advised that State revenues had been reduced substantially as the result of lowering the rates on capital not otherwise taxed and by excluding money in the definition of capital not otherwise taxed. In reviewing this matter, the undersigned call attention to the recommendations of two previous groups which looked into this matter.

The Commission on State and Local Revenue and Expenditures and Related Matters in 1963 recommended that money be excluded from the definition of capital not otherwise taxed on the ground that it is costly to the State's economy. The Commission recommended further that agricultural products that must be stored or aged for more than one year before completion or conversion into manufactured products be taxed only once. It also recommended that the rates on remaining capital not otherwise taxed be reduced from 65 cents to 60 cents on January 1, 1967, to 55 cents on January 1, 1969 and 50 cents on January 1, 1971.

The Report of the Grants in Aid Committee of the V.A.L.C. in 1965, recommended that the rate on capital not otherwise taxed, scheduled for reduction from 65 cents per $100 of assessed value to 60 cents per $100 in January 1967, be reduced to 30 cents. If the rate were restored to 65cents/$100 the tax would produce, at the 1966 rate, $20 million for the biennium, an increase of $10.8 million more than the present tax.

The Individual Income Tax

Proposed modifications in the present structure and rates of the Virginia Individual Income tax would increase the yield. Four alternatives are presented: Structure IV, Rate Schedule C; Structure IV, Rate Schedule D; Present Structure, Rate Schedule C; and Present Structure, Rate Schedule D. These are described in Chapter III in the staff report and are the choices of the undersigned as shown below.

Estimated Revenue Impact
1970-72

IV-C	+ $ 86,700,000
IV-D	+ $114,600,000
Present-C	+ $ 59,700,000
Present-D	+ $ 86,600,000

The modifications to the present individual income tax under *Structure IV, Rate Schedule C,* would be as follows:

The standard deduction allowable would be increased from 5 to 10 percent up to $1,000 on single and joint returns. Personal exemptions would be reduced from $1,000 for a single individual or man and wife to $600 each, and increased for children and other dependents from $300 to $600 per person. Details of the structure and rate schedules are discussed at length in Chapter III of the staff report. The rates on taxable income would be as follows: For the first $3,000, 2 percent; $3,001 to $5,000, 3 percent; $5,001 to $10,000, 5 percent; $10,001 and over, 7 percent. The projected increase in revenue, during the 1970-72 biennium, under this proposal, is $86.7 million.

Structure IV, Schedule D also provides for the 10 percent standard deduction and the $600 personal exemption for each person. The schedule of rates would be as follows: The first $3,000, 2 percent; $3,001 to $5,000, 3 percent; $5,001 to $10,000, 6 percent; $10,001 and over, 7 percent. The estimated increase in yield from these provisions for the biennium 1970-72, is $114.6 million.

The foregoing changes in the individual income tax structure mean that personal exemptions, the standard deduction and minimum standard deduction become similar to those of the present federal income tax law. This would also simplify the preparation of the income tax forms. The change in personal exemptions to $600 per person from the present $1,000 for the single individual, $1,000 each for husband and wife, and $300 for each dependent would afford little change for families of less than 5 whose taxable income is $3,000 or less. It is also true that the change in the standard deduction and a decrease in the personal exemption of the taxpayer from $1,000 to $600 would increase the taxes for single individuals somewhat.

Under the foregoing Structure IV, those with larger incomes would be taxed somewhat more heavily than at present. The plan, on the other hand, would provide no increase in taxes, and some relief, to low income families of more than four persons.

Under the *present structure, Schedule D,* the rates for the first $5,000 of taxable income are the same as for Structure IV, Rate Schedule C. Taxable incomes between $5,001 and $10,000, however, would be taxed at 6 percent, rather than 5, and taxable income of $10,001 and over at 7 percent. Structure IV, Rate Schedule D would provide about $27.9 million more in revenue for the next biennium than Structure IV, Rate Schedule C and $114.6 million more than the present structure and rates.

The foregoing paragraphs outline in some detail the proposed changes in the individual income tax rates under Structure IV, Rate Schedule C, and Structure IV, Rate Schedule D. Both of these plans change the standard deduction from 5 to 10 percent and alter the allowances for personal exemptions from the present schedule of $1,000 for a single individual or man and wife and $300 for each dependent, to $600 for each person. In the event that the present structure of the income tax is not changed, substantial increases in the amount of revenue can be obtained by using rate Schedules C and D with the present exemptions and deductions in the State income tax. In summary, use of Rate Schedule C with the present structure, would continue the standard deductions, allowances and individual exemptions as at present, but the rate on all taxable income above $10,000 would increase from 5 to 7 percent. In Rate Schedule D, the Rate Schedule changes at $5,000. Taxable income between $5,001 and $10,000 would be taxed at 6 percent, and all taxable income of $10,001 and over would be taxed at 7 percent. As is shown in the above tabulation, the increased revenue from the present structure, Rate Schedule C, for the biennium would be $59.7 million, from Rate Schedule D, $86.6 million.

The individual income tax finds greater favor among students of taxation than most other taxes since it can be developed on the basis of ability to pay by providing lower rates for those with lower incomes and higher rates for those of higher incomes. From the stand point of tax administration some saving in administration costs would result from the reduction in the number of returns with itemized non-business deductions if the structure were modified to increase the standard deduction. (See Chapter III in the staff report.)

The Corporate Income Tax

If the present corporate income tax in Virginia were increased from the present rate of 5 to 6 percent it is estimated that revenue from this source during 1970-72 would be increased by about $22.2 million.

The minority is of the opinion that if corporate income taxes were raised that such a change should be accompanied by a proportionate increase in taxes on public service corporations and an increase in individual income taxes. The increase from 5 to 6 percent according to the staff study, during the first year of the biennium, 1970-72, would be $10.7 million and during the second year $11.5 million, or a total estimated increase of $22.2 million for the biennium.

When proposals are made to increase the corporate income tax, there is considerable apprehension as to the possible effect of such an increase on economic development. Perhaps one way of appraising the possible effect of this increase is to examine the corporate income tax in the states surrounding Virginia. The present effective corporate income tax rate in North Carolina is 6 percent; in West Virginia, 6 percent; in Pennsylvania, 7½ percent; in Maryland, 7 percent; and in the District of Columbia, 6 percent. There is some danger inherent in attempting to determine the propriety and soundness of a given tax by comparing the rate in one state with those of other states. This is a common practice but does not reflect the variations in total taxes (state and local) levied on industry in different states.

For this reason a comparison of corporate income tax rates is only partial. Generally speaking, in terms of comparable total tax levies by the state and local governments in other states, total combined State and local taxation in Virginia is favorable. It is the opinion of the undersigned that, if the State is in need of substantial amounts of additional revenue, the increases and modifications in the present rates of individual and corporate income taxes, and as stated above, and an increase in public service corporation taxes of 20 percent (which corresponds roughly to increasing the corporate income tax from 5 to 6 percent) are among the more appropriate sources of revenue which would meet the general tests of equity and ease of administration.

Inheritance Tax

If present rates on the Inheritance Tax were raised, and exemptions increased, it is estimated that State revenues would be increased by $3 million during the 1970-72 biennium. The suggested changes in rates and exemptions are set forth in the staff report.

In comparison with neighboring states, Virginia's inheritance tax rates are low, and the $5,000 exemption for Class A beneficiaries (wife, children, etc.) has not kept up with inflation.

The undersigned considered including life insurance proceeds as subject to inheritance tax, even though made payable to a named beneficiary, so long as the insured retains any incidence of ownership, but concluded that life insurance, passing directly to a named beneficiary, should not be taxable as an inheritance.

Gift Tax

If the gift taxes were adjusted in the same proportion as inheritance taxes, it is estimated that about $200,000 in additional revenue would be obtained during the 1970-72 biennium.

The gift tax is primarily a complement to the inheritance tax designed to prevent avoidance of the inheritance tax by the donor making gifts during his lifetime which might otherwise be subject to the inheritance tax. Some protection is afforded the inheritance tax by the presumption that any gift within three years of death is presumed to be in contemplation of death and therefore subject to the inheritance tax. (See staff report.)

Alcohol Beverages Tax

If the present 10 percent sales tax on liquor were increased to 14 percent, revenue would be increased by $13.4 million in the next biennium, if present sales levels continue.

Inasmuch as many believe that liquor sold in ABC stores is not taxed, the undersigned suggest that signs be posted in ABC stores stating that the retail price on liquor includes a 10 percent sales tax. There were proposals to impose State and local sales taxes on alcoholic beverages sold in State stores. Since there are a number of counties without ABC stores such a plan would deny such localities the proceeds of 1 percent from local liquor sales. The undersigned believe that additional revenue from liquor sales can be obtained more readily by increasing the mark-up on ABC sales. About two thirds of ABC profits are returned to localities on the basis of total population.

Tobacco Products Tax

Additional revenue could be derived by increasing the present tax on cigarettes and other tobacco products. The existing tax of 2½ cents on cigarettes if increased to 5 cents would produce an estimated $27.8 million during the biennium

1970-72. This assumes that sales volume would continue as at present. In the staff report the practices of all other states with regard to taxing cigarettes is shown in Chapter III.

Soft Drink Tax

There are six states which currently impose a tax on soft drinks. These states are Louisiana, Missouri, North Carolina, South Carolina, Tennessee and West Virginia. The tax in the states of Missouri and Tennessee is a business license tax. Missouri's tax is composed of both a license fee and a per gallon or pound ingredient inspection fee. Tennessee's tax is based on the draught arm in the case of soda fountains and soft drink stands; the gross receipts in the case of manufacturers and bottlers; and the population of the counties served in the case of wholesalers and jobbers. The tax in the states of West Virginia, Louisiana, and South Carolina is a per bottle tax.

West Virginia, for example, levies a stamp tax on the sale, use, handling or distribution of all bottled soft drinks, soft drink syrups, and all dry soft drink mixtures whether manufactured within or outside of the state. Exempt from this tax are syrups used by bottle manufacturers, drinks and syrups transported through the state, and bottled drinks or syrups manufactured in the state but sold to purchasers outside the state. It is estimated that the revenue in Virginia from a soft drink tax similar to that in West Virginia would yield from $25.4 to $33.2 million biennially based on doubling the annual 1969 estimated yield.

The Sales Tax

General sales taxes structured in various ways were imposed by 15 Virginia cities during the 1964-66 biennium as general revenue measures. The items exempt were few. In 1966, the general sales tax enacted by the State also had few exemptions. The local sales taxes imposed during 1964-66 were modeled after the sales tax prepared for consideration by the General Assembly in 1960. The most controversial items included in the State and local sales tax base in Virginia are food and non-prescription drugs. Prescription drugs have been exempted from the beginning. There have been continuous efforts by some to amend the sales tax laws in Virginia to exclude food and non-prescription drugs. Taxes on food and drugs are more burdensome to low income families than to others with greater means.

Sales taxes, according to many, are regressive in that they affect the poor more heavily than those whose incomes are average or above. While this is true, *all* of the taxes paid by low income families, including sales taxes, fall far short of meeting the cost of governmental services received by them, such as education.

Sales taxes were enacted in Virginia mainly to provide more adequate funds for public schools, community colleges, four-year colleges and universities, mental hospitals and mental hygiene clinics. Such funds were, and are, essential to enable Virginia to provide a level of services in education and mental health comparable to other states. In this connection, attention is called to the fact that if food and non-prescription drugs are exempted from the general sales tax base more than one-fourth of the revenue from both State and local sales taxes would disappear. Thus, if present sales tax laws were amended to exempt food and non-prescription drugs, the amount of revenue lost to the State would be about $121.6 million for the biennium. Since one-third of the State's 3 percent sales tax goes to localities, local governments in 1970-72 would receive $40.5 million less from the State and their local sales tax yield would decrease by another $40.5 million. The estimated total loss to the State and localities combined, would be $162.1 million for the biennium.

Changes in items included or excluded in the State's general sales and use tax would affect the yield from the existing sales and use tax for the next biennium as follows:

Item	*Estimated Revenue Impact 1970-72*
Including selected Services Now Excluded	+ $ 34.7 million
Excluding food and non-prescription drugs	− $121.6 million
Enacting a tax credit or payment of $9 per person on income tax to compensate for sales tax on food and non-prescription drugs.	− $ 80.0 million

The present State sales tax in Virginia does not include every type of good or service sold at retail sale but is comparable with most general sales taxes. The principal item excluded from the present general sales tax, and other special sales taxes, is prescription drugs.

If selected sales, now excluded, were added, $34.7 million of additional revenue for the biennium would be realized. Included are such activities as beauty and barber shops; auto parking; auto services not now taxed, auto repair shops; motion pictures; amusements; recreation services; shoe repair; miscellaneous personal services; laundry, dry cleaning, pressing and alterations; and miscellaneous repair services, such as watch repair, re-upholstery, locksmiths, lawn mower repair and so on. (See staff report.)

In a few states sales and use taxes are applied to many goods and services such as utility consumption, professional fees and the like. If such inclusions were applied in Virginia they would interfere with certain taxes already imposed. Telephone and telegraph services, gas, electricity and water are now taxed by local governments. If these taxes were pre-empted by the State, an important source of revenue would be eliminated from local governments. Such a measure would disrupt the balance between State and local taxation in Virginia. Automobiles are now taxed under the Motor Vehicle Sales and Use Tax. Separate discussion is offered below with respect to the modification of this tax. When the Motor Vehicle Sales and Use Tax was imposed, the General Assembly felt that the proceeds from the titling tax on motor vehicles should not go into the General Fund but be available to the Department of Highways.

The most lively issue in the sales tax field in Virginia has been the proposal that food and drugs be exempted from the sales tax. As already indicated, this has been proposed in two forms. According to the staff study, the loss in State revenues, during 1970-71, by excluding food purchased from stores and non-prescription drugs would be $58.2 million, and in 1971-72, $63.4 million or approximately $121.6 million for the biennium. Localities would lose an additional $40.5 million. If modifications were made in the base of the sales tax to include selected services, as defined in the Staff Report, Table 3.34, the net increase yield in sales from 1970-71 would be $16.6 million and for the following year $18.1 million, or a total of $34.7 million for the biennium. In addition, if a 4 percent additional tax without the local option were levied on ABC sales, it is estimated that the increased yield from this source would be $13.4 million. These two sources would provide increased revenue for the biennium in the amount of about $48.1 million.

Income Tax Credit to Partially Offset Impact of Sales Tax on Food and Non-prescription Drugs

In the Commission's studies, the various income tax credit ideas used by states as an offset or credit for the sales tax on food and drugs, were considered. (See the Staff Report, Chapter III.) Such plans provide the taxpayer with a credit of from $8 to $10 for himself, his spouse and each dependent from his income tax. In the event that the credits so allowable exceeded the liability for income taxes, the taxpayer receives a payment for the difference.

In addition, those with no income tax liability nor liability for filing a return could apply for, and receive, such payment. The research staff estimates that the number of such persons, many of whom would be members of a taxpayer's family, would approximate 500,000. If the refund of $9 per person were applied to all tax returns and to eligible persons without taxable income, this would decrease revenues by $80.0 million in 1970-72 biennium. The number of refund applications from the State income tax would increase by some 200,000 or more, beyond the present number of returns. If adopted, safeguards would need to be developed to prevent abuse. Also, there would be an increase in administrative cost for such a program. Such a payment is to reimburse the taxpayer, in whole or in part, for that portion of the sales taxes estimated to have been paid on food and non-prescription drugs. The main objective of this proposal is to provide some measure of tax relief to those with low personal incomes.

The revenue impact of two variations follows:

Revenue Impact

Income tax credit of $9.00 per exemption per annum

1970-71	$39,600,000
1971-72	40,400,000
1970-72	80,000,000

Income tax credit of $9.00 per exemption per annum limited to adjusted gross incomes of $5.000 or less

1970-71	$14,700,000
1971-72	15,000,000
1970-72	29,700,000

The undersigned gave extensive consideration to ways of granting relief from the sales tax and to the various alternatives mentioned above. Several states, such as Indiana, Iowa, Colorado, and Hawaii, grant an income tax credit to give relief from the sales tax. In the case of Indiana, the income tax credit is $8.00 per exemption; in the case of Colorado, it is $7.00. Most states which allow income tax credits include those taxpayers who would not otherwise file an income tax return or be liable to pay any income tax. The undersigned realized that all classes of income taxpayers recognize their obligation to support the public schools, colleges, mental institutions, and other necessary services and that the sales tax falls more heavily on the lower income groups than others. Sales taxes fall on transients, as well as permanent residents. All who pay sales taxes help to support public services.

If the base of the present sales taxes is narrowed to exclude food and non-prescription drugs, the State and the localities must either reduce the budget for services heretofore regarded as essential *or* increase other taxes. This may be done by increasing the rates on existing taxes or shifting the tax to some other subject. It is essential to emphasize that there are no other alternatives.

An alternative to a narrower-based sales tax is to increase the rates on the individual income tax. If each individual income tax bracket were raised by an additional 1 percent, an additional $218.9 million would be available for the biennium, 1970-72. The impact on the lowest income group would be less, on average, than the sales taxes on food and non-prescription drugs from the present sales tax. Increasing present income tax rates by 1 percent in each bracket is estimated to produce $218.9 million for the biennium as compared to a loss of $121.6 million by exempting food and non-prescription drugs (excluding local sales tax losses).

The undersigned call attention to the possibilities of rearranging the impact of taxation on various groups of taxpayers. As shown above, the losses which would result from exemption of food and non-prescription drugs from the sales tax base, or by adopting tax credit and/or refund on the individual income tax to reduce the impact of the sales tax on food and drugs, could be offset by increasing the rates of other taxes. The choices are numerous, but the acceptability of the alternatives should be carefully considered by the General Assembly. In short, there are ways of recapturing losses in tax revenue from some sources by increasing the rates of impost on others.

Motor Vehicle Sales and Use Tax

If more revenue for highways is deemed necessary, the undersigned recommend for consideration that the Motor Vehicle Sales and Use tax be changed from 2 percent to 3 percent, with a full allowance for the vehicle traded in. It is estimated that such a change would yield $9.5 millions of additional revenue during 1970-72.

This recommendation would make the Motor Vehicle Sales and Use tax conform to the principle of the general sales and use tax. The advantage of uniformity between two taxes which are basically the same is clear; if this change were adopted, there should also be less chance for abuse through the manipulation of prices on motor vehicles.

Retail and Wholesale Merchants License Tax

The Commission was advised that in the case of capital not otherwise taxed, that State revenues were reduced substantially by elimination of the retail and wholesale merchants license taxes.

The Commission on State and Local Revenue and Expenditures and Related Matters in 1964 recommended that the wholesale license tax in Virginia be reduced from 13¢ to 10¢ per $100 of purchases on any amount over $10,000 on January 1, 1965, and from 10¢ to 5¢ on January 1, 1967.

In 1964, House Joint Resolution No. 94 directed the V.A.L.C. to make a study and report concerning grants-in-aid to localities and other related matters. Among the recommendations of the V.A.L.C. to the General Assembly in 1966, was to eliminate the wholesale and retail merchants license taxes beginning in January, 1967.

In the deliberations of the 1964 Commission, discussion was frequently given to the desirability of reducing the State retail merchants tax in the event a consumers sales tax was adopted.

In 1966, following the recommendation of the Grants-in-Aid Report, it was recommended that the State retail merchants tax and the State wholesale merchants tax be discontinued beginning January 1, 1967. Other business and professional license taxes remain but the former base has been sharply reduced.

Pari-Mutuel Betting

The Commission makes no present recommendation regarding taxes on pari-mutuel betting.

The subject is moot until the proposed Constitutional Revision, S.J.R. 24, is considered and approved by the next session of the General Assembly, and if approved, submitted to public referendum. If pari-mutuel betting should thereafter be permitted in Virginia, basing the estimates on a comparable state, such as, Delaware, it is estimated that the tax would produce about $7,500,000 in revenues per year, after race tracks are in full operation.

Proposal for a 1 Percent State Sales Tax and 1 Percent Local Option Sales Tax on All Consumption and a 1 Percent Payroll Tax on All Covered Employment.

One suggestion received by the Commission for reform of the tax system would repeal the present sales and use tax and the motor vehicle titling tax while imposing a 1 percent State tax and a 1 percent local option on all consumption expenditures. In addition the proposal would add a 1 percent employer tax on payrolls of workers covered by the unemployment compensation insurance program (so-called covered employment).

A tax on all consumption expenditures involves numerous administrative problems. It is unrealistic to assume that collections could approach 2 percent of total consumption expenditures. Furthermore, the equity of imposing such a tax is doubtful. Included in total consumption are outlays for medical and hospital services, prescription drugs, insurance, and rent.

The employer tax on covered employment has many drawbacks. The tax would be in addition to existing state taxes on business such as the corporate income tax. It would be selective since the self-employed, firms with less than four employees, and certain employment sectors (e.g., railroads and government) are not within the unemployment compensation insurance program. The above criticisms apply to the tax if we assume it is borne by the employer. If it is shifted to the employee then it would be an income-type tax in addition to the existing State income tax on individuals and fiduciaries. It would not apply to employees of the types of firms previously mentioned, and it would fail to reach residents employed outside of the State. The following table summarizes the elements in this proposal.

COMPARISON OF TAX PROPOSAL TO PRESENT TAX STRUCTURE, 1970-72 BIENNIUM

Tax Proposal		*Present Tax Structure*	
State and local		State and local	
Sales Tax	$590.8 million	Sales Tax	$641.3 million
Employment Tax	132.4 million	Titling Tax	52.4 million
Total	$723.2 million	Total	$693.7 million
Difference	+ $ 29.5 million		

For the sake of developing figures, if we were to assume that 2 percent of all consumption expenditures could be collected and that the employment tax were practical, then it is estimated that this tax package would produce $723.2 million in the 1970-72 biennium for the State and local governments. This includes $590.8 million from the sales tax ($295.4 million to the State and $295.4 million to the localities) and $132.4 million from the employment tax. The Staff estimates that the present sales and use tax plus the automobile titling tax will produce $693.7 million for the State and localities in the 1970-72 biennium. This includes $641.3 million in sales tax receipts ($481 million to the State and $160.3 million to the localities) and $52.4 million from the titling tax. The local governments end up with $320.6 million since one-third of the State Sales and Use Tax is redistributed on the basis of school-age population.

The proposed tax package, assuming all of its premises were accurate, would provide $29.5 million in additional revenue over the present revenue system in the 1970-72 biennium. Distribution of the local share of the consumption tax would be based solely on place of purchase rather than by a combination of place of purchase and location of school-age population as is done now. Total revenues to localities would be reduced by $25.2 million since taxes subject to sharing and local option would be lower.

The projected $29.5 million revenue increase for both State and local governments from this tax proposal is assumed only on the perfect workability of the new taxes—an assumption which the undersigned feel is inaccurate. In addition, the impracticality of a tax on total consumption and on covered employment along with the change of the distribution of the sales tax from the present mechanism dictate the undersigned's disapproval of this tax proposal.

SUMMARY

Depending on the amount of additional revenue, if any, that the General Assembly deems necessary to carry out its responsibilities for the biennium 1970-72, modifications of any one or more of the following State taxes would increase or decrease revenue. The amount of change from each modification for the biennium is shown in the table on pages 30-33. The staff report also discusses other alternatives.

1. Increasing the present public service corporation taxes by 20 percent corresponding to an increase in the corporate income tax.
2. Changing the rate on capital not otherwise taxed.
3. Individual Income Tax: Changing the standard deduction and allowances for exemption, and increasing rates on adjusted gross incomes above $5000 and/or $10,000.
4. Increasing present corporate income tax from 5 to 6 percent.
5. Expanding the sales and use tax base to include selected services.
6. Excluding food and non-prescription drugs from the sales tax base.
7. In lieu of excluding food and non-prescription drugs from the sales tax, allowing a tax credit on the individual income tax to compensate for the sales and use taxes on food and non-prescription drugs.
8. Allowing income tax credit only for those with adjusted gross incomes of $5000 or less.
9. Increasing automobile titling tax from 2 percent to 3 percent with allowance for trade-ins.
10. Increasing the rates on inheritance taxes for larger amounts, and reducing the rates on more modest inheritances and bequests.
11. Adjusting gift tax rates to correspond to changes in the inheritance tax if it is modified.
12. Increasing the amount of tobacco products tax per pack of cigarettes.
13. Increasing the special sales tax on alcoholic beverages from the present 10 percent to 14 percent.
14. Imposition of a tax on soft drinks, syrups, and dry ingredients used to make them.
15. Re-imposition of State retail and wholesale merchants license taxes.
16. Enacting proposed special State and local sales taxes and special employment tax.

CONCLUSION

We regret to find ourselves unable to concur in the position of the majority of this commission. We do not believe that because a tax increase in the next biennium is not being sought or requested is sufficient reason to support deferral of available information that can become most helpful in dealing with the financial and fiscal problems of the State now and in the future.

Accordingly, we are led to the inevitable conclusion that not to fully report and discuss the results of our studies over a period of almost two years would be a dereliction of duty we owe to the General Assembly.

*ADDITIONAL STATEMENT OF CARRINGTON WILLIAMS

Christmas is a bad time for blunt talk about money, particularly with a na-

*While I concur in the Minority Report, I believe we should go further and therefore submit this Additional Statement.

tional tax mood of "Buy now, pay later" (with more inflation). With all deference, the majority report puts off the evil day, just as the Federal Government has been doing. Moreover, Virginia can not manufacture money or credit, as the Federal Government does.

The majority recommends against any present tax increase, which is what everybody wants to hear; but this overlooks the fact that it was Virginia's failure in past years to look ahead adequately which brought about the need for the sudden rise in taxes since 1966. Had the sales tax been adopted twenty years ago, public services could have been improved and expanded at a steady rate, and at less real cost before the fraud of inflation took its toll.

Unfortunately, public demands for government services do not level off; they keep climbing. We need to tell the people that if they want these services, they have to pay for them; that with present population increases the conservative program of expansion of the last four years can not be continued on existing revenues, nor by borrowing under the proposed Constitutional changes.

Therefore I believe that:

1. This Commission should not recommend any overall increase, decrease, or holding operation on State revenues; that decision is for the Governor-elect and the General Assembly.

2. We need to give more taxing power to the localities; whether they use it is up to them. I say this as a strong believer in State and local governments' powers and responsibilities, and in the need for a community approach to problems. The financial plight of our cities is increasingly critical; therefore we should recommend:

a. Authorizing localities to levy, if they wish, a local payroll tax, provided it is divided between the place of work and the place of residence on an equitable basis; *or*

b. Authorizing them to levy a local income tax, or a "piggy-back" tax to be added to the State income tax, and returned to the locality which levies it.

3. If the State is not willing to give local governments more taxing power, or more revenue, then it should assume more responsibility for welfare, roads, and public school costs.

4. Virginia has traditionally been, and still is, a low tax State. Its tax structure has generally been very fair. However, with inflation of incomes and prices, and the sales tax, I think we should suggest the following shifts in the tax load:

a. Add one or more additional, higher income tax brackets, to maintain a truly graduated income tax, since the present \$5000-5% top tax bracket has not kept up with rising incomes.

b. To give relief only where really needed from the sales tax on food and non-prescription drugs, allow an income tax credit or refund of approximately \$9 per dependency credit, limited to taxable incomes of \$5000 or less, on a graduated basis.

5. The foremost revenue needs of State Government are in education and transportation, with welfare and Medicaid now coming up fast. We are getting the education system under control, and welfare is under review, but transportation is a hodge-podge. To meet its staggering needs for the 1970's (our Highway Commission forecasts a \$1.1 billion overall shortage in highway funds alone), we should recommend that the General Assembly plan now either to:

a. Raise that money, plus the State's share for mass transit (of particular importance to Northern Virginia and the Urban Corridor); *or*

b. Supplement the Special Fund from the General Fund, and/or use gasoline taxes for other types of transportation as interdependent parts of an overall transport system; *or*

c. Reduce the transportation program to fit our pocketbook.

6. There should be a permanent State and Local Revenue Commission, supplemented perhaps by a Citizens' Tax Advisory Commission. Their recommendations will, if based on facts, be of inestimable help to the General Assembly.

A good example is the sales tax. Admittedly the sales tax on food and non-prescription drugs is a burden on some, and an emotional irritant to many; yet it is ironic that the greatest demand to remove this tax comes from the urban areas, which have the greatest needs for additional State money—and the highest incomes. Many overlook the fact that no way has yet been devised to give more public services for less public revenue. We are already paying heavily for our current misguided practice of fighting wars without paying for them; this financial fancy-work will cost us more dearly yet.

A continuing tax study group should help to improve our perspectives and programs, just as the Governor's Budget Advisory Group has done.

APPENDIX

Senate Joint Resolution No. ....

Continuing the Revenue Resources and Economic Study Commission.

Whereas, the Revenue Resources and Economic Study Commission created in 1968 by Senate Joint Resolution No. 15 has initiated a broad and comprehensive survey of the State's present revenue and tax structure but has been unable to complete its investigations because of the time necessarily devoted to the 1968 Special Session of the General Assembly by many of its members and inevitably lost to the Commission; and

Whereas, the 1969 Special Session had the further substantive impact on the Commission's work of proposing amendments to the Constitution affecting both the financing of capital outlay projects through the issuance of bonds and the present system of taxation; and

Whereas, in order to be able to evaluate fully the Commonwealth's revenue and tax structure with particular attention to the equities involved in the imposition of various taxes and their respective burdens on the taxpayer, it is necessary that the outcome of action by the next General Assembly and the people with respect to the proposed amendments be known and that the revenue and tax structure of the State achieve relative stability; and

Whereas, the coming biennium portends to be an appropriate time for the completion of the Commission's study and a period relatively free from major new tax and revenue programs; now, therefore, be it

Resolved by the Senate, the House of Delegates concurring, That the Revenue Resources and Economic Study Commission be continued for the purposes of completing the work assigned to it by Senate Joint Resolution No. 15 of the 1968 Session of the General Assembly and of evaluating the Commonwealth's tax structure with particular emphasis on the equities of that structure as it affects the taxpayer.

The Commission shall consist of fifteen members, of whom four shall be appointed by the President of the Senate, four shall be appointed by the Speaker of the House of Delegates, and seven shall be appointed by the Governor insofar as possible to preserve the present membership of the Commission.

The members of the Commission shall receive no compensation for their services, but shall be paid their necessary expenses incurred in the performance of their duties. The Commission may employ such secretarial, technical, clerical, professional and other assistance as may be required.

The Commission may continue its work in advance of final action on the pending amendments to the Constitution, but in any event shall be reactivated as soon as final action on such amendments has been taken.

For the purpose of carrying out its study, the sum of twenty-five thousand dollars is hereby appropriated from the contingent fund of the General Assembly.

All agencies of the State and the governing bodies of all political subdivisions of the State shall cooperate with and assist the Commission upon request.

The Commission shall conclude its study and make its report to the Governor and the General Assembly not later than September one, nineteen hundred seventy-one.