Staff Report to the Revenue Resources and Economic Study Commission

by
JOHN L. KNAPP

in association with:
STEPHEN M. GROSS
BARRY E. LIPMAN

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INTRODUCTION

This report is a staff study for the Revenue Resources and Economic Study Commission. The staff was composed of members of the Research Section, Division of State Planning and Community Affairs. The report was prepared by John L. Knapp, Chief of the Research Section, in association with economists Stephen M. Gross and Barry E. Lipman. Dianne B. Chesson, Edward T. Hurley, Mary G. Scully, and Paula K. Wright, served as technical assistants. The opinions and conclusions are those of the authors and do not necessarily represent the views of the Division of State Planning and Community Affairs or other offices of the State Government.

Many persons gave generous assistance in the preparation of the report and no attempt will be made to mention each name. However, particular recognition is due Dr. Thomas C. Atkeson, Chancellor Professor of Taxation, College of William and Mary, and Dr. Lorin A. Thompson, Chancellor, George Mason College, for their advice and encouragement. Without the assistance of Tax Commissioner C. H. Morrissett, Assistant Commissioner W. H. White, and L. L. Jones and J. M. Carpenter of the Department of Taxation's Division of Data Processing, we would have not secured several special tabulations which were vital to the analysis. W. B. Harvie, Jr., Director of the Department of Taxation's Division of Research and Statistics, and H. R. Fields, Director of Accounts, Department of Accounts, were patient suppliers of historical data. Any errors which remain in the report are the sole responsibility of the authors and should not be attributed to any of the above-mentioned persons.

The mandate of the Commission as elaborated in Senate Joint Resolution 15 is quite broad, and this report does not cover all of the topics elaborated in the resolution. An important omission is consideration of the present system of assessment of public service corporation property; this is a major topic and, given our other responsibilities, there was not adequate time for studying it. The topic of expenditure projections is covered only briefly in the report since such figures were felt to be the province of the Division of the Budget and the Division of Engineering and Buildings.

In the four public hearings much of the testimony was about local government revenue requirements and proposals for change. Such change would be accomplished by new taxes (e.g., local income or payroll taxes), higher existing taxes, or the alternative of additional State aid either by cash transfer or assumption of administrative and financial responsibility for certain functions. This report contributes to the debate by offering alternative changes in the State Government's revenue structure. Increases in State revenues would allow the State to give the local governments more assistance. Except for a general discussion in Chapter IV, the report does not examine taxation problems confronting local governments. This is another and very important problem which deserves separate study.

This report does not contain final recommendations. Such a task is left with the members of the Commission. The purpose of the report is to help the Commission make decisions by investigating alternatives and evaluating their merits.

John L. Knapp

Richmond
December, 1969

CHAPTER I

BACKGROUND ON STATE AND LOCAL GOVERNMENT FINANCES

The purpose of this report is to review the State Government's fiscal position and to make proposals for change should the analysis indicate the need to modify our existing fiscal structure. A subject as big as this cannot be tackled without first laying some groundwork regarding salient features of the State's economy and of its existing revenue structure. This chapter develops four important topics essential to an understanding of the more detailed analysis which follows in later chapters. The topics are population, personal income, State and local government finances, and intergovernmental relationships.

Population

In July, 1968, Virginia's population numbered 4,692,675 according to an estimate prepared by the Bureau of Population and Economic Research at the University of Virginia (see Table 1.1). This number implies an average annual growth rate of 2.0 per cent since 1960 and compares with a national growth rate of 1.3 per cent.[1/]

The major reason for the State's faster growth has been net in-migration, and this is a relatively new phenomenon. During the 1950's, the State

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1/ Derived from U. S., Bureau of the Census, "Estimates of the Population of the United States to October 1, 1968," Series P-25, No. 410 (November 19, 1968) (Washington: Government Printing Office, 1968).

TABLE 1.1--VIRGINIA TOTAL RESIDENT POPULATION AS OF JULY 1ST, ESTIMATES FOR 1950 TO 1968 AND PROJECTIONS FOR 1969 TO 1980

Year	Number	Per Cent Change From Preceding Year
Estimates		
1950	3,315,000	...
1951	3,434,000	3.6
1952	3,504,000	2.0
1953	3,557,000	1.5
1954	3,555,000	a/
1955	3,588,000	0.9
1956	3,722,000	3.7
1957	3,844,000	3.3
1958	3,914,000	1.8
1959	3,951,000	0.9
1960	3,987,000	0.9
1961	4,036,326	1.2
1962	4,126,050	2.2
1963	4,237,473	2.7
1964	4,307,591	1.6
1965	4,433,794	2.9
1966	4,525,976	2.1
1967	4,602,091	1.7
1968	4,692,675	2.0
Projections		
1969	4,788,000	2.0% average annual rate of growth
1970	4,884,000	
1971	4,981,000	
1972	5,081,000	
1973	5,183,000	
1974	5,286,000	
1975	5,392,000	
1976	5,500,000	
1977	5,610,000	
1978	5,722,000	
1979	5,837,000	
1980	6,000,000b/	

a/ Less than zero per cent but greater than -0.05 per cent.
b/ Differs from 2 per cent because of rounding.
Sources: Estimates: 1950-60 from U. S., Bureau of the Census, Current Population Reports, Population Estimates, Series P-25, No. 304 and No. 380; 1961-68 from Bureau of Population and Economic Research, University of Virginia. Forecasts: Division of State Planning and Community Affairs, staff paper prepared September 9, 1968.

experienced very little net in-migration since the interstate outflow of people from rural areas nearly offset the interstate inflow to the larger metropolitan areas. But in the 1960's the net outflow from rural areas has either slowed or been reversed while the inflow to metropolitan areas has continued.

The outlook for future population growth is cloudy. Factors conducive to growth are the large number of women who will soon be in the prime child-bearing ages and the good prospects for economic growth which will retain old residents and attract new ones. But the amount of growth is uncertain because of a downward movement in the fertility rate. This may be a temporary development indicating a delay in having children, or a long-run expression of the fact that couples now want fewer children or have better means of controlling the number they want.

The Division of State Planning and Community Affairs projects 1980 population to be between 5.8 and 6 million, and the higher figure would be equivalent to an average annual growth rate of 2 per cent from 1968 to 1980[1/], the same as the actual growth rate from 1960 to 1968. Most of the increase will occur in the State's metropolitan areas, and since people living in urban environments make heavy demands on all levels of government, this relative shift in population can be expected to promote higher public outlays.

1/ "1980 Population Projections for the State of Virginia and Individual Economic Areas," Statistical Information Series No. 69-1 (Richmond: Division of State Planning and Community Affairs, July, 1969).

The age distribution of the population is an important determinant of the size of public outlays. A high proportion in the age group under 18 signifies large demands for public education. A large proportion of persons 65 and over indicates a good possibility of sizeable outlays for health services.

Projections indicate that the broad age distribution of the population will remain similar to what it is now except for some upward change in the age group over 65 (see Table 1.2). Since education is the largest single expenditure category of state and local governments, it is particularly important that the age group under 18 is not expected to increase its relative share. This development is in strong contrast to the 1950's when the youth group increased its proportion by more than three percentage points.

TABLE 1.2--AGE DISTRIBUTION OF VIRGINIA POPULATION, 1950 TO 1980

	Per Cent of Total				
	Actual		Estimate,	Projection	
Age Group	1950	1960	1968	1974	1980
	100.0	100.0	100.0	100.0	100.0
Under 18	33.6	36.9	36.0	35.4	35.7
18 to 64	59.9	55.8	56.6	57.0	56.4
65 and over	6.5	7.3	7.3	7.6	8.0

Note: Details may not add to totals due to rounding.

Sources: 1950 and 1960 - U.S., Bureau of the Census, Census of Population, 1960: Characteristics of the Population, Vol. 1, Part 48, Virginia (Washington: Government Printing Office, 1963); 1968, 1974, and 1980 - Division of State Planning and Community Affairs, staff paper prepared September 9, 1968.

Personal Income

Personal income is a good measure of total economic activity. In the last ten years Virginia's personal income has grown at an average annual rate of 7.9 per cent, a rate higher than the national average of 6.6 per cent.[1/] Most of the difference reflected an improvement in individual incomes although a portion was due to Virginia's faster growth of population. Per capita income, which adjusts for population differences, provides a good measure of Virginia's relative gain. In 1958, Virginia per capita income was 81.4 per cent of the national average; ten years later, it was 89.7 per cent.

Composition of personal income in Virginia is unlike the nation in several respects. The outstanding difference is the relative importance of the federal government whose wage and salary payments currently account for 20 per cent of all personal income in the Commonwealth compared with 5.5 per cent nationally. This is due to the large number of federal civilian employees living in Northern Virginia and the location in Virginia of several big military installations of which the naval complex in Hampton Roads is paramount.

Wage and salary payments are the principal form of income for both the State and the nation, but there is a significant difference in their relative importance. Virginians do not derive as much income from property and proprietorships as the national average. That is the major reason why wage

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1/ Average annual rates of growth calculated by fitting a least squares trend line to 1958-68 data.

TABLE 1.3--VIRGINIA PERSONAL INCOME, TOTAL AND PER CAPITA, 1950 TO 1968

	Personal Income			
	Total		Per Capita	
Year	($Mil.)	% of U. S.	Dollars	% of U. S.
1950	$ 4,070	1.80	$ 1,228	82.0
1951	4,763	1.88	1,387	84.0
1952	5,150	1.90	1,470	84.8
1953	5,292	1.85	1,488	82.4
1954	5,338	1.86	1,502	84.1
1955	5,638	1.82	1,571	83.7
1956	6,084	1.84	1,635	82.8
1957	6,349	1.82	1,652	80.8
1958	6,593	1.84	1,684	81.4
1959	6,994	1.84	1,770	81.9
1960	7,339	1.84	1,841	83.1
1961	7,776	1.88	1,898	83.8
1962	8,448	1.92	2,018	85.2
1963	8,984	1.94	2,095	85.3
1964	9,909	2.00	2,267	87.6
1965	10,725	2.00	2,418	87.4
1966	11,688	2.00	2,608	87.5
1967	12,778	2.04	2,814	89.0
1968	14,100	2.06	3,068	89.7

Note: Includes Alaska and Hawaii for 1960-68, but not in earlier years.

Source: Survey of Current Business, Vol. 49, No. 8 (August, 1969), pp. 14, 15.

TABLE 1.4--PERCENTAGE DISTRIBUTION OF PERSONAL INCOME PAYMENTS BY SOURCE, VIRGINIA, 1950 TO 1968, AND UNITED STATES, 1968

	Per Cent of Total				
	Virginia				United States
Type of Income	1950	1960	1965	1968	1968
Total personal income	100.0	100.0	100.0	100.0	100.0
Wage and salary disbursements	68.9	72.7	72.8	74.1	67.4
Farm	1.3	0.8	0.4	0.3	0.4
Mining	1.5	0.9	0.7	0.6	0.7
Contract construction	3.6	4.0	4.7	4.2	3.9
Manufacturing	15.1	15.8	15.6	15.5	21.3
Wholesale and retail trade	10.0	10.6	10.4	10.1	11.0
Fin., ins., and real estate	2.2	2.7	2.8	2.8	3.2
Transportation, communications, and public utilities	6.5	6.3	5.3	5.0	5.0
Services	5.6	7.1	7.5	7.7	8.2
Government	22.8	24.3	25.3	27.8	13.4
Federal,civilian	10.4	11.4	11.8	12.1	3.4
Federal,military	8.2	7.0	6.8	7.9	2.1
State and local	4.2	6.0	6.7	7.8	7.8
Other industries	0.2	0.1	0.1	0.1	0.1
Other labor income	1.4	2.5	3.0	2.9	3.5
Proprietors' income	15.0	9.7	8.2	6.9	9.3
Farm	6.4	2.6	1.9	1.2	2.1
Nonfarm	8.6	7.0	6.3	5.6	7.2
Property income	10.0	11.5	12.2	12.0	14.4
Transfer payments	6.2	6.2	6.6	7.5	8.6
Less: personal contributions for social insurance	1.5	2.5	2.7	3.4	3.3

Note: Details may not add to totals due to rounding.

Source: Survey of Current Business, Vol. 49, No. 8 (August, 1969) unpublished data from the U. S. Department of Commerce, Office of Business Economics.

and salary payments represent a larger percentage of income in Virginia (74.1 per cent) than nationally (67.4 per cent).

The composition of Virginia's personal income has changed significantly in recent years. Since 1950, wage and salary payments are a much more important source of income having moved from 68.9 per cent to 74.1 per cent of the total. The relative decline of agriculture was the major reason for this change as people switched away from operating their own farms to jobs paying wages and salaries. Proprietors' farm income fell from 6.4 per cent of income in 1950 to 1.2 per cent in 1968.

Another development was the growth of government as a source of income. Already big in 1950, it has become even larger. The gains were due to much larger payments by federal civilian government and State and local government. The relative importance of federal military wage and salary payments was less in 1968 than in 1950, but was greater than in many of the intervening years. The Korean War made military payments in 1950 extra large, just as the Vietnam War is now affecting current outlays.

Several important types of revenue--individual income taxes and sales taxes, particularly--bear a close relationship to personal income. Thus, projections of personal income are needed to make revenue projections. The method of projecting income was as follows: Since Virginia personal income has a close correspondence with gross national product (GNP), an elasticity measure was computed for the 1957-58 to 1967-68 period. It showed that for each 1 per cent gain in GNP, personal income rose by about 1.2 per cent. The elasticity measure was applied to projections of GNP in order to develop figures for personal income. In making projections of GNP it was broken into two elements--real growth (an increase in actual output) and growth due to higher prices. At the present time, we are experiencing a slowdown in real growth and a large amount of inflation. In our projections we have assumed a continued decline in real growth through the second quarter of 1970. Then the rate of real growth will gradually increase until it reaches a long-term rate of 4.4 per cent in 1972. Price inflation is assumed to have reached its peak rate in the second quarter of 1969. In the future it will slowly subside until it arrives at a long-term growth rate of 2.6 per cent in 1972. When the figures for real growth and price increases are combined, we have projections for GNP in current dollars. On the basis of the preceding assumptions, the rate of growth in GNP will begin to decline in the third quarter of 1969 and will reach a low of 5 per cent (annual rate) in the second and third quarters of 1970. From that time it will rise gradually. Beyond 1971 we have projected a secular rate of 7 per cent.

Table 1.5 shows actual Virginia personal income adjusted to fiscal years for 1957-58 to 1968-69 and projections to 1979-80. The projections anticipate growth close to the high rates of the late 1960's.

TABLE 1.5--GROSS NATIONAL PRODUCT AND VIRGINIA PERSONAL INCOME, ACTUAL, 1957-58 TO 1968-69, AND PROJECTED, 1969-70 TO 1979-80

Fiscal Year	Gross National Product (Current Dollars) Amount (Billions)	Gross National Product (Current Dollars) Percent Change from Preceding Year	Virginia Personal Income (Current Dollars) Amount (Millions)	Virginia Personal Income (Current Dollars) Percent Change from Preceding Year	% Change Va. income ÷ % Change GNP
1957-58	$ 440.2		$ 6,471		
1958-59	469.2	6.6	6,794	5.0	0.76
1959-60	495.6	5.6	7,166	5.5	0.98
1960-61	506.5	2.2	7,558	5.5	2.50
1961-62	541.7	6.9	8,112	7.3	1.06
1962-63	574.5	6.1	8,716	7.4	1.21
1963-64	611.6	6.5	9,446	8.4	1.29
1964-65	655.6	7.2	10,317	9.2	1.28
1965-66	717.5	9.4	11,206	8.6	0.91
1966-67	771.1	7.4	12,233	9.2	1.24
1967-68	827.6	7.3	13,439	9.9	1.35
1968-69	900.6	8.8	14,790	10.1	1.15
Projections					
1969-70	964	7.0	16,032	8.4	1.2
1970-71	1,017	5.5	17,090	6.6	1.2
1971-72	1,084	6.6	18,440	7.9	1.2
1972-73	1,160	7.0	19,989	8.4	1.2
1973-74	1,241	7.0	21,668	8.4	1.2
1974-75	1,328	7.0	23,448	8.4	1.2
1975-76	1,421	7.0	25,461	8.4	1.2
1976-77	1,520	7.0	27,600	8.4	1.2
1977-78	1,627	7.0	29,918	8.4	1.2
1978-79	1,741	7.0	32,431	8.4	1.2
1979-80	1,862	7.0	35,155	8.4	1.2

Sources: GNP historical data: Economic Indicators (August, 1969), p. 4; Survey of Current Business, Volume 49, No. 7 (July, 1969), p. S-1, Volume 48, No. 7 (July, 1968), p. 19, Volume 47, No. 7 (July, 1967), p. 13; U. S., Department of Commerce, The National Income and Product Accounts of the United States, 1929-1965, A Supplement to the Survey of Current Business (Washington: Government Printing Office, 1966), pp. 14-15; Personal income historical data: Survey of Current Business, Volume 49, No. 8 (August, 1969), p. 14, Volume 49, No. 7 (July, 1969).

State and Local Government Finances

Although the major thrust of this report is to consider the finances of the State government, the analysis would be incomplete if it excluded the fiscal interrelationships between the State government and its local subdivisions. Also, the federal government is a major source of funds for State and local government, and so it must be included.

State governments differ in their responsibilities (e.g., in some states the state government bears the brunt of financing schools and highways; in others these functions are mainly the responsibility of local governments). Because of the diversity of state government functions, comparisons of revenue burdens involve problems similar to comparing apples and pears. To get around this problem, it is best to compare combined revenue burdens of state and local governments.

In 1967-68, general revenues of all Virginia governments (State and local) from their own sources represented 12.1 per cent of personal income compared with the national average of 13.4 per cent.1/ If a more recent figure for Virginia were available, it would be higher than the measure for 1967-68, since that year did not show the full impact of present sales and use taxes. On July 1, 1968, the rate of the State tax was increased from 2 per cent to 3 per cent.

Since 1957-58, a year chosen for convenience because it allows a backward glance stretching over a decade, Virginia State and local government revenues have risen sharply. In 1957-58, State and local government revenues from Virginia sources represented 9.2 per cent of total personal income. Since then

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1/ Source: U.S., Bureau of the Census, Governmental Finances in 1967-68, GF68, No.5 (Washington: Government Printing Office, 1969, p. 50.

there has been a steady rise in the figure (see Table 1.6 and Chart 1.1).

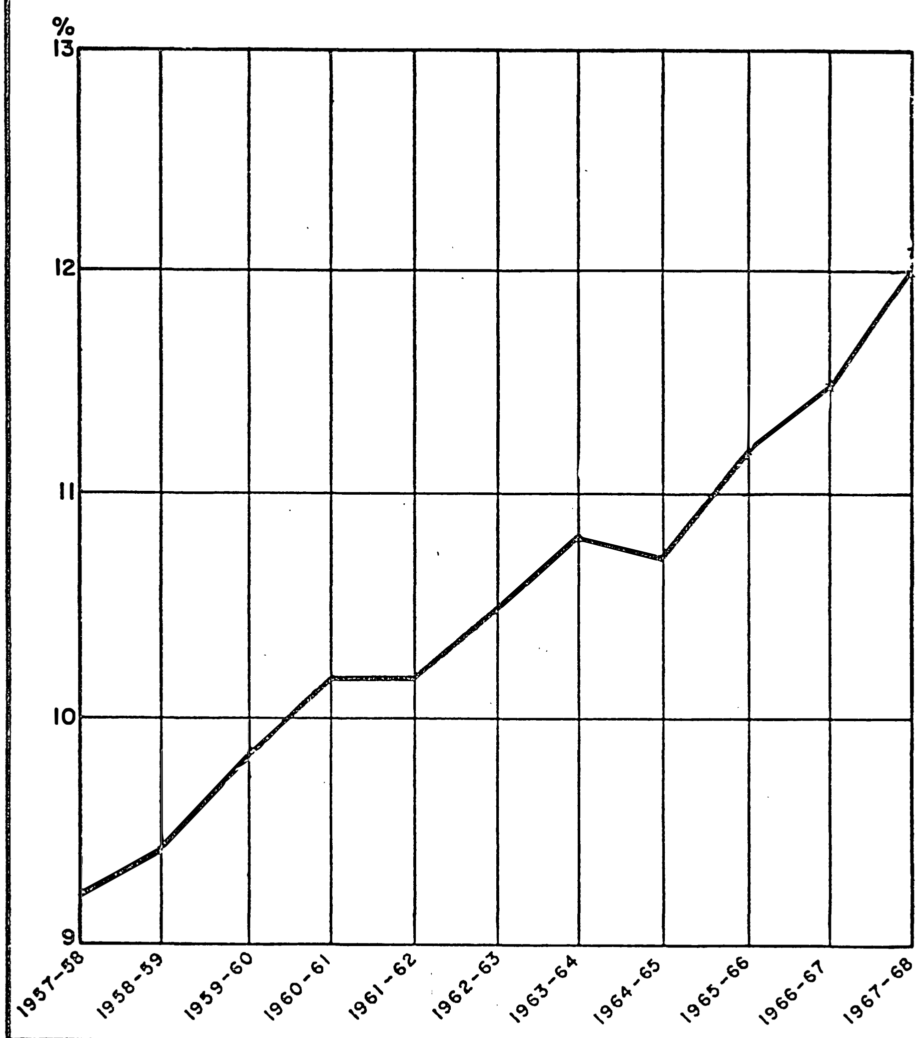
TABLE 1.6--VIRGINIA STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES AS A PERCENTAGE OF PERSONAL INCOME, FISCAL YEARS 1956-57 TO 1967-68[a]

Fiscal Year	General Revenue from Own Sources ($Mil.)	Personal Income ($Mil.)	General Revenue from Own Sources as a % of Personal Income
1957-58	$ 583.1	$ 6,349	9.2
1958-59	620.7	6,593	9.4
1959-60	685.7	6,994	9.8
1960-61	745.2	7,339	10.2
1961-62	792.3	7,776	10.2
1962-63	886.3	8,448	10.5
1963-64	968.4	8,984	10.8
1964-65	1,059.4	9,909	10.7
1965-66	1,203.7	10,725	11.2
1966-67	1,343.8	11,688	11.5
1967-68	1,536.8	12,778	12.0

a/ Personal income for the whole year which represents the first part of the fiscal year, e.g., personal income for calendar year 1967 is compared with general revenue for fiscal year 1967-68.

Sources: U.S., Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office) and Census of Governments: 1962 Historical Statistics on Governmental Finances and Employment, Vol. VI, No. 4 (Washington: U. S. Government Printing Office, 1964); Survey of Current Business, Vol. 49, No. 8 (August, 1969), p. 14.

CHART 1.1--VIRGINIA STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES AS A PERCENTAGE OF PERSONAL INCOME, FISCAL YEARS 1957-58 TO 1967-68



Source: Table 1.6

How does the burden of financing Virginia State and local governments compare with other states? Before this question can be answered, it is necessary to arrive at a means for measuring burden. This report uses two widely used approaches--per capita revenues, and revenues per $1,000 of personal income. Both measures probably understate the current effort being made in Virginia due to the use of 1967-68 figures which do not reflect the full impact of the sales and use tax at its current rate.

Per Capita Revenue

Virginia's general revenue from its own sources[1/] was 79.4 per cent of the national average in 1967-68 which placed it thirty-ninth in rank (see Table 1.7). Although the State's national position was low, when compared with neighboring states, Virginia's per capita revenue was higher than in Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and West Virginia. Only Maryland and the District of Columbia exceeded Virginia.

The preceding measure was of general revenue which includes other revenues in addition to taxes. Table 1.8 shows Virginia's rank for per capita taxes. The foregoing remarks about the State's relative position are for the most part unchanged. The State's figure was 79.6 per cent of the national average and it ranked fortieth. Compared with neighboring states, only Maryland and the District of Columbia had higher per capita taxes than Virginia.

1/ All revenue except utility revenue, liquor store revenue, insurance-trust revenue, and transfers from the federal government.

TABLE 1.7--PER CAPITA AMOUNTS OF STATE AND LOCAL GENERAL REVENUES FROM OWN SOURCES, FISCAL YEAR 1967-68

	State	Amount	Per cent of U. S. Average
1	Alaska	$623.39	148.2
2	New York	601.98	143.0
3	California	587.47	139.6
4	Nevada	569.65	135.4
5	Wyoming	558.26	132.6
6	Hawaii	514.25	122.2
7	Minnesota	498.08	118.4
8	Washington	495.87	117.8
9	North Dakota	485.49	115.4
10	Delaware	483.40	114.9
11	Wisconsin	467.01	111.0
12	Michigan	460.74	109.5
13	Massachusetts	456.39	108.4
14	Colorado	453.82	107.8
15	Iowa	448.42	106.6
16	Montana	436.17	103.6
17	Maryland	435.68	103.6
18	District of Columbia	433.53	103.0
19	Oregon	428.85	101.9
20	Arizona	423.81	100.7
21	Connecticut	421.01	100.0
22	Vermont	420.44	99.9
23	South Dakota	418.65	99.5
24	New Mexico	417.50	99.2
25	Nebraska	416.60	99.0
26	New Jersey	414.20	98.4
27	Kansas	406.09	96.5
28	Idaho	399.81	95.0
29	Utah	396.51	94.2
30	Illinois	392.37	93.2
31	Rhode Island	388.66	92.4
32	Indiana	386.10	91.8
33	Florida	383.47	91.1
34	Louisiana	380.54	90.4
35	Oklahoma	373.04	88.6
36	Pennsylvania	358.82	85.2
37	Ohio	355.36	84.4
38	Missouri	335.60	79.7
39	VIRGINIA	334.30	79.4
40	New Hampshire	332.88	79.1
41	Georgia	331.65	78.8
42	Maine	326.67	77.6
43	Texas	322.76	76.7
44	West Virginia	316.55	75.2
45	Kentucky	302.51	71.9
46	North Carolina	298.94	71.0
47	Tennessee	289.55	68.8
48	Alabama	280.80	66.7
49	Mississippi	272.97	64.8
50	South Carolina	263.19	62.6
51	Arkansas	252.35	60.0
Exhibit:			
	United States average	420.71	100.0
	Median state	414.20	...

Source: U. S., Bureau of the Census, Government Finances in 1967-1968, Series GF68-No. 5 (Washington: Government Printing Office, 1969), p. 45.

TABLE 1.8--PER CAPITA AMOUNTS OF STATE AND LOCAL TAXES, FISCAL YEAR 1967-68

Rank	State	Amount	Per cent of U. S. Average
1	New York	$503.49	148.9
2	California	488.46	144.4
3	Nevada	429.05	126.9
4	Hawaii	420.79	124.4
5	Wyoming	405.44	119.9
6	Massachusetts	396.23	117.2
7	Minnesota	391.70	115.8
8	Wisconsin	385.80	114.1
9	Washington	380.64	112.6
10	District of Columbia	375.96	111.2
11	Michigan	366.70	108.4
12	Maryland	357.55	105.8
13	Connecticut	356.59	105.4
14	Iowa	355.80	105.2
15	Colorado	352.41	104.2
16	Vermont	350.25	103.6
17	New Jersey	348.76	103.2
18	Delaware	348.04	102.9
19	Montana	339.75	100.4
20	Alaska	334.97	99.0
21	Arizona	332.09	98.2
22	Rhode Island	331.22	98.0
23	Illinois	330.10	97.6
24	South Dakota	326.75	96.6
25	Nebraska	324.43	96.0
26	Kansas	322.00	95.2
27	Oregon	318.94	94.3
28	North Dakota	316.05	93.4
29	Idaho	315.49	93.3
30	Indiana	304.59	90.0
31	Utah	300.95	89.0
32	Pennsylvania	298.46	88.2
33	Florida	288.65	85.4
34	New Mexico	282.35	83.5
35	Louisiana	280.36	82.9
36	Ohio	276.82	81.8
37	Maine	276.38	81.7
38	Missouri	271.67	80.4
39	New Hampshire	270.61	80.0
40	VIRGINIA	268.96	79.6
41	Oklahoma	266.25	78.8
42	West Virginia	249.00	73.6
43	Georgia	244.70	72.4
44	Texas	242.92	71.8
45	North Carolina	236.52	70.0
46	Tennessee	227.31	67.2
47	Kentucky	227.01	67.1
48	Alabama	204.63	60.5
49	Mississippi	204.41	60.4
50	South Carolina	201.35	59.6
51	Arkansas	199.60	59.0
Exhibit:			
	United States average	338.09	100.0
	Median state	322.00	...

Source: U. S., Bureau of the Census, Government Finances in 1967-1968, Series GF68-No. 5 (Washington: Government Printing Office, 1969), p. 45.

Revenue Per $1,000 of Personal Income

The above comparisons have used per capita amounts and do not take into account economic ability to pay. A popular device for relating revenues to ability is to compute revenues per $1,000 of personal income. Such a measure adjusts for the fact that Virginia's per capita income is about 10 per cent below the national average.

Revenues from its own sources were 89.8 per cent of the national average in 1967-68 and the State ranked forty-first (see Table 1.9). Among neighboring states Virginia ranked lowest with the exception of the District of Columbia.

A similar measure using taxes rather than all revenues shows a slightly different picture. As shown in Table 1.10, Virginia's tax load of $97.21 per $1,000 of personal income was 89.9 per cent of the national average and placed it thirty-sixth in rank. Among neighboring states Virginia was lower than Georgia, Maryland, North Carolina,and West Virginia.

Intergovernmental Relationships

State Government finances cannot be analyzed in a vacuum. In our nation we have three broad levels of government--federal, state, and local--and what happens on one level is bound to have an impact on the others.

Chart 1.2 shows the sources of general revenue for the State Government and for all local governments in fiscal year 1967-68. First, consider the State Government. About three-fourths of its

TABLE 1.9--STATE AND LOCAL GENERAL REVENUES FROM OWN SOURCES PER $1,000 OF PERSONAL INCOME, FISCAL YEAR 1967-68

Rank	State	Amount	Per cent of U. S. Average
1	North Dakota	$190.96	142.0
2	Wyoming	185.89	138.2
3	New Mexico	170.59	126.8
4	Alaska	169.79	126.2
5	Hawaii	165.66	123.2
6	Minnesota	162.69	121.0
7	Nevada	162.19	120.6
8	California	160.84	119.6
9	Arizona	159.26	118.4
10	New York	158.21	117.6
11	Louisiana	157.88	117.4
12	South Dakota	157.62	117.2
13	Idaho	156.59	116.4
14	Montana	155.89	115.8
15	Utah	153.72	114.2
16	Vermont	150.61	111.9
17	Colorado	150.12	111.6
18	Washington	149.43	111.0
19	Wisconsin	148.82	110.6
20	Iowa	143.99	107.0
21	Mississippi	143.56	106.7
22	Oklahoma	142.45	105.9
23	Oregon	140.66	104.6
24	Florida	138.13	102.6
25	Michigan	138.13	102.6
26	West Virginia	136.14	101.2
27	Delaware	135.50	100.7
28	Nebraska	135.38	100.6
29	Kansas	134.35	99.8
30	Georgia	132.80	98.7
31	Alabama	130.79	97.2
32	Maryland	129.96	96.6
33	Massachusetts	129.26	96.0
34	Kentucky	126.25	93.8
35	North Carolina	125.13	93.0
36	Maine	123.71	92.0
37	Tennessee	123.57	91.8
38	South Carolina	123.17	91.5
39	Arkansas	122.93	91.4
40	Indiana	122.42	91.4
41	VIRGINIA	120.82	89.8
42	Texas	118.74	88.2
43	Rhode Island	118.48	88.0
44	New Jersey	114.13	84.8
45	Pennsylvania	113.38	84.2
46	Missouri	112.72	83.8
47	Ohio	111.99	83.2
48	New Hampshire	111.59	83.0
49	Connecticut	107.31	79.8
50	Illinois	105.40	78.4
51	District of Columbia	105.13	78.2
Exhibit:			
	United States average	134.51	100.0
	Median state	136.14	

Source: U. S., Bureau of the Census, Government Finances in 1967-1968, Series GF68-No. 5 (Washington: Government Printing Office, 1969), p. 50.

TABLE 1.10--STATE AND LOCAL TAXES PER $1,000 OF PERSONAL INCOME, FISCAL YEAR 1967-68

Rank	State	Amount	Per cent of U. S. Average
1	Hawaii	$135.56	125.4
2	Wyoming	135.00	124.8
3	California	133.76	123.7
4	New York	132.33	122.4
5	Minnesota	127.94	118.4
6	Vermont	125.47	116.0
7	Arizona	124.79	115.4
8	North Dakota	124.31	115.0
9	Idaho	123.57	114.3
10	South Dakota	123.02	113.8
11	Wisconsin	122.95	113.7
12	Nevada	122.16	113.0
13	Montana	121.42	112.3
14	Utah	116.68	107.9
15	Colorado	116.57	107.8
16	Louisiana	116.32	107.6
17	New Mexico	115.37	106.7
18	Washington	114.70	106.1
19	Iowa	114.24	105.6
20	Massachusetts	112.22	103.8
21	Michigan	109.94	101.7
22	Mississippi	107.50	99.4
23	West Virginia	107.09	99.0
24	Maryland	106.65	98.6
25	Kansas	106.53	98.5
26	Nebraska	105.42	97.5
27	Maine	104.67	96.8
28	Oregon	104.61	96.8
29	Florida	103.97	96.2
30	Oklahoma	101.67	94.0
31	Rhode Island	100.97	93.4
32	North Carolina	99.01	91.6
33	Georgia	97.98	90.6
34	Delaware	97.56	90.2
35	Arkansas	97.23	89.9
36	VIRGINIA	97.21	89.9
37	Tennessee	97.01	89.7
38	Indiana	96.58	89.3
39	New Jersey	96.10	88.8
40	Alabama	95.31	88.1
41	Kentucky	94.74	87.6
42	Pennsylvania	94.31	87.2
43	South Carolina	94.23	87.2
44	Missouri	91.25	84.4
45	Alaska	91.23	84.4
46	District of Columbia	91.17	84.3
47	Connecticut	90.89	84.0
48	New Hampshire	90.72	83.9
49	Texas	89.37	82.6
50	Illinois	88.67	82.0
51	Ohio	87.24	80.7
Exhibit:			
	United States average	108.10	100.0
	Median state	105.42	...

Source: U. S., Bureau of the Census, Government Finances in 1967-1968, Series GF68-No. 5 (Washington: Government Printing Office, 1969), p. 50.

revenue is raised from its own sources--State imposed taxes, institutional charges, and miscellaneous fees and receipts. Nearly all of the remaining funds come from the federal government.

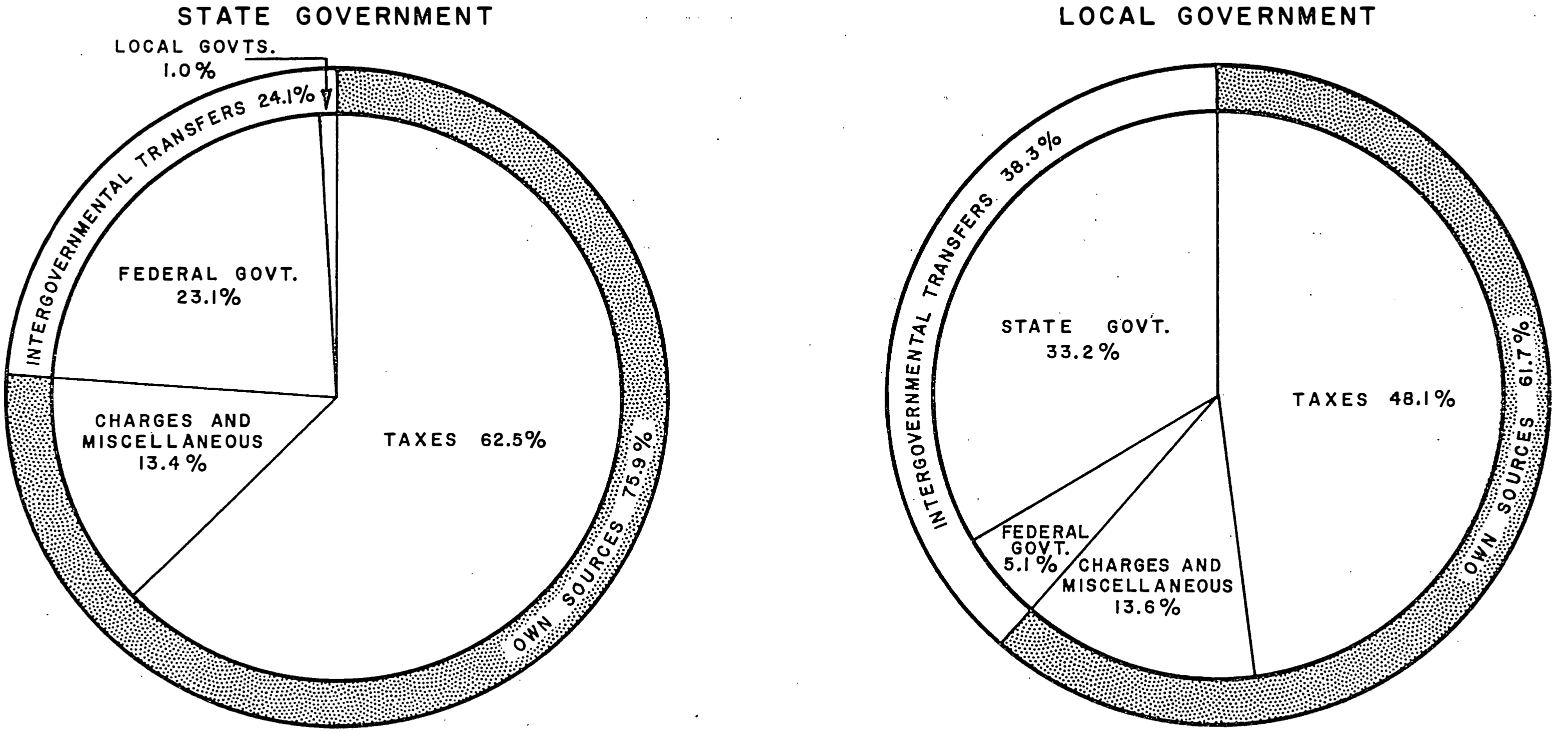
The local governments present a different picture. Their own sources provide 61.7 per cent of general revenue, which is lower than the case for the State Government. The federal government is a relatively small source of direct aid, accounting for only 5.1 per cent of total revenue. The outstanding characteristic of local finances is their heavy dependence on State Government transfers, either in the form of shared revenues or cash transfers. In 1967-68, 33.2 per cent of local government general revenue came from the State Government.

Most of the State aid--slightly over three-fourths in fiscal year 1967-68--is spent for one function, education. The remainder is primarily devoted to public welfare, highways, and general local government support. A breakdown of where the money went in 1966-67 (the latest year for which data are available) is shown in Table 1.11.

The above analysis is limited to cash flows; it does not cover performance of services which can relieve a level of government from financial burdens it would otherwise bear. For example, the State Department of Health now provides local health services to many localities which formerly paid for such services out of their own sources.

To provide some perspective on the scope of State Government assistance to localities, we can focus on three major governmental functions--education, highways, and welfare--which represent nearly seven-tenths of all State and local government combined general expenditures (see Table 1.12).

CHART I.2--MAJOR SOURCES OF REVENUE OF THE STATE AND LOCAL GOVERNMENTS IN VIRGINIA, 1967-68



State Govt. ($ mil.)		Local Govt. ($ mil.)
1,171.2	Total general revenue	1,050.3
888.9	Own sources	647.9
731.7	Taxes	504.8
157.2	Charges and miscellaneous	143.1
282.3	Intergovernmental transfers	402.4
270.1	Federal Government	53.4
...	State Government	349.0
12.2	Local Governments	...

Source: U.S. Bureau of the Census, Governmental Finances in 1967-68, GF 68, No. 5 (Washington: Government Printing Office, 1969), p. 33.

TABLE 1.11--PAYMENTS OF VIRGINIA STATE GOVERNMENT TO LOCAL GOVERNMENTS IN 1966-67

Item	Amount ($1,000)
(Some minor items are omitted)	
GENERAL LOCAL GOVERNMENT SUPPORT (Cities and counties)	
1. Alcoholic beverage monopoly profits. After certain deductions, 2/3 of profits distributed to cities and counties in proportion to population:	
Cities.................	5,640
Counties................	5,966
2. Alcoholic beverage sales tax. Of proceeds from wine excise tax, 2/3 distributed to cities and counties in proportion to population:	
Cities.................	319
Counties................	465
3. Poll tax. Of proceeds, 1/3 distributed to city or county of origin:	
Cities.................	215
Counties................	375
4. Fees. Of State revenue from excess fees of certain city and county officials, 2/3 distributed to city or county of origin:	
Cities.................	110
Counties................	339
5. Motor vehicle carriers rolling stock (property) tax. Proceeds distributed on basis of number of vehicle-miles operated by taxpayers in each city or county:	
Cities.................	110
Counties................	194
EDUCATION (Cities and counties)	
1. Basic school fund. Amount appropriated; distributed at specified rate per teaching position as determined by average daily attendance:	
Cities.................	52,883
Counties................	94,510
2. Transportation. Amount appropriated; distributed 40 percent in proportion to operating mileage of school buses, 40 percent in proportion to average daily attendance of pupils transported, and 20 percent in proportion to number of buses operated:	
Cities.................	893
Counties................	6,799
3. Discretionary school aid. Amount appropriated; distributed on basis of need to school systems financially unable to maintain a 9 months school term:	
Cities.................	25
Counties................	101
4. Supervision. Amount appropriated; distributed in fixed ratios to local expenditure for salaries of certain supervisory personnel and supervising principals within the limits of the State-prescribed salary schedules for these positions:	
Cities.................	790
Counties................	1,282
5. Special and adult education. Amount appropriated; distributed in fixed ratio to local expenditure:	
Cities.................	1,672
Counties................	1,252
6. Sick leave. Amount appropriated; distributed in fixed ratio to local expenditure for salaries of substitute teachers, subject to a maximum amount per day per teacher employed:	
Cities.................	365
Counties................	493
EDUCATION--Continued	
7. Textbooks. Amount appropriated; distributed at specified rate per pupil enrolled:	
Cities.................	526
Counties................	798
8. Sales tax. Of proceeds, 1/2 distributed to cities and counties in proportion to school age population:	
Cities.................	11,823
Counties................	20,689
9. State scholarship fund. Amount appropriated; distributed at a specified rate per pupil for reimbursement of tuition costs for pupils attending private schools or public schools outside area of residence:	
Counties................	2,218
10. Vocation education. State and Federal funds distributed in fixed ratio to local expenditure for approved programs (Federal aid revenue, $7,146 thousand):	
Cities.................	4,460
Counties................	6,249
11. Adult basic education. Federal funds distributed in fixed ratio to local expenditure:	
Counties................	382
12. Manpower development and training. Federal funds distributed for approved programs:	
Cities.................	252
Counties................	583
13. Improvement of science, mathematics, foreign language, and other critical subjects. Federal funds distributed in direct ratio to approved local expenditure:	
Cities.................	
Counties................	
	1,366
	2,257
14. Guidance and counseling programs. State and Federal funds distributed as reimbursement of approved local expenditure at a specified maximum amount per guidance counselor:	
Cities.................	
Counties................	
15. School lunch and school milk programs. Federal funds distributed as reimbursement of local expenditure, subject to a specified maximum amount per unit of food served:	
Cities.................	1,792
Counties................	3,997
16. Aid for low-income areas. Federal funds distributed at rate of 1/2 State average per pupil expenditure for each eligible pupil:	
Cities.................	10,180
Counties................	19,164
17. School library resources, textbooks, etc. Federal funds distributed on basis of enrollment:	
Cities.................	
Counties................	
18. Federal forest reserve revenue. Of Federal revenue from national forests within the State, 25 percent is returned to the State; 1/4 of State's share is redistributed to counties in which such forests are located, for schools:	
Counties................	105
19. Other educational aids. State and Federal funds for various programs, distribution depending on program concerned:	
Cities.................	1,001
Counties................	2,211

TABLE 1.11 (Continued)

Item	Amount ($1,000)
HIGHWAYS (Cities and counties)	
. Motor fuel sales tax. Amount based on motor fuel sales tax oceeds received by county in 1931 plus proportionate share of icrease in proceeds since that date, distributed to two counties lecting to maintain their own local highways:	
Counties[1]	3,006
. Highway maintenance and construction by cities. Amounts opropriated; distributed to cities having population over 3,500 specified rate per mile of primary State highway within city mits; and specified amount per mile for streets not part of ie primary highway system distributed to all cities:	
Cities	13,129
. Federal aid. Portion of Federal highway aid distributed to ecified counties:	
Counties[2]	552
PUBLIC WELFARE (Cities and counties)	
. Old-age assistance. State and Federal funds distributed in ixed ratio to local expenditure (Federal aid revenue, $8,530 iousand):	
Cities	3,092
Counties	3,596
. Aid to dependent children. State and Federal funds distrib- ed in fixed ratio to local expenditure (Federal aid revenue, 13,315 thousand):	
Cities	10,439
Counties	6,492
. Aid to the blind. State and Federal funds distributed in ixed ratio to local expenditure (Federal aid revenue, $842 iousand):	
Cities	468
Counties	406
. Aid to disabled. State and Federal funds distributed in ixed ratio to local expenditure (Federal aid revenue, $4,650 iousand):	
Cities	2,708
Counties	2,270
. Medical assistance for the aged. State and Federal funds istributed in fixed ratio to local expenditure:	
Cities	500
Counties	697
. Hospital and medical care of indigents. Amount appropri- ted; distributed in fixed ratio to local expenditure, but not o exceed a specified maximum per patient per day:	
Cities	1,231
Counties	604
. General relief. Amount appropriated; distributed in fixed atio to local expenditure for general relief:	
Cities	1,166
Counties	588
. Care of children in foster homes. Amount appropriated; dis- ributed in fixed ratio to local expenditure:	
Cities	2,323
Counties	1,385
. Welfare administration and services. Amount appropriated; istributed in fixed ratio to local expenditure:	
Cities	495
Counties	358
HOSPITALS (Cities and counties)	
Hospital construction. Federal funds distributed in fixed ratio to local expenditure for approved projects:	
Cities	993
Counties	216
HEALTH (Cities and counties)	
1. Local health services. Amount appropriated; distributed as partial reimbursement of approved local expenditure:	
Cities	2,247
Counties	121
2. Mosquito control. Amount appropriated; distributed in fixed ratio to local expenditure up to a specified maximum amount per year:	
Cities	32
Counties	13
MISCELLANEOUS AND COMBINED PURPOSES (Cities, counties, and special districts)	
1. Sheriffs and city sergeants. Amount appropriated; distributed in fixed ratio to local expenditure for salaries and expenses of sheriffs and sergeants:	
Cities	1,350
Counties	3,304
2. Reimbursement, detention homes. Amount appropriated; distributed in fixed ratio to local expenditure for salaries and as reimbursement of nonpersonal services expenditure:	
Cities	643
3. Reimbursement, juvenile and domestic relations courts. Amount appropriated; distributed in fixed ratio to certain local expenditures:	
Cities	498
4. County court justices. Amount appropriated; distributed as reimbursement of local expenditure for salaries and expenses of ~~county court~~ just~~ices~~:	
Counties	1,424
5. Airport construction. Federal funds distributed in fixed ratio to local expenditure for approved projects:	
Cities	564
6. Library aid. State funds, distributed (a) for establishing a library, in proportion to population at specified rate per capita, subject to specified maximum amount per county; and (b) in fixed ratio to local expenditure in bringing services up to prescribed standards; and Federal funds distributed in fixed ratio to local expenditure, for improving rural library services:	
Cities	461
Counties	661
7. Parks. Amount appropriated; distributed to Breaks Interstate Park Commission, for development of parks:	
Special districts	24
8. Peninsula Ports Authority. Amount appropriated; distributed for acquisition, development, and operation of port facilities:	
Cities	758

[1]Arlington and Henrico Counties only. [2]Henrico County only.

Source: U.S., Bureau of the Census, Census of Governments: 1967: State Payments to Local Governments, Vol. 6, No. 4 (Washington: Government Printing Office, 1968), pp. 100-101.

TABLE 1.12--CASH TRANSFERS TO LOCAL GOVERNMENTS IN VIRGINIA, 1967-68

(Millions of Dollars)

	Total Local Government Direct General Expenditure	State Cash Transfers[a/]		Federal Cash Transfers	
		Amount	% of Local Expenditure for Function	Amount	% of Local Expenditure for Function
All Functions	$1,138.7	$387.5[b/]	34.0	$53.4	4.7
Education	635.6	296.9	46.7	n.a.	n.a.
Highways	48.6	17.6	36.2	n.a.	n.a.
Welfare	68.9	43.9	63.7	n.a.	n.a.

n.a. - not available

a/ Includes federal funds transferred to the State Government and then transferred to local governments.

b/ Differs from $349.0 million shown in Chart 1.2 due to differences in the end month of fiscal years of local governments, sampling problems, and accounting differences. Source: letter from Sherman Landau, Acting Chief, Governments Division, Bureau of the Census.

Sources: U. S., Bureau of the Census, Governmental Finances in 1967-68, GF69, No. 5 (Washington: Government Printing Office, 1969), pp. 33, 38; U. S., Bureau of the Census, State Government Finances in 1968, GF68, No. 3 (Washington: Government Printing Office, 1969), p. 39.

Education, the largest single category of State-local expenditures, is composed of amounts spent for higher education and for elementary and secondary education. Higher education is primarily a State Government function and absorbs the bulk of State direct outlays1/ for education. Elementary and secondary education is a combined function of local governments and the State. In 1967-68 transfers from the State provided 46.7 per cent of the funding of local public schools.

Highways are primarily a State function. Of total direct expenditure in 1967-68, 86 per cent was borne by the State Government.2/ In addition, the State transferred funds to localities which perform their own construction and maintenance. Municipalities of 3,500 or more population receive annual payments of $10,000 per mile for maintenance of urban extensions of primary routes. For streets not a part of the primary system but meeting certain engineering standards, they receive $1,100 per mile. The State also pays 85 per cent of the municipalities' new construction costs. Of the total amount spent by localities on streets and highways in 1967-68, State aid covered 36.2 per cent of the cost.

Most direct expenditures for welfare are made by local governments, but the majority of the funding of local outlays is from the State Government. In 1967-68, nearly two-thirds of local expenditures were financed directly by the State Government or in its capacity as an agent for federal funds.

1/ The terms "direct outlays" and "direct expenditures" refer to all payments other than intergovernmental payments.

2/ U. S., Bureau of the Census, Governmental Finances in 1967-68, GF68, No. 5, (Washington: Government Printing Office, 1969), p. 38.

The trend of Virginia's intergovernmental fiscal relationships from 1957-58 to 1967-68 is shown in Table 1.13 which breaks down the sources of revenue by the originating level of government before cash transfers among governments and then shows the level of government which is the final recipient after intergovernmental transfers. Financing of welfare payments provides an example of how the table is organized. Certain amounts used for welfare payments are originally collected by the federal government, transferred to the State Government, and then transferred once again by the State Government to local governments. In this case, the originating level of government is the federal government while the final recipient level is the local government.

What has happened over the last decade is clear. The federal government has become a more important source of revenue for the State and local governments. In 1957-58 it provided 10.9 per cent of the State and local government revenues in Virginia. In 1967-68 it provided 17.3 per cent. Most of the money received from the federal government goes to the State Government. In 1967-68, the State's share amounted to 83 per cent.[1/] A portion of the federal funds received at the State level is later transferred to local governments. Because the money is pooled with funds from State sources, there is some difficulty in estimating the exact percentage of federal funds transferred by the State Government to the localities, but it is in the neighborhood

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1/ Derived from Chart 1.2, p. 21.

TABLE 1.13--ORIGIN AND ALLOCATION, BY LEVEL OF GOVERNMENT, OF GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS IN VIRGINIA, 1957-58 to 1967-68

Fiscal Year	Percentage Distribution: By Originating Level of Government (prior to State-Local and Local-State Transfers)				By Final Recipient Level of Government (After State-Local and Local-State Transfers)		
	Total	Federal	State	Local	Total	State	Local
1957-58	100.0	10.9	48.0	41.1	100.0	38.8	61.2
1958-59	100.0	13.5	46.6	39.9	100.0	40.5	59.5
1959-60	100.0	15.8	44.4	39.7	100.0	40.4	59.6
1960-61	100.0	14.1	48.0	37.9	100.0	42.0	58.0
1961-62	100.0	16.3	46.7	37.0	100.0	43.1	56.9
1962-63	100.0	16.4	47.0	36.6	100.0	44.1	55.9
1963-64	100.0	17.6	45.5	36.9	100.0	44.1	55.9
1964-65	100.0	20.2	44.0	35.8	100.0	45.0	55.0
1965-66	100.0	19.2	44.0	36.8	100.0	44.2	55.8
1966-67	100.0	18.1	46.7	35.0	100.0	43.8	56.1
1967-68	100.0	17.3	47.7	34.8	100.0	44.1	55.8

Note: Details may not add to totals due to rounding.

Source: U. S., Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

of 25 per cent.[1/] The State Government's share of total revenues has remained fairly constant. On the other hand, the local share has dropped (from 41.1 per cent in 1957-58 to 34.8 per cent in 1967-68).

The breakdown by final recipient level shows that the local governments account for the majority of general revenues (55.8 per cent in 1967-68), but their share is lower than what it was a decade ago--an indication that even though the State Government is transferring large amounts to local governments, its own direct expenditures are growing faster.

1/ Derived from information in Table 1.12, p. 24.

CHAPTER II

REVENUE SOURCES

Introduction and Findings

This chapter provides historical background on revenues and revenue projections for the future. The purpose of the projections is to give an indication of the amount of general fund revenue and highway fund revenue which will be available in the 1970-72 and later bienniums assuming no change in the present tax structure. Combined with preliminary expenditure information from the Division of the Budget, the revenue data help to give answers to two basic questions:

1. Will there be any need to consider increasing present taxes or imposing new ones?

2. If the answer to the first question is affirmative, then how much additional revenue will be required?

Table 2.1 shows general fund and all other fund revenues for the 1958-60 through 1966-68 bienniums. Table 2.2 provides general fund historical data and projections to 1980, and Table 2.3 gives historical data for revenues not included in the general fund.

The general fund currently represents less than half of total revenues; yet, because it is the focus of most of the legislative appropriations process, the general fund receives a large amount of attention. Moreover, much of the revenue outside of the general fund comes from the federal government or represents State taxes earmarked for highways.

TABLE 2.1--TOTAL REVENUES, 1958-60 TO 1966-68

(Millions of Dollars)

Biennium	General Fund[a/]	Special Funds[b/]	Other Funds[c/]	Total
1958-60	$ 404.2	$ 544.2	$ 17.3	$ 965.8
1960-62	505.2	671.9	19.0	1,196.1
1962-64	616.9	825.9	22.6	1,465.4
1964-66	724.4	1,059.3	28.0	1,811.7
1966-68	1,021.4	1,234.4	32.9	2,288.7

Note: Details may not add to totals due to rounding.

a/ Includes A.B.C. profits, local and state shares.

b/ Excludes sales of alcohol by A.B.C. stores and amounts received by State retirement funds.

c/ Includes reserves for specified purposes and amounts held in suspense and not allocated to funds.

Source: Report of Comptroller Fiscal Year Ended June 30. 1968, Statement Nos. 3 and 4, (Richmond: Department of Accounts, December, 1968).

TABLE 2.2--GENERAL FUND REVENUES, ACTUAL 195[illegible]
(THOUSA[illegible]

Revenue Source	1958-60 Biennium	1960-62 Biennium	% Change 1958-60 to 1960-62	1962-64 Biennium	% Change 1960-62 to 1962-64	1964-66 Biennium	% Change 1962-64 to 1964-66	1966-68 Biennium	% Change 1964-66 to 1966-68
	Actual								
Total General Fund Revenue	404,219	505,205	25.0	616,945	22.1	724,441	17.4	1,021,381	41.0
FROM TAXATION									
TAXES									
Public Service Corporations	40,619	43,947	8.2	48,849	11.2	52,521	7.5	59,076	12.5
Capital Not Otherwise Taxed	16,735	27,879[c]	66.6	18,327[d]	-34.3	16,004[d/e]	-12.7	8,635[d]	-46.0
Individuals and Fiduciaries - Income	148,134[f]	172,292	16.3	256,118[g]	48.7	306,577	19.7	415,019[h]	35.4
Corporations - Income	55,977	59,023	5.4	66,143	12.1	87,658	32.5	98,177	12.0
Insurance Companies - Premiums	22,320	25,742	15.3	30,225	17.4	35,691	18.1	41,601	16.6
Bank Stock	2,164	2,576	19.0	3,025	17.4	3,424	13.2	3,844	12.3
Inheritance	8,287	9,160	10.5	12,325	34.6	15,611	26.7	17,813	14.1
Gift	549	705	28.4	847	20.1	931	9.9	990	6.3
Wills, Suits, Deeds, Contracts	7,249	8,211	13.3	10,605	29.2	13,173	24.2	13,300	1.0
Beer and Beverage State Tax	15,541	20,790[m]	33.8	22,391	7.7	26,876	20.0	24,408[m]	- 9.2
Alcoholic Beverages State Tax	...	19,366[n]	...	23,199	19.8	25,538	10.1	31,611[o]	23.8
Tobacco Products Tax	...	28,900[p]	...	30,217	4.6	31,733	5.0	26,429[q]	-16.7
State Sales and Use Tax[r]	...	...	...	...	...	...	...	190,000[s]	...
Miscellaneous Taxes and Penalties[t]	3,013	3,298	9.4	3,484[u]	5.6	3,165[v]	- 9.2	3,478	9.8
RIGHTS AND PRIVILEGES									
Licenses and Permits	25,873	27,562	6.5	30,294	9.9	33,913	11.9	9,407[w]	-72.3
Corporate Franchise and Charters	2,478	2,741	10.6	2,960	8.0	3,295	11.3	3,796	15.2
OTHER THAN TAXATION									
Institutional Revenues	6,223	7,684	23.5	9,365	21.9	10,713	14.4	12,460[x]	16.3
Interest, Dividends, Rents	4,512	5,299	17.4	6,841	29.1	10,720	56.7	12,520	16.8
Excess and Other Fees from Officers[y]	2,303	2,380	3.3	2,551	7.2	3,550	39.2	3,541	- 0.2
Other Miscellaneous Revenues[z]	6,431	6,763	5.2	7,908	16.9	8,761	10.8	10,087	15.1
A.B.C. Profits[aa]	35,808	30,887[bb/cc]	-13.7	31,271[cc]	1.2	34,586[cc]	10.6	35,190[dd/ee]	1.7
Exhibit									
Earmarked Revenues, Total[gg]	22,783	24,386	7.0	24,547	0.6	24,723	0.7	120,019	385.4
Local share of Wine and Spirits Tax	1,153	1,175	1.9	1,336	13.7	1,512	13.2	1,687	11.6
Local share of Sales and Use Tax	...	...	...	...	...	...	...	95,000	...
Local share of A.B.C. Profits	21,630[hh]	23,211	7.3	23,211	...	23,211	...	23,332	0.5

Note: Details may not add to totals due to rounding.

a/ Includes actual revenues received for fiscal year 1968-69 and staff projections for fiscal year 1969-70.

b/ Includes $13,412 thousand windfall in fiscal year 1968-69 due to public service corporations filing declarations of estimated tax and paying the estimated tax in installments.

c/ Includes $8,816 thousand in accelerated payments of capital tax in fiscal year 1960-61.

d/ Tax rates reduced from 75¢ per $100 of assessed value to 65¢ in fiscal year 1963-64, and 30¢ in fiscal year 1966-67. Effective tax year 1965, money and tangible personal property of certain businesses excluded from definition of capital.

e/ Effective tax year 1966 (fiscal year 1965-66), tobacco inventories can only e taxed once. The loss in revenue for tax year 1966 was $1,045 thousand.

f/ Includes $3,147 thousand windfall in fiscal year 1958-59 due to the elimination of legally deferred payments of individual income tax.

g/ Includes $31,081 thousand windfall due to the withholding of taxes for taxable year 1963, the collections of estimated taxes, and early payments.

h/ Includes $11.5 million in revenue due to holding open books for collections from localities. Revenues were lower by $1.1 million due to an increase in the dependent exemption of $100.

i/ Includes $29,709 thousand windfall due to monthly collections of withheld income taxes in fiscal year 1968-69.

j/ Includes $13,015 thousand windfall in fiscal year 1968-69 due to corporations having income over $100,000 declaring and paying the estimated tax in installments.

k/ Includes $12,345 thousand windfall in fiscal year 1968-69 due to insurance companies filing declarations of estimated tax and paying the estimate in installments.

l/ Includes $886 thousand windfall in fiscal year 1968-69 due to a new tax on deeds of conveyances.

m/ Rate increased July 1, 1960, from 2¢ per 16 oz. container to 2½¢ per 16 oz. container and decreased back to 2¢ as of September 1, 1966.

n/ Tax came into effect second quarter of fiscal year 1960-61.

o/ Includes $3,388 thousand windfall in fiscal year 1967-68 resulting from last quarter of the fiscal year being transferred to the general fund in June, 1968, instead of later.

p/ Tax became effective beginning fiscal year 1960-61.

q/ Tax was decreased from 3¢ to 2½¢ per package, September 1, 1966. The 3¢ rate applied to one-fourth of fiscal year 1966-67.

r/ Total State Sales and Use Tax including local share but excluding local option.

s/ The State Sales and Use Tax became effective September 1, 1966. The rate was raised from 2 percent to 3 percent on July 1, 1968.

TO 1966-68 AND PROJECTED 1968-70 TO 1978-80
F DOLLARS)

.968-70 Biennium a/	% Change 1966-68 to 1968-70	Projection: 1970-72 Biennium	% Change 1968-70 to 1970-72	1972-74 Biennium	% Change 1970-72 to 1972-74	1974-76 Biennium	% Change 1972-74 to 1974-76	1976-78 Biennium	% Change 1974-76 to 1976-78	1978-80 Biennium	% Change 1976-78 to 1978-80
,453,414	42.2	1,664,895	14.6	2,027,724	21.8	2,482,782	22.4	3,054,487	23.0	3,778,720	23.7
78,730 b/	33.2	70,776	-10.1	77,634	9.6	85,267	9.8	93,652	9.8	102,859	9.8
8,623	- 0.1	9,209	6.8	9,664	4.9	10,104	4.9	10,640	4.9	11,163	4.9
555,092 i/	33.8	671,577	21.0	880,294	31.0	1,157,614	31.5	1,521,893	31.4	1,999,963	31.4
120,898 j/	23.1	110,843	- 8.3	128,035	15.5	148,090	15.6	171,011	15.4	196,797	15.0
61,396 k/	47.6	56,947	- 7.2	66,598	16.9	77,889	17.0	91,092	17.0	106,532	16.9
4,224	9.8	4,638	9.8	5,044	8.8	5,450	8.0	5,856	7.4	6,262	6.9
23,729	33.2	29,318	23.6	36,667	25.0	45,858	25.0	57,344	25.0	71,729	25.0
1,240	25.2	1,401	13.0	1,621	15.7	1,874	15.6	2,167	15.6	2,505	15.6
18,110 l/	36.2	21,596	19.2	25,753	19.2	30,708	19.2	36,619	19.2	43,667	19.2
27,067	10.8	29,874	10.4	33,486	12.0	37,593	12.2	42,206	12.2	47,381	12.2
31,525	- 0.2	33,753	7.0	36,858	9.2	40,298	9.3	43,859	8.8	48,170	9.8
27,180	2.8	27,836	2.4	28,459	2.2	29,081	2.2	29,704	2.1	30,326	2.0
396,349 s/	108.6	482,178	21.6	569,794	18.2	672,355	18.0	793,430	18.0	940,147	18.4
3,943	13.4	4,264	8.1	4,612	8.1	4,988	8.2	5,396	8.2	5,836	8.2
6,948	-26.1	7,694	10.7	8,146	5.8	8,625	5.8	9,131	5.8	9,668	5.8
4,297	13.2	4,734	10.2	5,294	11.8	5,922	11.8	6,624	11.8	7,410	11.8
17,626 x/	41.4	26,240	48.8	32,914	25.4	39,106	18.8	46,461	18.8	55,201	18.8
13,306	6.3	13,843	4.0	14,403	4.0	14,984	4.0	15,590	4.0	16,219	4.0
3,770	6.4	4,376	16.0	4,901	12.0	5,474	11.6	6,123	11.8	6,748	10.2
11,812	17.1	12,828	8.6	14,451	12.6	16,281	12.6	18,342	12.6	20,664	12.6
337,549 ff/	6.7	40,970	9.1	43,096	5.2	45,221	4.9	47,347	4.7	49,473	4.4
157,954	31.6	189,059	19.6	219,859	16.2	255,758	16.3	297,647	16.4	348,197	17.0
1,815	7.6	2,038	12.2	2,219	8.8	2,418	9.0	2,634	8.9	2,869	8.9
132,109	39.0	160,710	21.6	189,912	18.2	224,196	18.0	264,451	18.0	313,350	18.4
24,030	3.0	26,311	9.4	27,728	5.4	29,144	5.1	30,562	4.8	31,978	4.6

t/ Composed of Oyster Inspection Tax, Motor Vehicle Fuel Tax, Wine and Spirits Tax, Forest Products Tax, Penalties for Failure to Pay and Miscellaneous Penalties. Total Wine Tax Collections include local share.

u/ Public Rock Oyster Tax no longer applicable to the General Fund effective fiscal 1962-63.

v/ Decline in revenue in fiscal year 1964-65 due to declines in penalties for non-payment of taxes by due date because of implementation of withholding.

w/ Tax on wholesale and retail establishments repealed January 1, 1967 (fiscal year 1966-67).

x/ Currently, about 85 percent of the revenues are represented by those from mental hospitals. In fiscal years 1967-68 and 1968-69, there was a sharp increase in mental hospital revenues due to Medicare.

y/ Composed of Excess Fees Paid into State Treasury; Fees and Allowances of Sheriffs, Sergeants, and their Deputies; Fees collected in County Courts; and Fees Collected in Regional, Juvenile and Domestic Relations Courts.

z/ Composed of Fees for Practice of Professions, Fees for Miscellaneous Privileges, Fees for Miscellaneous Service, Sales of Property and Commodities, Auditing Local Accounts and Examination Assessments, Fines and Forfeitures, Court Cost Recoveries and Printing of Supreme Court Records, Local Portion of Judges Salaries, Miscellaneous Revenue, and Grants and Donations.

aa/ Total A.B.C. profits including local share.

bb/ In fiscal year 1960-61 there was a sudden drop in profits as a result of the implementation of the 10 percent A.B.C. State Tax.

cc/ Excludes $500 thousand which went to a reserve fund for a central warehouse in each of the fiscal years 1961-62, 1962-63 and 1964-65.

dd/ In fiscal year 1966-67, $1 million was taken out of A.B.C. profits for a center for research on alcoholism.

ee/ On June 28, 1968, an additional tax on alcoholic beverages bought for resale by the drink became effective.

ff/ Excludes $750 thousand which went to a reserve fund for a central warehouse in fiscal year 1968-69.

gg/ Figures shown as earmarked revenues are based on the following rules governing distribution. Two-thirds of the Wine and Spirits Tax is distributed to localities on the basis of population for general purposes. This tax is a component of Miscellaneous Taxes and Penalities. Prior to fiscal year 1968-69, one-half of the State's 2 percent Sales and Use Tax was distributed to localities on the basis of school age population for the expressed purpose of education; as of fiscal year 1968-69, one-third of the State's 3 percent Sales and Use Tax is distributed to the localities on the basis of school age population between the ages of 7 and 20, for the expressed purpose of education. With reference to A.B.C. Profits, after the first $750,000, two-thirds but never less than $11,605,645, is distributed to the localities on the basis of population for general purposes each fiscal year.

hh/ The $11,605,465 minimum distribution to the localities did not come into effect until fiscal year 1960-61 when the 10 percent Alcoholic Beverages State Tax was implemented.

Sources: 1958-60 Biennium data to 1966-68 Biennium data from Report of the Comptroller, Fiscal Year Ended June 30, 1968, Statement No. 3 (Richmond: Department of Accounts, 1969); Fiscal year 1968-69 data from Report of General Fund Revenues, Department of Accounts (issued monthly); projections by Staff.

TABLE 2.3--TOTAL SPECIAL REVENUE FUNDS AND OTHER FUNDS NOT APPLICABLE TO THE GENERAL FUND, 1958-60 TO 1966-68

(Thousand of Dollars)

Source	1958-1960 Biennium	1960-1962 Biennium	% Change 1958-60 to 1960-62	1962-1964 Biennium	% Change 1960-62 to 1962-64	1964-1966 Biennium	% Change 1962-64 to 1964-66	1966-1968 Biennium	% Change 1964-66 to 1966-68
Taxes	$ 189,617	$ 233,258	23.0	$ 259,779	11.4	$ 275,155	5.9	$ 328,066	19.2
Public service corporations tax	1,604	1,633	1.8	1,615	- 1.1	2,386	47.7	2,539	6.4
Capitation tax	3,503	3,407	- 2.7	3,664	7.5	3,555	- 3.0	2,474	-30.4
Motor vehicle fuel tax[a/]	150,715	184,084	22.1	200,680	9.0	227,616	13.4	253,916	11.6
Payroll tax for unemployment compensation	32,976	43,254	31.2	52,753	22.0	40,322	-23.6	33,944	-15.8
Motor vehicle sales and use tax	...	...	...	...	...	...	...	34,117	...
All other taxes	820	880	7.3	1,069	21.5	1,275	19.3	1,077	-15.5
Rights and privileges	66,097	73,757	11.6	96,527	30.9	130,926	35.6	142,394	8.8
Hunting and angling licenses	3,385	4,343	28.3	4,565	5.1	5,027	10.1	5,823	15.8
Motor vehicle licenses	42,971	46,223	7.6	62,682	35.6	81,897	30.7	88,346	7.9
Registration of titles of motor vehicles	1,604	1,582	- 1.4	3,073	94.2	9,350	204.3	9,086	- 2.8
Chauffeurs' and motor vehicle operators' permits	1,455	1,553	6.7	3,424	120.5	8,714	154.5	9,243	6.1
All other licenses and permits	1,985	2,762	39.1	3,030	9.7	3,764	24.2	4,307	14.4
Fees for examination to practice professions	27	24	-11.1	27	12.5	63	133.3	66	4.8
Fees for misc. privileges and services	14,669	17,271	17.7	19,274	14.2	22,111	12.1	25,521	15.4
Sales of property and commodities[b/]	3,943	3,878	- 1.6	5,307	36.8	6,239	17.6	9,008	44.4
Assessments for support of special services	5,074	6,130	20.8	6,810	11.1	7,948	16.7	7,832	- 1.5
Institutional revenues	80,437	91,754	14.1	106,968	16.6	133,826	25.1	174,339	30.3
Interest, dividends, and rents	16,227	22,960	41.5	27,853	21.3	38,871	40.0	51,511	32.5
Grants and donations	185,391	241,989	30.5	326,971	35.1	468,460	43.3	521,444	11.3
Grants from the Federal Government	181,019	237,050	31.0	320,662	35.3	460,214	43.5	502,175	9.1
Donations from cities and counties	2,907	3,647	25.5	4,447	21.9	5,752	29.3	14,552	153.0
Donations from individuals and others	1,466	1,292	-11.8	1,862	44.1	2,494	34.0	4,717	89.1
Fines and forfeitures, costs, penalties, and escheats	8,165	8,480	3.9	9,455	11.5	10,619	12.3	12,566	18.3
Miscellaneous	6,599	8,662	31.3	8,774	1.3	15,232	73.6	20,158	32.3
Revenues from cities, counties, and towns for street and road work	3,459	3,694	6.8	4,737	28.2	6,141	29.6	7,381	20.2
Receipts from cities and counties for medical care and services premiums for old age assistance recipients	...	...	...	...	...	...	...	2,276	...
Receipts from reportable violations - D.M.V.	...	...	...	...	...	2,598	...	3,466	33.4
Proceeds from sales of surplus property	696	1,314	88.6	1,414	7.6	1,965	39.0	2,243	14.1
Other	2,444	3,654	49.5	2,623	-28.2	4,528	72.6	4,972	9.8
Total[c/]	561,553	690,886	23.0	848,445	22.8	1,087,275	28.1	1,267,318	16.6
Exhibit									
Special revenue funds	544,192	671,901	23.5	825,860	22.9	1,059,283	28.3	1,234,440	16.5
Reserves for specified purposes	17,351	18,976	9.4	22,576	19.0	27,983	23.9	32,871	17.5
In suspense - not allocated	9	9	- 8.5	8	- 9.7	9	17.0	7	-18.3

Note: Details may not add to totals due to rounding. Percentage change based on change before rounding to thousands.

a/ Excludes amount transferred to General Fund for appropriations for analyzing gasoline, diesel fuel, and motor oils.

b/ Excludes alcoholic beverages.

c/ Excludes contributions for retirement.

Source: Report of Comptroller, Fiscal Year Ended June 30, 1968, Statement Nos. 3 and 4, (Richmond: Department of Accounts, December, 1968).

Table 2.4 provides a good grasp of the general fund projections. Total revenues and percentage changes are shown for the past and the projected future. If the projections are realized, total general fund revenues will more than double between the 1968-70 biennium and 1978-80. However, the percentage growth from one biennium to another is not expected to match the 41 percent gain from 1964-66 to 1966-68 and the projected 42 percent gain for the current biennium. The large relative gains for those periods are attributable to the introduction of the sales and use tax and to the use of several one-time windfalls.

TABLE 2.4--GENERAL FUND REVENUES, ACTUAL 1958-60 to 1966-68 AND PROJECTED 1968-70 TO 1978-80

Biennium	Amount ($Mil.)	Change from Preceding Biennium: Amount ($Mil.)	Change from Preceding Biennium: Per cent
Actual			
1958-60	$ 404.2	...	...
1960-62	505.2	101.0	25.0
1962-64	616.9	111.7	22.1
1964-66	724.4	107.5	17.4
1966-68	1,021.4	296.9	41.0
Projected			
1968-70	1,453.4 a/	432.0	42.2
1970-72	1,664.9	211.5	14.6
1972-74	2,027.7	362.8	21.8
1974-76	2,482.8	455.1	22.4
1976-78	3,054.5	571.7	23.0
1978-80	3,778.7	724.2	23.7

a/ Based on actual collections in fiscal year 1968-69 and a staff projection for 1969-70. The budget projection used at the time of passage of the appropriation act was $1,386.0 million.

Source: Table 2.2, p. 30.

According to preliminary information provided by the Division of the Budget,[1/] agency requests for the 1970-72 biennium are as follows:

	$ Millions
Maintenance and operation	$2,030.5
Capital outlay	318.1
Total	$2,348.6

Requests are pared extensively in the preparation and passage of the budget. For 1968-70 requests were $1,736.1 million but actual appropriations were $1,385.3 million which represented a 20 per cent cut. If the $2,348.6 million requested for the next biennium were cut by 20 per cent, the remaining sum would be $1,878.9 million, a figure $214 million higher than projected revenues of $1,664.9 million. Some relief will be provided by an estimated surplus of $67.4 million for the current biennium.[2/]

The percentage distribution of major sources of revenue is shown in Table 2.5. The great importance of the income tax on individuals and fiduciaries is obvious. It presently accounts for about 38 per cent of revenues and by 1978-80 the projections show it exceeding one-half. The other major disclosure is the importance of the sales and use tax which was adopted in the 1966-68 biennium. When first introduced the tax was 2 per cent, and it did not become effective until several months after the beginning of the biennium. Because of the lower rate and the delay in introduction, revenues from the tax in the 1966-68 biennium represented a lower share of total revenues than projected in the future. For the current biennium the sales and use tax is projected to provide 27 per cent of all revenues.

1/ Memorandum of September 16, 1969, submitted to the Revenue Resources and Economic Study Commission by Mrs. Mary Spain, Staff Attorney, Division of Statutory Research and Drafting. Data in the memorandum were supplied by Mr. Kuhn, Director, Division of the Budget.

2/ The appropriation act for the 1968-70 biennium assumed revenues of $1,386 million. The projections in Table 2.5 show revenues of $1,453.4 million for a difference of $67.4 million.

TABLE 2.5--PERCENTAGE DISTRIBUTION OF GENERAL FUND REVENUE SOURCES, ACTUAL 1958-60 TO 1966-68 AND PROJECTED 1968-70 TO 1978-80

Revenue Source	Actual 1958-60	1960-62	1962-64	1964-66	1966-68	Projected 1968-70[a]	1970-72	1972-74	1974-76	1976-78	1978-80
Total General Fund Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FROM TAXATION											
TAXES											
Public Service Corp.	10.0	8.7	7.9	7.2	5.8	5.4	4.2	3.8	3.4	3.0	2.7
Capital Not Otherwise Taxed	4.1	5.5	3.0	2.2	0.8	0.6	0.6	0.4	0.4	0.3	0.3
Individuals and Fiduciaries - Income	36.6	34.1	41.5	42.3	40.6	38.2	40.3	43.4	46.6	49.8	52.9
Corporations - Income	13.8	11.7	10.7	12.1	9.6	8.3	6.6	6.3	6.0	5.6	5.2
Insurance Companies - Premiums	5.5	5.1	4.9	4.9	4.1	4.2	3.4	3.2	3.1	3.0	2.8
Bank Stock	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.1
Inheritance	2.1	1.8	2.0	2.2	1.7	1.6	1.8	1.8	1.8	1.8	1.9
Gift	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Wills, Suits, Deeds, Contracts	1.8	1.6	1.7	1.8	1.3	1.2	1.2	1.3	1.2	1.2	1.2
Beer and Beverage State Tax	3.8	4.1	3.6	3.7	2.4	1.9	1.8	1.7	1.5	1.4	1.2
Alcoholic Beverage State Tax	...	3.8	3.8	3.5	3.1	2.2	2.0	1.8	1.6	1.4	1.3
Tobacco Products Tax	...	5.7	4.8	4.4	2.6	1.9	1.6	1.4	1.2	1.0	0.8
State Sales and Use Tax	...	...	...	...	18.6	27.3	29.0	28.1	27.0	26.0	24.9
Miscellaneous Taxes and Penalities	0.7	0.7	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2
RIGHTS AND PRIVILEGES											
Licenses and Permits	6.4	5.5	4.9	4.6	0.9	0.5	0.5	0.4	0.3	0.2	0.2
Corporate Franchise and	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.3	0.2	0.2	0.2
OTHER THAN TAXATION											
Institutional Revenues	1.5	1.5	1.5	1.5	1.2	1.2	1.6	1.6	1.6	1.5	1.4
Interest, Dividends, Rents	1.1	1.0	1.1	1.5	1.2	0.9	0.8	0.7	0.6	0.5	0.4
Excess and Other Fees from Officers	0.6	0.5	0.4	0.5	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Other Miscellaneous Revenues	1.6	1.3	1.3	1.2	1.0	0.8	0.8	0.7	0.7	0.6	0.5
A.B.C. Profits	8.9	6.1	5.1	4.8	3.4	2.6	2.5	2.1	1.8	1.6	1.3

Note: Details may not add to totals due to rounding.

a/ Percentages based on actual revenues received for fiscal year 1968-69 and staff projections for fiscal year 1969-70.

Source: Table 2.2.

Methodology

The projections were based on the assumption that the nation would not become involved in a major armed conflict and that current efforts to end the Vietnam War would be successful. No major economic downturns were assumed. Assumptions about the future growth of gross national product, the indicator used to project Virginia personal income, are those already mentioned in Chapter I (see pages 8 and 9). Population was forecast to grow by 2 per cent annually from the 1968 number estimated by the Bureau of Population and Economic Research at the University of Virginia. For the current biennium (1968-70) the projections are based on actual collections in 1968-69 and a staff projection for 1969-70.

The projections from 1970-72 to 1978-80 were made by the staff. In the process of making the projections the State's fiscal agencies--the Department of Accounts, the Department of Taxation, and the Division of the Budget--were all consulted and they were particularly helpful in interpreting historical data. The fiscal agencies were not responsible for the projections which were solely the work of the staff; and, therefore, no official endorsement on their part should be implied.

In making the projections we assumed no changes in rates or tax structure unless the change was already provided for by law. This was an important assumption because in the past significant amounts of new revenue have been secured through rate increases, acceleration of due dates, and new taxes.

Any projection must rely on historical data to provide a basis for looking forward, and the choice of a relevant historical period is a crucial decision. This report relies mainly on the period beginning with fiscal year 1957-58.

Earlier data were not used because they were affected by the Korean War and its aftermath and because the years beginning with 1957-58 more nearly represented the type of setting likely to prevail in the future.

The projection of general fund revenues was accomplished by making separate projections for each of twenty-one different major sources of revenue. The projections were made by using several techniques, and then the technique which appeared to be most accurate for each source was selected. Table 2.6 summarizes the technique selected for each of the major sources.

Error Range

The projections in this report are only as good as the assumptions used to make them. If, for example, personal income grows much slower (or faster) than assumed, then actual revenues will differ significantly from those forecast. In making these projections we attempted to be neither overly pessimistic nor overly optimistic, but it should be recognized that the projections are subject to considerable error, particularly those that cover the distant future. For this reason, the 1970-72 projection is likely to be closer to the mark than the 1978-80 projection.

A ±5 per cent difference between projected revenues and the actual outcome is a very good possibility. In the past, budget projections for a single biennium have often been within this range of error. Table 2.7 shows how such differences would affect projected revenues. The absolute amounts are large, but such magnitudes are to be expected when dealing with a budget counted in billions of dollars.

TABLE 2.6 --METHODOLOGY FOR GENERAL FUND REVENUE PROJECTIONS

Revenue Source	Arithmetic Time Series	Semi-Logarithmic Time Series	Correlation with Va. Personal Income (log-log)	Other Methods
Total General Fund Revenue				Summation of components
FROM TAXATION				
Public Service Corporations			X	
Capital Not Otherwise Taxed		X		
Individuals and Fiduciaries - Income			X	
Corporations - Income				Correlation with national corporate profits before taxes.
Insurance Companies - Premiums		X		
Bank Stock	X			
Inheritance		X		
Gift		X		
Wills, Suits, Deeds, Contracts				Historical growth rate from 1957-58 to 1968-69 plus allowance for the new tax on deeds of conveyance.
Beer and Beverage State Tax			X	
Alcoholic Beverages State Tax			X	
Tobacco Products Tax	X			
State Sales and Use Tax				Real per capita growth rate adjusted for inflation.
Miscellaneous Taxes and Penalities				Assumed a 4 per cent annual rate of increase.
RIGHTS AND PRIVILEGES				
Licenses and Permits		X		
Corporate Franchise and Charters		X		
OTHER THAN TAXATION				
Institutional Revenues				Assumed 25 per cent increases in 1970-71 and 1971-72 due to Medicare and Medicaid. Beyond that time a 9 per cent average annual growth rate was used.
Interest, Dividends, Rents				Assumed to grow at an average annual rate of 2 per cent.
Excess and Other Fees from Officers		X		
Other Miscellaneous Revenues		X		
A.B.C. Profits	X			

TABLE 2.7--POSSIBLE ERROR RANGE OF GENERAL FUND REVENUE PROJECTIONS, 1970-72 TO 1978-80

($ Millions)

Biennium	Projected Revenue	
1970-72	$ 1,664.9	
1972-74	2,027.7	
1974-76	2,482.8	± 124.1
1976-78	3,054.5	± 152.7
1978-80	3,778.7	± 188.9

Definitions

The Report of Comptroller was the basic source for all historical information; however, certain adjustments were made in total figures. The reason for these adjustments was to eliminate bookkeeping entries which tend to overstate financial activity and to insure comparability with the manner of presentation in the budget.

Statement No. 4 in the Report of Comptroller showing all revenues includes contributions for retirement purposes and sales of alcoholic liquors and excludes total A.B.C. profits. The retirement system contributions ($69.4 million in fiscal year 1968-69) constitute special revenues outside of the appropriation process. Sales of liquor ($147.7 million in fiscal year 1968-69) represent a business operation of the State and are not a true source of net revenue until allowance is made for the cost of goods sold and cost of operation. A.B.C. profits ($19.4 million in fiscal year 1968-69) provide a better measure of net revenues. Therefore, total revenues as shown in Table 2.1 of this report are equal to total revenues shown in Statement No. 4 minus contribution for retirement purposes, minus sales of alcoholic liquors, and plus total A.B.C. profits (including the local share). This definition of total revenues is fairly comparable to the concept of "general revenue" used by the Governments Division of the Bureau of the Census in its publication titled State Government Finances.

Statement No. 3 in the Report of Comptroller showing General Fund revenues does not include the local share of A.B.C. profits in its grand total. Since the Division of the Budget is now including the local share in General Fund revenues, this study follows that practice.

Borrowing

The emphasis of this chapter is on revenue sources, but some mention should be made in regard to borrowing as a source of funds for capital projects. Under the proposed amendment to the constitution, general obligation debt is permitted, provided it is approved by a majority of the General Assembly and by the majority of the voters in a referendum. Furthermore,

> No debt shall be authorized by the General Assembly if the amount thereof when added to amounts approved by the people, or authorized by the General Assembly and not yet submitted to the people for approval, under this subsection during the three fiscal years immediately preceding the authorization by the General Assembly of such debt and the fiscal year in which such debt is authorized shall exceed twenty-five per centum of an amount equal to 1.15 times the average annual tax revenues of the Commonwealth derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three fiscal years immediately preceding the authorization of such debt by the General Assembly. No debt shall be incurred under this subsection if the amount thereof when added to the aggregate amount of all outstanding debt to which the full faith and credit of the Commonwealth is pledged other than that excluded from this limitation by the provision of this Article

> authorizing the contracting of debts to redeem a previous debt obligation of the Commonwealth and for certain revenue-producing capital projects, less any amounts set aside in sinking funds for the repayment of such outstanding debt, shall exceed an amount equal to 1.15 times the average annual tax revenues of the Commonwealth derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three fiscal years immediately preceding the incurring of such debt.[1]

Table 2.8 applies the above provisions to projected revenues from income taxes on individuals and corporations and from the sales and use tax. It is assumed that borrowing would not start until 1972 because the new constitution will not go into effect until July 1, 1971, if it is approved.

The table shows that the new debt provisions will permit large borrowings in the next decade if the General Assembly and the voters wish to use the maximum authority.

1/ Senate Joint Resolution No. 26 offered April 25, 1969.

TABLE 2.8 --PROJECTION OF AMOUNTS THAT COULD BE BORROWED UNDER THE NEW CONSTITUTION, 1972 to 1980

	Millions of Dollars			
Year	Projected Average Annual Sales and Income Taxes, Previous Three Years	Maximum Amt. That Could Be Borrowed	Net Outstanding Debt if Full Amount Borrowed[a]	Overall Debt Limit
1972	$ 556	$160	$ 228[b]	$ 639
1974	670	192	397	770
1976	836	240	594	961
1978	1,050	302	829	1,208
1980	1,320	380	1,111	1,518

a/ Excludes amounts set aside in sinking fund. It is assumed for each debt that an amount equal to 5 per cent of this principal is set aside annually in a sinking fund.

b/ Includes debt of $81 million less provisions to sinking fund which was outstanding at beginning of period.

Source for revenue projections: Detailed staff report used for information in Chapter II.

CHAPTER III

SOURCES OF GENERAL FUND REVENUE

This chapter analyzes alternative ways of increasing general fund revenues should an increase be necessary. Each major source of revenue is discussed separately, and for each source, information is supplied on the practice of other states, the present yield of the tax, equity implications, the yield of alternative changes, and other aspects, such as the impact of a change on industrial development. At the end of the chapter there is a table summarizing possible changes in the tax structure and presenting estimates of the amount of additional revenue in 1970-72 which could be secured from the changes.

Although the sections in this chapter cover many aspects of taxation, the primary emphasis is on raising additional revenue. There are many additional taxation issues which deserve study, but in terms of their effect on revenues, in general, their impact would be nominal.

The order in which the sources are discussed follows the sequence used in the Report of General Fund Revenues issued monthly by the Department of Accounts.

Public Service Corporations Taxes

Public service corporations do not pay the State corporate income tax but, instead, are required to pay various State taxes based on gross receipts and assorted measures of property (e.g. miles of telephone line). The rates and provisions vary depending on the type of corporation.

There is strong evidence that the present tax provisions yield a higher revenue than if the public service corporations were to pay the 5 per cent income tax applicable to other types of corporations. As shown in Table 3.1, actual tax assessments were nearly $31 million in fiscal year 1968--an amount about four times larger than what would have been collected from an income tax. The exact magnitude of the difference cannot be ascertained since no figures are available on the net income of the Virginia portion of business of public service corporations. However, the rough estimating procedure shows clearly that the revenue yield of an income tax would be lower. Thus, if consideration were given to raising the corporate income tax by 20 per cent to a 6 per cent rate (a possibility discussed in a later section), it would not be necessary to also raise public service corporation taxes in order to make them comparable. On the other hand, if the goal were to maintain the existing relative difference, then it would be necessary to raise effective taxes on public service corporations by 20 per cent.

TABLE 3.1--PUBLIC SERVICE CORPORATION TAXES, ACTUAL, AND HYPOTHETICAL UNDER A 5 PER CENT INCOME TAX, F. Y. 1968
(Thousands of Dollars)

Type of Public Service Corporation	Gross Receipts	State Tax Assessments	Estimated Taxable Income[a/]	Hypothetical Tax Collections Under a 5% Income Tax
Railroad companies	$ 274,122	$ 8,550	$ 11,329	$ 562
Express companies	9,717	209	398	20
Sleeping car companies	509	13	21	1
Car line companies	n.a.	108		
Electric light and power companies	347,830	12,449	70,957	3,548
Telephone and telegraph companies	210,053	6,598	44,111	2,206
Gas and pipeline transmission corporations	66,190	2,371	7,678	384
Water corporations	6,298	231	756	38
Total		30,529[b/]		6,759

n.a. not available

a/ Estimated by using the ratio "income subject to tax/total receipts" for all public service corporations in the United States in 1964. Where possible, separate ratios were calculated for each type of public service corporation.

b/ Excludes taxes on motor vehicle carriers since they do not go to the General Fund. Total differs slightly from the amount shown in the Report of Comptroller, Schedule B-1, because the Comptroller's figures are based on actual collections and show a few special taxes under special funds rather than the General Fund.

S., Treasury Department, Internal Revenue Service, Corporate Income Tax Returns--Statistics of Income, 1964, Publication 16 (2-69) (Washington: Government Printing Office, 1969), p. 49; Statements prepared by the State Corporation Commission for telephone and telegraph companies; electric light and power corporations; gas and pipeline transmission corporations; water corporations; railroad,express, and sleeping car companies; and car line companies.

Individuals and Fiduciaries Income Tax

Introduction

In evaluating the Virginia individual income tax, emphasis was placed on basic structural changes and proposed rate changes. There was no consideration of the tax base (i.e., the definition of adjusted gross income), administration of the tax, or procedural provisions of the law which might affect tax liability. Certain of these items are important and could be topics in a later study. Among the items are: 1/ (1) exemption of part of the income from long term capital gains; (2) the removal of the exemption of dividends from domestic corporations; (3) the removal of the exemption of interest from bonds of the federal government and of the State of Virginia and all its political subdivisions; (4) a limit on the amount of the exemption for social security benefits and State and local government retirement benefits; (5) the removal of the exemption on the first $2,000 of retirement income from federal government civilian and military service; (6) the adoption of a "split income" option on joint returns; and (7) the initiation of centralized collection of all tax returns by the Department of Taxation.

Structure and Rates of the Virginia Tax

Tax rates have not been changed since 1948, and basically the structure of the tax has remained stable over the same period of time. Presently the tax rates are as follows:

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 and over	5

1/ Most of the issues listed were treated in some part in a prior report, Virginia Income Tax Study Commission, Toward a Simplified Income Tax System for Virginia Taxpayers, (Richmond: Commonwealth of Virginia, 1967).

The standard deduction is 5 per cent with a $500 maximum on joint and individual returns and $250 maximum on separate returns; exemptions are $1,000 for a personal exemption, $300 for a dependent exemption, $600 for age or blindness, and $700 for single head of household. There is no split income option on joint returns.

Comparison with Other States

As of December 31, 1968 there were thirty-six states plus the District of Columbia imposing an income tax on individuals.[1/] Twenty states have lower personal exemptions than Virginia, while Virginia and Alabama have the lowest dependent exemption allowance in the nation at $300 (see Table 3.2). There are only four states with a 5 per cent standard deduction (see Table 3.3).

Rate comparisons on a national basis are difficult to make with a single common measure.[2/] However, on a regional basis it is possible to compare more easily the effective tax rates for selected typical taxpayers at different levels of adjusted gross income. Table 3.4 makes this comparison for Virginia, Maryland, North Carolina, West Virginia, and the District of Columbia. It can be seen that the Virginia effective tax rates on individual taxpayers are generally lower than those of any other

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1/ Two additional states, Tennessee and New Hampshire limit the tax to interest and dividends.

2/ Use of effective tax rates as a comparative measure are inconclusive unless different types of taxpayers are used. See Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features 1966 to 1969, (Washington: U.S. Government Printing Office, November 1968), p. 74, for the effective tax rate of state income taxes on a family of four for each state with an income tax. For each income class in this table, Virginia is above the median rate for all states shown. This, however, indicates little since Virginia has a very low dependent exemption yet a moderately high personal exemption. If the measure were taken for an individual taxpayer, rather than a family, Virginia would certainly fare better in relation to national median rates.

TABLE 3.2 --STATE INDIVIDUAL INCOME TAXES: PERSONAL EXEMPTIONS, DECEMBER 31, 1968

State	Personal exemption		Additional exemption on account of--		
	Single	Married (joint return)	Dependents	Age 1/	Blindness 1/
Alabama	$1,500	$3,000	$300	....	....
Alaska	600	1,200	600	$600	$600
Arizona	1,000	2,000	600	1,000	500
Arkansas 2/	17.50(1,750)	35(3,250)	6(333)	....	....
California 2/	25(2,250)	50(4,500)	8(400)	....	8(400)
Colorado 3/	750	1,500	750	750	750
Delaware	600 4/	1,200	600	600	600
Georgia	1,500	3,000	600 5/	600	600
Hawaii 3/	600	1,200	600	600 6/	5,000
Idaho 7/	600	1,200	600	600	600
Indiana 3/	1,000	2,000 8/	500	500	500
Iowa 2/ 3/	15(1,500)	30(2,333)	10(467)	15 9/	15 9/
Kansas	600	1,200	600 10/	600	600
Kentucky 2/	20(1,000)	40(2,000)	20(1,111)	20(1,000)	20(1,000)
Louisiana 11/	2,500(50)	5,000(100)	400(8) 10/	....	1,000(20) 12/
Maryland	800	1,600	800 13/	800 13/	800
Massachusetts 3/ 14/	2,000	2,500-4,000	400 10/	500	2,000
Michigan	1,200	2,400	1,200 10/	1,200	1,200
Minnesota 2/ 3/	19(1,050)	38(1,683)	19(541)	15/	15/
Mississippi	4,000	6,000	....	....	....
Missouri	1,200	2,400	400	....	....
Montana	600	1,200	600 10/	600	600
Nebraska 3/	600	1,200	600 10/	600	600
New Hampshire 16/	600	600 17/	....	....	....
New Jersey 18/	600	1,200	600 10/	600	600
New Mexico	600	1,200	600 10/	600	600
New York 18/	600	1,200	600 10/	600	600
North Carolina	1,000	2,000 19/	600 20/	1,000	1,000
North Dakota	600	1,500	600	600	600
Oklahoma	1,000	2,000	500	....	....
Oregon	600	1,200	600 21/	22/	600 22/
South Carolina	800	1,600	800 23/	800	800
Tennessee 16/	....	....	....	....	....
Utah	600	1,200	600 10/	200 24/	600
Vermont	600	1,200	600 10/	600	600
Virginia	1,000	2,000	300 25/	600	600
West Virginia	600	1,200	600 10/	600	600
Wisconsin 2/ 3/	10(370)	20(740)	10(361)	5 26/	....
Dist. of Columbia	1,000	2,000	500	500	500

1/ In most States an identical exemption is allowed for a spouse if she meets the age and blindness conditipn. In Massachusetts the deduction for blindness is allowed against business income only. In Hawaii the $5,000 blindness deduction is allowed in lieu of the personal exemption.

2/ Personal exemptions and credits for dependents are allowed in the form of tax credits which are deductible from an amount of tax. With respect to personal exemptions, the sum in parentheses is the exemption equivalent of the tax credit assuming that the exemption is deducted from the lowest brackets. With respect to the dependency exemptions; the sum in parentheses is the amount by which the first dependent raises the level at which a married person or head of family becomes taxable (in computing these amounts for States allowing the deduction of Federal income taxes, the 10% Federal surtax effective April 1, 1968 was not included).

3/ In addition to the personal exemption deductions, a sales tax credit or cash rebate (in the case of Minnesota and Wisconsin a property tax credit or cash rebate) is provided. See table 39.

4/ An additional $300 exemption is allowed if the taxpayer is the head of a household.
(Footnotes continued on the following page.)

TABLE 3.2 --STATE INDIVIDUAL INCOME TAXES: PERSONAL EXEMPTIONS, DECEMBER 31, 1968 (Concl'd)

5/ The exemption is allowed for students regardless of age or income. For students beyond the high school level, $1,200 per dependent and $600 if the taxpayer is a student. A taxpayer who has used a student dependent to qualify as the head of a household is allowed only a $600 (formerly $1,200) exemption for that student dependent.

6/ Individuals establishing residence in Hawaii after the age of 65 are subject to tax on income from Hawaii sources only (the tax is imposed on the entire taxable income of resident individuals, estates, and trusts).

7/ In addition to the personal exemption deductions, a $10 tax credit is allowed for each personal exemption.

8/ Each spouse is entitled to the lesser of $1,000 or adjusted gross income (minimum of $500 each).

9/ Single person, $833; married couple, $1,167.

10/ The exemption is allowed for students regardless of age or income.

11/ The exemptions and credits for dependents are deductible from the lowest income bracket and are equivalent to the tax credits shown in parentheses.

12/ An identical exemption is allowed for a spouse or for a dependent.

13/ The exemption is allowed for students regardless of age or income. An additional exemption of $800 is allowed for each dependent 65 years of age or over.

14/ The exemptions shown are those allowed against business income, including salaries and wages: a specific exemption of $2,000 for each taxpayer. In addition, a dependency exemption of $600 is allowed for a dependent spouse who has income from all sources of less than $2,000. In the case of a joint return, the exemption is the smaller of (1) $4,000 or (2) $2,000, plus the income of the spouse having the smaller income. For annuity income the exemption is the unused portion of the exemption applicable to business income. Married persons must file a joint return in order to obtain any nonbusiness income exemption. Any excess of the exemption against annuity income may be claimed against income from intangibles.

15/ An additional tax credit of $20 is allowed for each taxpayer or spouse who has reached the age of 65. Additional tax credits for the blind: unmarried, $20; married, $25 for each spouse.

16/ The tax applies only to interest and dividends.

17/ An additional exemption of $600 is allowed a married woman with separate income; joint returns are not permitted.

18/ In addition to the personal exemptions, the following tax credits are granted: Single persons, $10; married taxpayers and heads of households, $25.

19/ An additional exemption of $1,000 is allowed a married woman with separate income; joint returns are not permitted.

20/ Plus an additional $600 for each dependent who is a full-time student at an accredited university or college.

21/ A credit of $1 is allowed for each $100 actually contributed by the taxpayer as partial support of a person who could qualify (except for the chief support requirement) as a dependent. The credit shall not exceed $6.

22/ A tax credit of $12 is allowed for each taxpayer or spouse who has reached the age of 65. A blind taxpayer and his spouse (if also blind) are allowed an additional $600 exemption plus a tax credit of $18 each.

23/ The exemption is extended to dependents over the age of 21 if they are students in an accredited school or college.

24/ Increased to $400 for 1969, and $600 for 1970 and thereafter.

25/ Exemption for one dependent of unmarried person is $1,000, if dependent is father, mother, son, daughter, sister or brother.

26/ Single person, $185; married couple $361.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, (Washington: U. S. Government Printing Office, November 1968), p. 85.

TABLE 3.3 -- STATE INDIVIDUAL INCOME TAXES: USE OF STANDARD DEDUCTION AND OPTIONAL TAX TABLE, DECEMBER 31, 1968

State	Size of standard deduction				Optional tax table
	Percent 1/	Maximum			
		Single	Married		
			Separate return	Joint return	
Alabama	*10	$1,000	$1,000	$1,000	x
Alaska 2/	10	1,000	500	1,000	x
Arizona	*10	500	500	1,000	x
Arkansas	10	1,000	500	1,000	....
California	....	1,000	1,000	2,000	x
Colorado 3/	*10	1,000	500	1,000	x
Delaware 2/	*10	500	500	1,000	....
Georgia	10	1,000	500	1,000	....
Hawaii	10	1,000	500	1,000	x
Idaho 2/	*10	1,000	500	1,000	....
Indiana	....	....	....	....	....
Iowa	*5	250	250	250	x
Kansas 2/	*10	400	400	400	x
Kentucky 4/	*	500	500	500	x
Louisiana	*10	1,000	500	1,000	....
Maryland	10	500	500	1,000	x
Massachusetts	....	....	....	....	x
Michigan	....	....	....	....	....
Minnesota	*10	1,000	1,000	1,000	x
Mississippi	10	500	500	1,000	....
Missouri	*5	500	500	500	x
Montana	10	500	500	1,000	....
Nebraska 2/	10	1,000	500	1,000	x
New Jersey	10	1,000	1,000	1,000	....
New Mexico 2/	*10	1,000	500	1,000	....
New York	10	1,000	5/	1,000	x
North Carolina	10	500	500	6/	....
North Dakota	10	1,000	500	1,000	....
Oklahoma	*10	1,000	500	1,000	x
Oregon	*5	250	250	500	x
South Carolina	10	500	500	1,000	x
Utah	*10	1,000	500	1,000	....
Vermont	10	1,000	500	1,000	x
Virginia	5	500	250	500	....
West Virginia	10	1,000	5/	1,000	x
Wisconsin 2/	10	1,000	500	1,000	x
Dist. of Columbia	10	1,000	500	1,000	x

Note: Excludes New Hampshire and Tennessee where the tax applies to interest and dividends only.
* The standard deduction is allowed in addition to deduction of Federal income taxes.

1/ Amount of standard deduction is generally based on gross income after business expenses. The detailed provisions vary.

2/ Standard minimum deduction of $300.

3/ In lieu of all other deductions except Federal income taxes up to $300 for individuals and $600 for married couples filing joint return.

4/ In lieu of other deductions except Federal income taxes, a standard deduction of $500 may be taken if adjusted gross income is at least $8,000. If adjusted gross income is less than $8,000, taxpayers may use optional tax table.

5/ The $1,000 standard deduction allowed a married couple may be taken by either or divided between them in such proportion as they may elect.

6/ An additional $500 is allowed a married woman with separate income; joint returns are not permitted.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, (Washington: U. S. Government Printing Office, November 1968), p. 87.

TABLE 3.4--EFFECTIVE TAX RATES FOR NEIGHBORING STATES FOR SELECTED FAMILY SIZES AND ADJUSTED GROSS INCOME LEVELS AS OF DECEMBER 31, 1968

Type of Taxpayer and AGI a/	Effective Tax Rate (%)				
	Virginia	Maryland	North Carolina b/	West Virginia	District of Columbia
Individual					
$ 3,000	1.2	1.6	2.1	0.8	1.3
5,000	1.6	2.5	2.7	0.9	2.0
10,000	3.0	3.8	3.5	1.2	3.1
20,000	4.0	4.4	5.5	1.9	4.4
Family of 4 c/					
$ 3,000	0.2	...	...	0.1	...
5,000	0.9	0.6	1.0	0.8	0.7
10,000	2.2	2.6	2.8	0.9	2.1
20,000	3.6	3.8	4.9	1.6	3.8
Family of 6 c/					
$ 3,000	...	...	...	...	...
5,000	0.6	...	0.3	0.2	0.1
10,000	1.9	1.5	2.1	0.7	1.6
20,000	3.4	3.4	4.5	1.5	3.6

a/ A standard deduction is used for all adjusted gross income levels.

b/ Joint returns are not permitted in North Carolina. For this table it is assumed that all of the family income is earned by one person.

c/ It is assumed that joint returns are filed for the family of 4 and the family of 6 for all states except North Carolina.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features 1966 to 1969, (Washington: U.S. Government Printing Office, November 1968), Tables 35,36,37.

state except West Virginia. On the other hand, the effective Virginia tax rates on families of four and six are generally comparable to the other states, with the exception of West Virginia where effective tax rates are considerably lower. Thus, compared with neighboring states, the Virginia income tax places a relatively lighter burden on individual taxpayers while rates on families are fairly comparable.

Proposed Structural Changes

In order to analyze and test proposals for change in the Virginia individual income tax, a simulated computer run was made for tax year 1967 returns for the Virginia individual income tax (see Appendix Tables A.1 and A.2). All returns were classified by (1) adjusted gross income for the present Virginia tax structure;1/ (2) a Proposed Tax Structure I which changes the Virginia standard deduction from 5 per cent and a $500 maximum to 10 per cent and a $1,000 maximum for individual and joint returns, and 5 per cent and $250 maximum to 10 per cent and $500 maximum on separate returns; (3) a Proposed Tax Structure II which changes all Virginia exemptions to a $600 uniform rate; (4) a Proposed Tax Structure III which combines the changes of Proposed Tax Structures I and II; and (5) a Proposed Tax Structure IV which adds to Proposed Tax Structure III a minimum standard deduction of $200 plus $100 per exemption for individual and joint returns and $100 plus $100 per exemption for separate returns2/ (see Table 3.5 for a summary of the proposed structural changes). Receipts for tax year 1967 under the

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1/ The 1967 Virginia tax structure had a $200 dependent exemption which was changed to $300 on January 1, 1968. The 1967 returns were programmed with a $300 dependent exemption in order to make the tax structure current for comparative purposes.

2/ This is the same deduction as the federal minimum standard deduction.

present Virginia tax rates were calculated for each tax structure. In addition, Appendix Table A.2 gives the number of returns, number of exemptions and number of returns filed with each given number of exemptions by adjusted gross income class.

TABLE 3.5--OUTLINE OF PRESENT AND PROPOSED TAX STRUCTURES

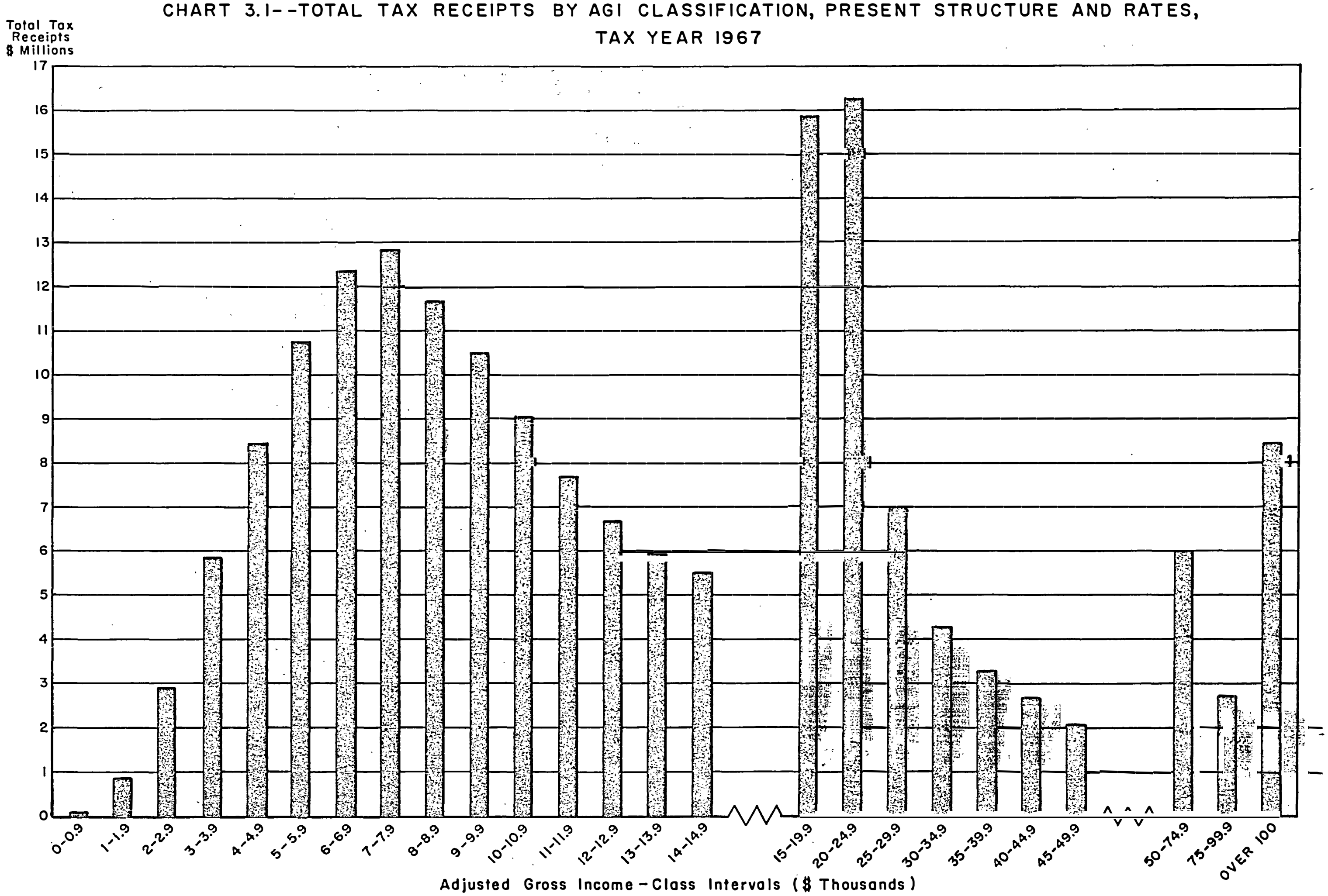
Tax Structure	Exemptions		Standard Deduction			Minimum Standard Deduction
	Personal	Dependent	Rate	Maximum		
				Ind.-Joint	Sep.	
Present	$1,000	$300	5%	$ 500	$250	No
I	1,000	300	10%	1,000	500	No
II	600	600	5%	500	250	No
III	600	600	10%	1,000	500	No
IV	600	600	10%	1,000	500	Joint & Individual--$200 plus $100 per exemption Separate--$100 plus $100 per exemption

Chart 3.1 shows tax receipts for 1967 present tax structure and rates by AGI class. Chart 3.2 shows returns for the 1967 present tax structure and rates by AGI class.

Proposed Tax Structure I

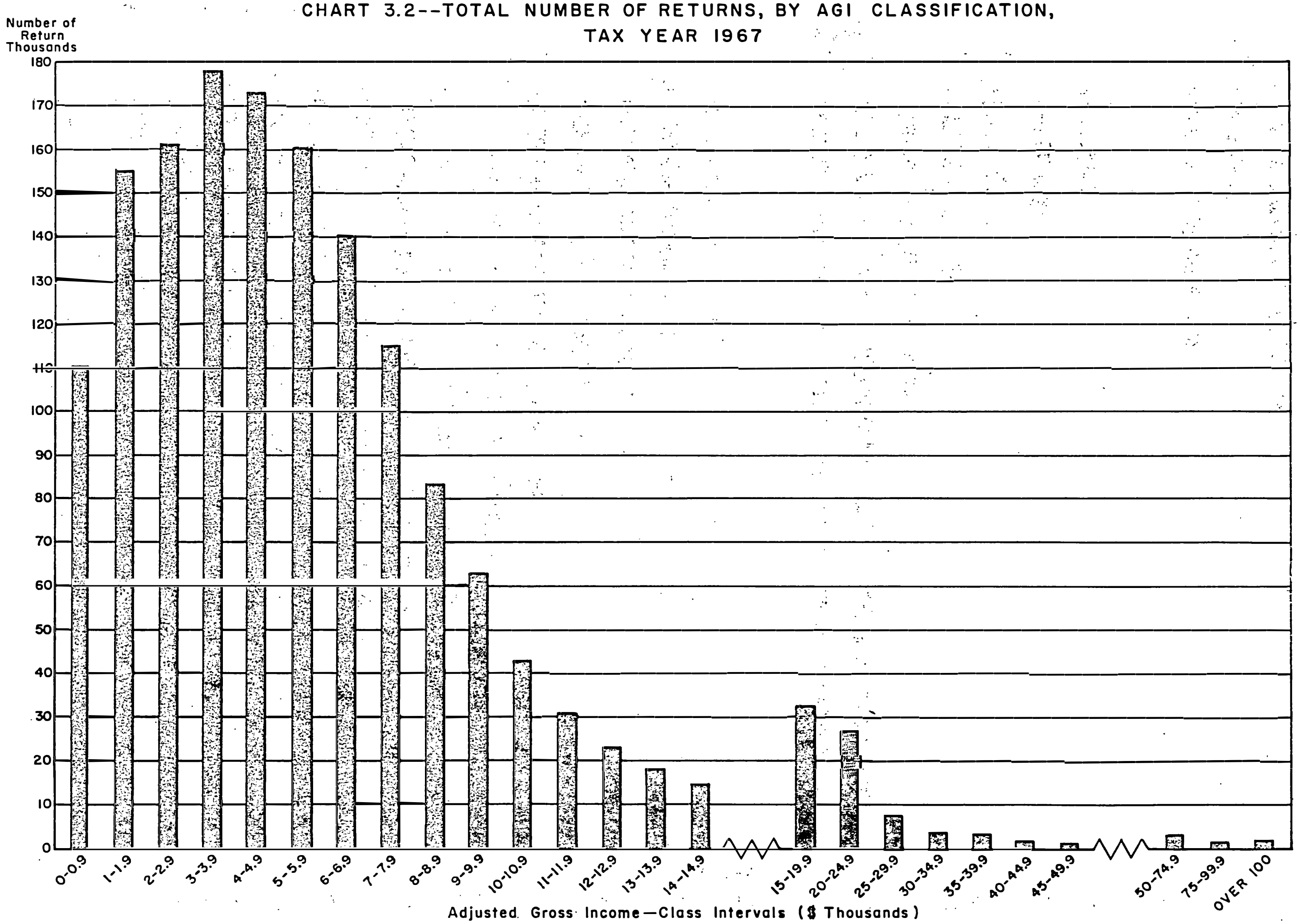
In Proposed Tax Structure I, the purpose of raising the standard deduction is to (1) bring relief to the low income taxpayer; and (2) simplify tax calculations for some taxpayers, while easing the administrative load and cost of the tax by eliminating some returns with itemized deductions. Results show that with such a change the number of returns taking a standard deduction would have increased from 752,336 or 48.5 per cent of all returns

CHART 3.1--TOTAL TAX RECEIPTS BY AGI CLASSIFICATION, PRESENT STRUCTURE AND RATES, TAX YEAR 1967



Source: Appendix, Table A.1

CHART 3.2--TOTAL NUMBER OF RETURNS, BY AGI CLASSIFICATION, TAX YEAR 1967



Source: Appendix, Table A. 2

to 806,606 or 52.0 per cent of all returns.[1] By increasing the standard deduction while making no other changes, receipts would have been reduced by $4.3 million or 2.4 per cent (see Table 3.6).

Proposed Tax Structure II

In Proposed Tax Structure II, the implementation of a uniform $600 exemption has these advantages: (1) a simplified calculation method for the taxpayer; (2) easier administration; (3) an increase in the tax burden of individuals while moderately easing the tax load of large families; and (4) an increase in revenue.

Virginia grants a family liberal personal exemptions of $1,000 each and low dependent exemptions of $300 each. By reducing the personal exemption to $600 and increasing the dependent exemption to $600 some of the burden of the tax is shifted from family to individual taxpayers. In addition, since personal exemptions represent three-fifths of all exemptions, total revenue would be increased by changing exemptions. For tax year 1967 receipts would have increased by $11.4 million or 6.3 per cent (see Table 3.6).

Proposed Tax Structure III

Proposed Tax Structure III combines the changes of Tax Structure I and Tax Structure II. The large, low-income family is granted the dual relief of an increased standard deduction and increased exemptible income. The effect on the smaller family and on the individual will depend on the income level of the taxpayer.

1/ These figures are not shown on the computer tables but are a residual figure derived from the computer program.

Table 3.7 shows the effects of Proposed Tax Structure III on typical taxpayers at selected levels of adjusted gross income. The taxpayers chosen are an individual, a family of four (to exemplify the small family), and a family of six (to represent the large family). At income levels of \$3,000 and \$5,000, the individual's tax liability is increased by the proposed tax structure and at \$10,000 and \$20,000, it is decreased. At each income level the family of six's tax liability is decreased. For the family of four, at \$3,000 income, the family's tax liability is increased but at \$5,000, \$10,000, and \$20,000, the tax liability is decreased.[1/] For tax year 1967, revenues would have increased by \$6.8 million or 3.8 per cent (see Table 3.6).

Proposed Tax Structure IV

Proposed Tax Structure IV adds a minimum standard deduction to Structure III. The purpose of a minimum standard deduction is to bring further relief to low income families in addition to a standard deduction. Whereas increased exemption rates affect all taxpayers, a minimum standard deduction can only lower the tax liability of low-income taxpayers.

The impact of the deduction is felt almost entirely in income groups under \$2,000. The overall reduction in revenue from Structure III is \$6.8 million minus \$6.6 million, equal to \$0.2 million or 0.1 per cent (see Table 3.6). The typical taxpayer table shows that when compared to Structure III, the minimum standard deduction has no effect on the individual taxpayer, lowers the tax

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1/ Use of itemized deductions would change the typical taxpayer picture. In nearly all cases, taxpayers with \$20,000 income and a good number of taxpayers with \$10,000 income would itemize their deductions. This would nullify the relative gain to the taxpayer from a higher standard deduction in the cases shown here. Tax Structure III for the individual and family of four itemizing their deductions would always increase the tax liability over the present tax structure. Families of five are the smallest families to gain from Structure III when deductions are itemized.

liability of the family of four at income levels of $3,000 and $5,000 and will continue to do so up to income levels of $6,000. There is a lower tax liability for the family of six at $5,000 income [there is no tax liability under any structure at $3,000 income and the lower tax liability will continue up to an income level of $8,000 (see Table 3.7)].

TABLE 3.6--REVENUES FROM PROPOSED TAX STRUCTURES AND PERCENTAGE CHANGE FROM PRESENT TAX STRUCTURE FOR TAX YEAR 1967

Tax Structure	Revenues (000)	Change from Present Tax Structure	
		Amount (000)	Per Cent
Present Tax Structure	$179,630	...	...
Proposed Tax Structures			
I	175,291	$-4,339	-2.4
II	191,019	11,389	6.3
III	186,451	6,821	3.8
IV	186,245	6,615	3.7

Source: Appendix, Table A.1, pp. 177-181.

Tax Structure Conclusions

Drawing from our simulated tax returns under four proposed tax structures, the following observations can be made. Relief to the low-income taxpayer can be given by means of an increased standard deduction. This will increase the number of returns taking the standard deduction, make easier tax calculations for the taxpayer, and lessen administrative costs. If this is enacted with no other changes, tax receipts will be reduced.

A uniform exemption will simplify taxpayer computations and lower administrative costs. If $600 per exemption were adopted, more of the tax load would be

TABLE 3.7 --TYPICAL TAXPAYERS, SELECTED ADJUSTED GROSS INCOME LEVELS FOR PRESENT TAX STRUCTURE, PROPOSED TAX STRUCTURE III, AND PROPOSED TAX STRUCTURE IV

Tax Structure	AGI	Exemptions Per.	Exemptions Dep.	Exemptions Total	Deductions[a]	Taxable Income	Tax Receipts[b]	Effective Tax Rates(%)
Individual Taxpayer								
Present [c]	$ 3,000	$1,000	...	$1,000	$ 150	$1,850	$ 37.00	1.2
III	3,000	600	...	600	300	2,100	42.00	1.4
IV	3,000	600	...	600	300	2,100	42.00	1.4
Present	$ 5,000	$1,000	...	$1,000	$ 250	$3,750	$ 82.50	1.6
III	5,000	600	...	600	500	3,900	87.00	1.7
IV	5,000	600	...	600	500	3,900	87.00	1.7
Present	$10,000	$1,000	...	$1,000	$ 500	8,500	295.00	3.0
III	10,000	600	...	600	1,000	8,400	290.00	2.9
IV	10,000	600	...	600	1,000	8,400	290.00	2.9
Present	$20,000	$1,000	...	$1,000	$ 500	$18,500	$795.00	4.0
III	20,000	600	...	600	1,000	18,400	790.00	4.0
IV	20,000	600	...	600	1,000	18,400	790.00	4.0
Family of Four [d]								
Present	$ 3,000	$2,000	$ 600	$2,600	$ 150	$ 250	$ 5.00	0.2
III	3,000	1,200	1,200	2,400	300	300	6.00	0.2
IV	3,000	1,200	1,200	2,400	600	...	No Tax	...
Present	$ 5,000	$2,000	$ 600	$2,600	$ 250	$2,150	$ 43.00	0.9
III	5,000	1,200	1,200	2,400	500	2,100	42.00	0.8
IV	5,000	1,200	1,200	2,400	600	2,000	40.00	0.8
Present	$10,000	$2,000	$ 600	$2,600	$ 500	$6,900	$ 215.00	2.1
III	10,000	1,200	1,200	2,400	1,000	6,600	200.00	2.0
IV	10,000	1,200	1,200	2,400	1,000	6,600	200.00	2.0
Present	$20,000	$2,000	$ 600	$2,600	$ 500	$16,900	$715.00	3.6
III	20,000	$1,200	1,200	2,400	1,000	16,600	700.00	3.5
IV	20,000	1,200	1,200	2,400	1,000	16,600	700.00	3.5

Family of Six [d]

Tax Structure	AGI	Exemptions Per.	Exemptions Dep.	Exemptions Total	Deductions	Taxable Income	Tax Receipts	Effective Tax Rates(%)
Present	$ 3,000	$2,000	$1,200	$3,200	$ 150	...	No Tax	...
III	3,000	600	2,400	3,000	300	...	No Tax	...
IV	3,000	600	2,400	3,000	800	...	No Tax	...
Present	$ 5,000	$2,000	$1,200	$3,200	$ 250	$1,550	$ 31.00	0.6
III	5,000	1,200	2,400	3,600	500	900	18.00	0.4
IV	5,000	1,200	2,400	3,600	800	600	12.00	0.2
Present	$10,000	$2,000	$1,200	$3,200	500	6,300	185.00	1.8
III	10,000	1,200	2,400	3,600	1,000	5,400	140.00	1.4
IV	10,000	1,200	2,400	3,600	1,000	5,400	140.00	1.4
Present	$20,000	$2,000	$1,200	$3,200	$ 500	$16,300	$685.00	3.4
III	20,000	1,200	2,400	3,600	1,000	15,400	640.00	3.2
IV	20,000	1,200	2,400	3,600	1,000	15,400	640.00	3.2

a/ It is assumed that a standard deduction is taken in all cases.

b/ Tax receipts are derived from present Virginia tax rates.

c/ Present tax structure refers to the Virginia tax structure as it now stands, which includes a $300 dependent exemption.

d/ It is assumed that joint returns are filed.

borne by individuals while mild tax relief would be given larger families. The exemption change would increase revenues. If the uniform exemption were made higher, for example, $1,000, revenues would be reduced.

Combining the proposed changes in the standard deduction and exemptions would benefit the large family. Small families (four and under) would find their tax positions nearly the same, while individuals would have their tax liability increased (the individual would have a lower tax liability only if his income were over $8,000 and he took a standard deduction). Tax receipts would be increased.

A minimum standard deduction of $200 plus $100 per exemption on joint and individual returns and $100 plus $100 on separate returns would affect mainly taxpayers with incomes under $2,000. Both small and large low-income families would benefit moderately from such a deduction when compared to only increasing the standard deduction.[1/]

1/ It has been proposed that the federal minimum standard deduction be raised to $600 plus $100 per exemption.

Proposed Rate Changes

In order to raise new revenues by rate increases, six proposed changes were considered. These rate schedules were applied to the net income subject to tax under the present Virginia tax structure as simulated in our computer run. The schedules along with the present rates are shown below for comparison.

Present Schedule

Taxable income	
first $3,000	
$3,001 to $5,000	
$5,001 and over	

Schedule A

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 and over	6

Schedule B

Taxable Income	Rate (%)
first $3,000	3
$3,001 to $5,000	4
$5,001 and over	6

Schedule C

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 to $10,000	5
$10,001 and over	7

Schedule D

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 to $10,000	6
$10,001 and over	7

Schedule E

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 to $10,000	5
$10,001 to $20,000	7
$20,001 and over	8

Schedule F

Taxable Income	Rate (%)
first $3,000	2
$3,001 to $5,000	3
$5,001 to $10,000	5
$10,001 to $20,000	7
$20,001 to $50,000	8
$50,001 and over	9

Schedule A

Schedule A proposes to increase the upper bracket of income of $5,001 and over from 5 per cent to 6 per cent. This change would have increased revenue by $17.4 million or 9.7 per cent in tax year 1967 (see Table 3.8). This tax change leaves the low-income taxpayer in virtually the same tax position as before. From the computer tables it is estimated that the average taxpayer does not have taxable income over $5,000 until his adjusted gross income exceeds $8,000.1/ Therefore the proposed rate change will not affect most taxpayers with AGI under $8,000.

Schedule B

Proposed Schedule B increases all rates on present tax brackets by 1 percentage point. This rate change would have increased revenues by $58.6 million or 32.6 per cent (see Table 3.8). The impact on revenues of increasing rates on the lower income brackets is much greater when compared with just increasing upper bracket rates. However, this rate schedule imposes a large increase in the tax burden on all taxpayers.

Schedule C

Proposed Rate Schedule C raises the tax rate on the increasing amounts of income over $10,000 by imposing a 7 per cent rate on taxable income above this level. The revenue increase in 1967 would have been $16 million or 8.9 per cent (see Table 3.8).

Schedule D

Proposed Schedule D raises the rates on taxable income between $5,001 and $10,000 to 6 per cent and above $10,000 to 7 per cent. Revenues in 1967 would have increased by $23.1 million or 12.9 per cent (see Table 3.8).

1/ The average net taxable income for an AGI class is derived by dividing the total income subject to tax by the number of taxpayers in the AGI class.

Schedule E

Proposed Schedule E raises the rates on taxable income between $10,001 and $20,000 to 7 per cent and on income over $20,000 to 8 per cent. Revenues in 1967 would have increased by $19.5 million or 10.8 per cent (see Table 3.8).

Schedule F

Proposed Schedule F uses a steeper rate progression than Schedule E. It would use the same rates as Schedule E up to $50,000, but over that amount would impose a 9 per cent rate. Revenues in 1967 would have increased by $20.6 million or 11.4 per cent (see Table 3.8).

TABLE 3.8--REVENUES FROM PRESENT TAX RATES, SCHEDULES A, B, C, D, E, AND F FOR PRESENT VIRGINIA TAX STRUCTURE, TAX YEAR 1967

Tax Schedule	Revenues 1967 (000)	Change from Present Tax Structure	
		Amount	Percentage
Present	$179,630	...	...
A	197,055	$17,425	9.7
B	238,235	58,605	32.6
C	195,634	16,004	8.9
D	202,761	23,131	12.9
E	199,159	19,529	10.8
F	200,242	20,612	11.4

Summary

The above proposed changes in the standard deduction and the exemption amount would reduce the tax burden of low and middle income taxpayers. A higher standard deduction would be in accordance with standard deduction rates of the majority of other states and with the federal government. A uniform exemption would increase the tax burden of individuals while giving moderate tax relief to large families. With such a combined structural change, both administration and tax filing would be easier. In addition, tax revenues would be increased.

The minimum standard deduction, with the rates as proposed here, would have a small effect on family taxpayers. Revenues would be diminished minutely when compared to only increasing the standard deduction. Unless the proposed minimum standard deduction were made higher, its cost in reduced revenues would not be significant. If the deduction were in the area of $600 plus $100 per exemption, many more taxpayers would be affected, and revenues would decline by a greater amount.

If we were to know the future needs of the State, one of the proposed tax rates schedules could be adopted to accomodate the need for more revenue. The proposed structural changes stand independent of greater revenue requirements; their purpose is for more equitable taxing and lower administration and compliance costs both to the State and to the taxpayers. Certain structural changes would in addition increase tax receipts. Any of these structures could be adopted and applied to present tax rates or one of the proposed rate schedules.

Corporations--Income Tax

Structure of the Corporate Income Tax

The Virginia corporate income tax covers all domestic and foreign corporations doing business in the State with the exception of public service corporations, insurance companies, interinsurance exchanges, state and national banks, banking associations, any company which does business on a mutual basis, credit unions, and religious, educational, benevolent, and other corporations not organized or conducted for pecuniary profit.

The tax rate on domestic corporations is 5 per cent of net income. Foreign corporations are taxed by a three factor formula.1/ The federal corporate income tax is not deductible in computing taxable income in Virginia. Depreciation and depletion allowances are with a few exceptions the same as the federal allowances.2/ Provisions for deductible charitable contributions are allowed but with a maximum deduction of 5 per cent of net income.

1/ The three factor formula consists of:

a) Property factor: ratio of the average real and tangible personal property value of the firm in Virginia to the firm's total average real and tangible personal property value.

b) Payroll factor: ratio of the total payroll in Virginia to the firm's total payroll.

c) Sales factor: ratio of total sales in Virginia to the firm's total sales.

These three ratios are added together, divided by three, multiplied by the total net income of the corporation, and then taxed at 5 per cent.

2/ The federal 20 per cent additional first year depreciation allowance is the major difference.

Interstate Comparison of Corporate Income Taxes

This section compares the 42 states and the District of Columbia which impose a tax on corporate profits. However, it should be emphasized that corporations either operating in or contemplating location in a state will view their overall tax burden rather than the corporate income tax alone. The most important taxes on corporations other than the corporate income tax are the real property tax and all other types of property taxes.

Table 3.9 shows the maximum corporate income tax rates for all states having a corporate tax in 1969. It also shows whether each state allows the federal corporate income tax to be deducted from the tax base and provides effective tax rates. Effective tax rates standardize the actual rates to take account of the deductibility of the federal tax in 12 states.1/

Virginia's effective rate is 5 per cent. This compares with other states as follows:

Effective Rate Compared with Virginia	Number of States
No tax	8
Lower rate	15
Same rate	4
Higher rate	23

1/ Those states which exempt federal tax payments require payment on a much smaller tax base. The effective tax rates for these states are therefore lower than the nominal rates. Rates are standardized by the following method: Assume that the maximum federal rate is paid (52.8 per cent including the 10 per cent surcharge). Subtract this from 100, leaving 47.2 per cent of income to be taxed by all states. For the states allowing the deduction, the effective rate is found by multiplying the actual rate by .472. For those states not allowing the federal tax deduction, the actual and effective rates are the same.

TABLE 3.9.--STATE CORPORATE INCOME TAX RATES, AUGUST 1, 1969

State	Maximum Tax Rate (Per cent)	Allow Deduction for Federal Income Taxes	Effective Tax Rate (Per cent)a/	State	Maximum Tax Rate (Per cent)	Allow Deduction for Federal Income Taxes	Effective Tax Rate (Per cent)a/
Alabama	5.0	Yes	2.4	Montana	6.25	No	6.25
Alaska	18% of federal tax	No	9.5	Nebraska	2.0	No	2.0
Arizona	8.0	Yes	3.8	Nevada	None	None	None
Arkansas	6.0	No	6.0	New Hampshire	None	None	None
California	7.0	No	7.0	New Jersey	4.25	No	4.25
Colorado	5.0	No	5.0	New Mexico	5.0	No	5.0
Connecticut	8.0	No	8.0	New York	7.0	No	7.0
Delaware	6.0	No	6.0	North Carolina	6.0	No	6.0
District of Columbia	6.0	No	6.0	North Dakota	6.0	Yes	2.8
Florida	None	None	None	Ohio	None	None	None
Georgia	6.0	No	6.0	Oklahoma	4.0	Yes	1.9
Hawaii	6.435	No	6.435	Oregon	6.0	No	6.0
Idaho	6.0	No	6.0	Pennsylvania	7.5	No	7.5
Illinois	4.0	No	4.0	Rhode Island	7.0	No	7.0
Indiana	2.0	No	2.0	South Carolina	6.0c/	No	6.0
Iowa	8.0	Yesb/	5.9	South Dakota	None	None	None
Kansas	4.5	Yes	2.1	Tennessee	5.0	No	5.0
Kentucky	7.0	Yes	3.3	Texas	None	None	None
Louisiana	4.0	Yes	1.9	Utah	6.0	Yes	2.8
Maine	4.0	No	4.0	Vermont	6.0	No	6.0
Maryland	7.0	No	7.0	VIRGINIA	5.0	No	5.0
Massachusetts	8.55	No	8.55	Washington	None	None	None
Michigan	5.6	No	5.6	West Virginia	6.0	No	6.0
Minnesota	11.33	Yes	5.3	Wisconsin	7.0	Yesd/	6.6
Mississippi	4.0	No	4.0	Wyoming	None	None	None
Missouri	2.0	Yes	0.9				

a/ Before federal income tax payments.

b/ Deductible up to 50 percent.

c/ Effective after 1969.

d/ Limited to 10 percent of net income before deductions for contributions and federal taxes.

Source: Prentice-Hall, Inc., State and Local Taxes: All States Tax Guide, 1969, pp. 1005, 1023.

The median effective rate for all states with a corporate income tax is 5 per cent--the same as the rate for Virginia. Even when the all-state measure is expanded to include states without a tax, the median continues to be 5 per cent. Compared with nearby states, Virginia's effective rate is equal to the rate in Tennessee, South Carolina[1/], and Georgia. It is above the rate in Kentucky but lower than rates in Maryland, North Carolina, and West Virginia (see Chart 3.3).

Consideration of an Increase in the Virginia Tax

In 1968-69, the yield of the 5 per cent tax was $54.5 million after adjustment to exclude a special windfall.[2/] If the rate had been 6 per cent, everything else being held constant, tax receipts would have been one-fifth higher or $65.4 million. But, this calculation assumes that higher taxes would not have affected location decisions of companies planning to settle in Virginia and of companies already here who were considering expansion. We are saying, in effect, that total corporate profits before taxes would have been the same under either a 5 or 6 per cent tax rate, and this may be a debatable assumption.

Other Taxes

The corporate income tax is the most visible and well-known tax paid by the typical concern and, in Virginia, it constitutes the largest single tax that a corporation pays. Nevertheless, there are many other

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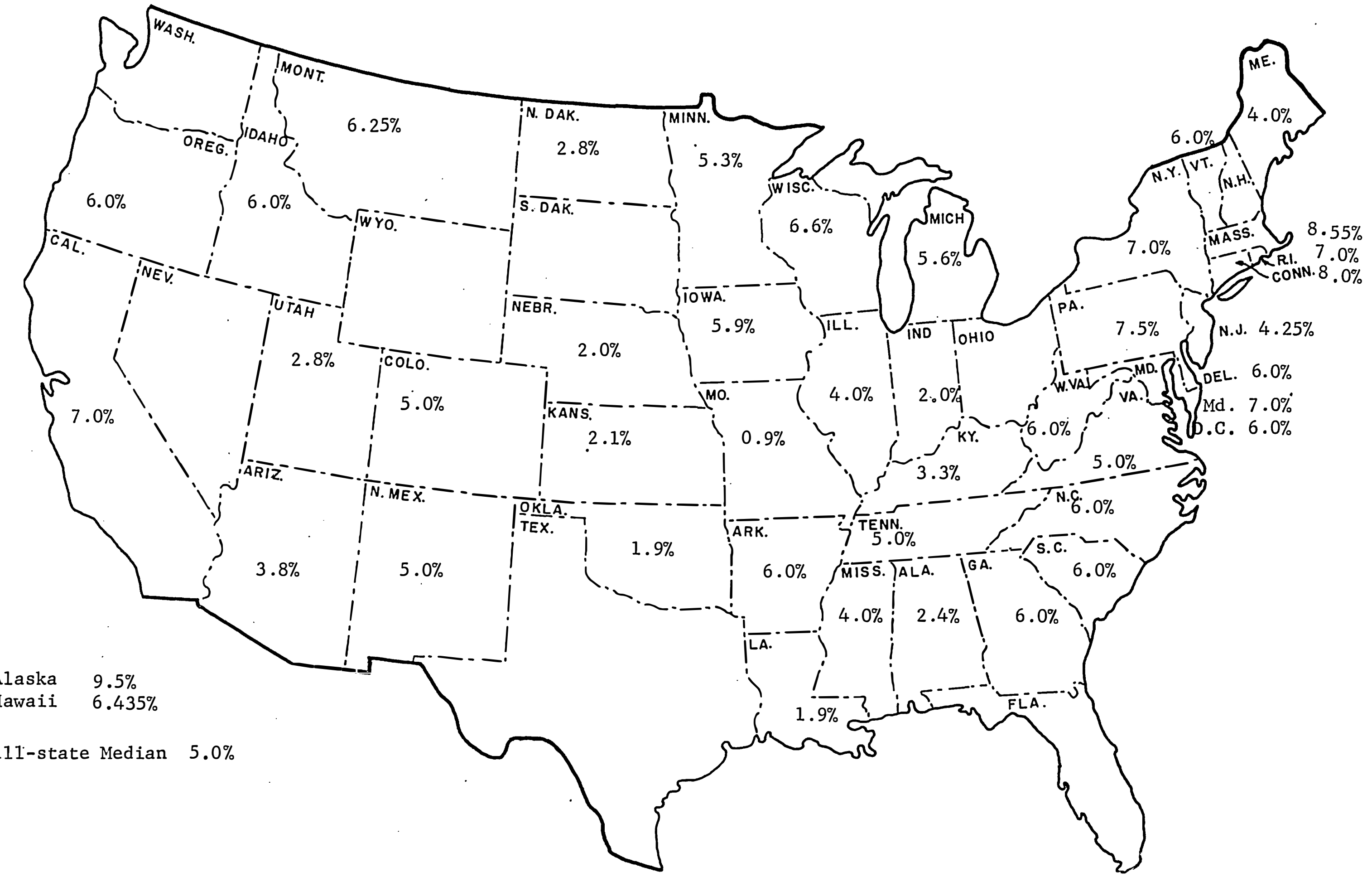
1/ South Carolina's rate is scheduled to increase to 6 per cent in 1970.

2/ There was a $13 million windfall due to corporations having income over $100,000 declaring and paying the estimated tax in installments.

CHART 3.3--STATE CORPORATE INCOME EFFECTIVE TAX RATES, 1969
(As a Per Cent of Net Income before Federal Income Tax Payments)



Alaska 9.5%
Hawaii 6.435%

All-state Median 5.0%

Source: Table 3.9, p. 66.

State and local taxes which add to a corporation's total tax liability. To provide some perspective on the total bill we have drawn on information provided by the Division of Industrial Development. Table 3.10 shows the estimated State and local taxes on a hypothetical manufacturer with net income of $1 million before federal income tax payments. The corporate income tax accounts for 59.7 per cent of the estimated total State and local tax bill paid by the "typical" manufacturer in Virginia, while business capital taxes represent 10.3 per cent. Taxes levied at the local level, principally property taxes on real estate and machinery and tools, account for most of the remaining 30 per cent. These data show that property taxes are the primary tax on corporations other than the income tax.

Interstate comparisons of property taxes involve formidable measurement problems beyond the scope of this study.1/ Therefore, only a crude analysis of relative property tax burdens is possible. Table 3.11 shows per capita state and local property taxes for Virginia, neighboring states, and all state averages. Virginia is higher than all neighboring states except Maryland, but it is well below national averages.

1/ A few of the problems are: (1) the multiplicity of local taxing jurisdictions; (2) the tendency to assess property at less than full value so that effective tax rates are different from published rates; and (3) the frequency of special exemptions such as 5 or 10 year tax forgiveness to new plants and nontaxation of plants financed by revenue funds.

TABLE 3.10--ESTIMATED STATE AND LOCAL TAXES ON A HYPOTHETICAL MANUFACTURER

Item	Assumed Values for Taxable Items	Type of Tax	Tax Rate	Assessment Ratio	Annual Tax	% of Total Bill
Real estate	$ 1,267,053	Real property (L)	$3.01 per $100[a]	34.8% of fair market value[a]	$13,272	15.9%
Machinery and tools: Original cost	3,561,179	Personal property (L)	$3.00 per $100[b]	10% of original cost[b]	10,684	12.8
Office furniture and fixtures	50,000	Business capital (S)	30¢ per $100	100% of book value	150	0.2
Trucks and company cars	50,000	Business capital (S)	30¢ per $100	100% of book value	150	0.2
Inventory	1,881,484	Business capital (S)	30¢ per $100	100% of book value	5,644	6.7
Receivables less payables	891,026	Business capital (S)	30¢ per $100	100% of book value	2,673	3.2
Cash	507,038	None	No tax		...	...
Net income before federal income tax	1,000,000	Corporate income (S)	5%		50,000	59.7
Net worth	5,869,075	None	No tax		...	...
Total sales (gross receipts)	12,403,729	None	No tax		...	...
Capital stock	1,547,328	Annual registration (S)	Ranges from $5 for stock of $15,000 or less to $25 for stock in excess of $300,000.		25	0.0
Annual purchases subject to sales tax:						
Machinery and equipment	343,758	None	No tax[c]		...	...
Electricity:						
Plant	73,530	None	No tax		...	...
Office	24,510	None	No tax		...	...
Fuels:						
Plant	84,476	None	No tax[c]		...	...
Office	28,159	Sales and use (L), (S)	4%		1,126	1.3
TOTAL					$83,724	100.0

Note: (L) local tax; (S) state tax; figures are for a foreign corporation.

a/ Weighted average for 1968 for all counties and cities in Virginia as complied in a study by the Virginia Department of Taxation.

b/ Average for 1968-69 tax year for all counties and cities in Virginia as estimated by Fred C. Forberg, Director of Real Estate Appraisal and Mapping, Virginia Department of Taxation.

c/ No tax if used directly in manufacturing tangible personal property for sale.

Source: Division of Industrial Development.

TABLE 3.11--PER CAPITA STATE AND LOCAL PROPERTY TAX REVENUES, VIRGINIA, NEIGHBORING STATES AND THE UNITED STATES, 1967-68

State	Per Capita Revenues	Relative to Virginia (Virginia = 100)
Virginia	$ 79.61	100
Maryland	137.00	172
West Virginia	63.45	80
Kentucky	60.29	76
Tennessee	63.79	80
North Carolina	63.32	80
Georgia	75.58	95
South Carolina	45.00	57
All States		
Mean	138.83	174
Median	137.00	172

Source: U. S., Bureau of the Census, Governmental Finances in 1967-68, GF68, No. 5 (Washington: Government Printing Office, 1969), p.45.

Summary

Virginia's effective corporate tax rate is not high compared to neighboring states, but it is equal to the United States median. On the other hand, Virginia's per capita property taxes are relatively high compared with its neighbors but below the national average. As far as industrial location is concerned, Virginia's tax position with regard to its neighboring states is more important than its national standing. Therefore, even granting the crudeness of the tax measures used, an increase in Virginia's corporate tax could adversely affect Virginia's competitive tax position and deter its industrial development. Furthermore, the corporate tax has the disadvantage of being a highly visible tax. Unlike other business taxes which often are complex and vary by locality, the corporate tax rate is easily understood and widely known. Thus, it may be a considerable advantage in industrial development to have a corporate rate which is somewhat lower than in states which are strong competitors.

An argument in favor of raising the tax is that taxation is only one of the variables affecting industrial location and that in many cases the cost and availability of transport, labor, and power are likely to be overriding. Moreover, a 1 percentage point increase in the tax rate would involve an effective increase of about one-half that amount (0.47 percentage points) since state income taxes are a deductible item in computing federal corporate income tax liability.

Addendum: The Value Added Tax

The value added tax on business has become a topic of discussion in national economic policy. In brief, a value added tax attempts to tax only that portion which a producer adds to total value. The tax is applied to all businesses, incorporated as well as unincorporated, and tax liability is incurred regardless of whether profit is earned or not.

Although the tax has merits as a national tax, the difficulties in applying such a tax on a statewide basis are many. Among these are definition of the tax base, questionability of revenue producing ability, and taxation of foreign corporations. Only one state, Michigan, has experimented with the value added tax, but it abandoned the tax in 1968 after fifteen years of use. Because of these considerations, it seems impractical for Virginia to adopt the value added tax at this time.

Inheritance Tax

Present Structure of the Virginia Inheritance Tax

The Virginia inheritance tax applies to the beneficiary shares of estates of residents and of nonresidents who come under its coverage. Estates consist of real and personal property. The tax levied depends on the share of the net estate (gross estate minus deductions) received by the beneficiary and the class of beneficiary. There are three classes of beneficiaries.

Class A consists of the wife, husband, parents, grandparents, children, and all other lineally related persons. The first $5,000 of the inheritance is exempt from taxation and all above that is taxable as follows:

Over $5,000 to $50,000	1 per cent
Over $50,000 to $100,000	2 per cent
Over $100,000 to $500,000	3 per cent
Over $500,000 to $1,000,000 ...	4 per cent
Over $1,000,000	5 per cent

In Class B are the brothers, sisters, nephews, and nieces. The first $2,000 of the inheritance is exempt and that which is above it is taxed in the following way:

Over $2,000 to $25,000	2 per cent
Over $25,000 to $50,000	4 per cent
Over $50,000 to $100,000	6 per cent
Over $100,000 to $500,000	8 per cent
Over $500,000	10 per cent

Class C is made up of grandnephews and grandnieces, those not in Classes A or B, and firms, associations, corporations, and other organizations. The first $1,000 of the inheritance is exempt. Above that amount the size classes are the same as for Class B. The rates, however, are 5, 7, 9, 12, and 15 per cent.

Qualifying all of these rates is the fact that no tax assessment may be less than the federal credit on state death taxes (the "pick-up" statute).

In other words, the "pick-up" imposes a floor on the tax paid.

A Comparison of Death Taxes in Virginia and Other States

To gain some understanding of how the Virginia inheritance tax compares with death taxes in other states, Tables 3.12 through 3.15 are provided. They show in a concise manner the types of state death taxes and the rates and exemptions in effect as of January 1, 1969. As may be observed, Virginia is among the large majority of states that have an inheritance tax and a "pick-up" statute. Further observation (Table 3.14) reveals that the exemptions in Virginia for widow, minor child, and adult child are relatively low. However, for brother or sister or non-relatives they tend to be more consistent with those of other states. As for the rates, there are a number of states that appear to have more progressive rate structures and higher rates.

TABLE 3.12--TYPES OF STATE DEATH TAXES, JANUARY 1, 1969

TYPE OF TAXES	STATE
"Pickup" tax only.......................... (4)	Alabama, Arkansas, Florida, Georgia.
Estate tax only........................... (3)	Mississippi, North Dakota, Utah.
Estate tax and "pickup" tax................ (5)	Arizona, New York, Ohio, Oklahoma,1/ S. Carolina.
Inheritance tax only...................... (2)	South Dakota, West Virginia.
Inheritance tax and "pickup" tax...........(34)	Alaska, California,1/ Colorado,1/ Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana,1/ Maine, Maryland, Massachusetts, Michigan, Minnesota,1/ Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina,1/ Pennsylvania, Tennessee,1/ Texas, Vermont, Virginia,1/ Washington,1/ Wisconsin,1/ Wyoming.
Estate tax and inheritance tax............. (1)	Oregon.1/
Inheritance, estate and "pickup" taxes..... (1)	Rhode Island.1/
No tax.................................... (1)	Nevada.

1/ Also has gift tax (12).

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: Government Printing Office, 1968), p. 111.

TABLE 3.13--STATE ESTATE TAX RATES AND EXEMPTIONS, JANUARY 1, 1969 1/

State	Rates	Maximum rate applies above	Exemption
Alabama..................	80 percent of 1926 Federal rates	$10,000,000	$100,000
Arizona 2/................	4/5 of 1-16 percent............	10,000,000	100,000
Arkansas..................	80 percent of 1926 Federal rates	10,000,000	100,000
Florida...................	80 percent of 1926 Federal rates	10,000,000	100,000
Georgia...................	80 percent of 1926 Federal rates	10,000,000	100,000
Mississippi...............	80 percent of 1926 Federal rates	10,000,000	60,000
New York 2/...............	2-21 percent....................	10,100,000	3/
North Dakota..............	2-23 percent....................	1,500,000	4/
Ohio 5/...................	2-7 percent.....................	500,000	5,000 6/
Oklahoma 2/...............	1-10 percent....................	10,000,000	15,000
Oregon....................	1-10 percent....................	500,000	15,000
Rhode Island 2/...........	1 percent	7/	10,000
South Carolina............	4-6 percent.....................	100,000	60,000
Utah......................	3-10 percent....................	125,000	10,000

1/ Excludes States shown in table 50 which, in addition to their inheritance taxes levy an estate tax to assure full absorption of the 80-percent Federal credit.
2/ An additional estate tax is imposed to assure full absorption of the 80-percent Federal credit.
3/ $20,000 of transfers to spouse and $5,000 to each lineal ascendant and descendant and to other specified relatives are exempt and deductible from first bracket.
4/ Exemption for spouse is $20,000 or 50 percent of adjusted gross estate, for minor child, $5,000, for lineal ancestor or descendants, $2,000.
5/ Replaced inheritance tax, effective July 1, 1968
6/ An additional $20,000 for spouse, $7,000 for minor child, and $3,000 for adult child.
7/ Entire estate above exemption.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: Government Printing Office, 1968), p. 111.

TABLE 3.14--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1969

State[1]	Exemptions					Rates (percent)				In case of spouse	
	Widow	Minor child	Adult child	Brother or sister	relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
Alabama[2]	....	....	....	....	....	....	....	....	....	....	....
Alaska	$10,000	$10,000	$10,000	$1,000	None	1—3.5	1—3.5	3—10.5	5—17.5	$15,000	$100,000
Arizona[2]	....	....	....	....	....	....	....	....	....	....	....
Arkansas[2]	....	....	....	....	....	....	....	....	....	....	....
California[3] [4]	5,000	12,000	5,000	2,000	$300	3—14	3—14	6—20	10—24	25,000	400,000
Colorado	35,000	15,000	10,000	2,000	500[5]	2—8	2—8	3—10	10—19	50,000	500,000
Connecticut[3] [6] [7]	50,000	10,000[8]	10,000[8]	3,000	500	3—8[9]	2—8	4—10	8—14	150,000	1,000,000
Delaware[3]	20,000	3,000	3,000	1,000	None	1—4	1—4	2—5	5—8	30,000	200,000
District of Col.[3]	5,000	5,000	5,000	2,000	1,000	1—5	1—5	3—10	5—15	50,000	1,000,000
Florida[2]	....	....	....	....	....	....	....	....	....	....	....
Georgia[2]	....	....	....	....	....	....	....	....	....	....	....
Hawaii	20,000	5,000	5,000	500	500	2—6[9]	1.5—7.5	3.5—9	3.5—9	15,000	250,000
Idaho[4]	10,000	10,000	4,000	1,000	None	2—15	2—15	4—20	8—30	25,000	500,000
Illinois	20,000	20,000	20,000	10,000	100	2—14	2—14	2—14	10—30	20,000	500,000
Indiana[3]	15,000	5,000	2,000	500	100	1—10	1—10	5—15	7—20	25,000	1,500,000
Iowa	40,000	15,000	15,000	None[10]	None[10]	1—8	1—8	5—10	10—15	5,000	150,000
Kansas	75,000	15,000	15,000	5,000	200[5]	0.5—2.5[9]	1—5	3—12.5	10—15	25,000	500,000
Kentucky	10,000	10,000	5,000	1,000	500	2—10	2—10	4—16	6—16	20,000	500,000
Louisiana[3] [4]	5,000	5,000	5,000	1,000	500	2—3	2—3	5—7	5—10	25,000	25,000
Maine	15,000	10,000	10,000	500	500	2—6	2—6	8—12	12—18	50,000	250,000
Maryland[5]	150	150	150	150	150	1	1	7½	7½	11/	11/
Massachusetts[5]	10,000	10,000	10,000	1,000	1,000	1½—11½	1½—11½	5—18 3/4	7½—18 3/4	10,000	1,000,000
Michigan[3] [12]	30,000[13]	5,000	5,000	5,000	None	2—8	2—8	2—8	10—15	50,000	750,000
Minnesota[3] [14]	30,000	15,000	6,000	1,500	500	1.5—10	2—10	6—25	8—30	25,000	1,000,000
Mississippi[2]	....	....	....	....	....	....	....	....	....	....	....
Missouri	20,000[15]	5,000[16]	5,000[16]	500	100[5]	1—6	1—6	3—18	5—30	20,000	400,000
Montana[3]	20,000	2,000	2,000	500	None	2—8	2—8	4—16	8—32	25,000	100,000
Nebraska[3]	10,000	10,000	10,000	10,000	500	1	1	1	6—18	11/	11/
Nevada	17/	17/	17/	17/	17/	17/	17/	17/	17/	11/	11/
New Hampshire	17/	17/	17/	None	None	17/	17/	10	10	17/	17/

See footnotes at the end of table.

TABLE 3.14--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1969 (Continued)

State 1/	Exemptions					Rate (percent)				In case of spouse	
	Widow	Minor Child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
New Jersey	$5,000	$5,000	$5,000	$ 500 5/	$ 500 5/	1—16	1—16	11—16	15—16	$10,000	$3,200,000
New Mexico 4/	10,000 18/	10,000 18/	10,000 18/	10,000 18/	500 6/	1	1	5	5	11/	
New York 2/	....	....	....	....	....	....	....	....	....	....	....
North Carolina 19/	10,000	5,000	2,000	None	None	1—12	1—12	4—16	8—17	10,000	3,000,000
North Dakota 2/	....	....	....	....	....	....	....	....	....	....	....
Oklahoma 2/	....	....	....	....	....	....	....	....	....	....	....
Oregon 20/ 21/ *	None	None	None	1,000	500	1—10	1—10	1—15	1—20	10,000	500,000
Pennsylvania	1,000	None 22/	None 22/	None	None	6	6	15	15	11/	11/
Rhode Island 3/ 20/	10,000	10,000	10,000	5,000	1,000	2—9	2—9	3—10	8—15	25,000	1,000,000
South Carolina 2/	....	....	....	....	....	....	....	....	....	....	....
South Dakota 3/ *	15,000	10,000	10,000	500	100	1—4	1—4	3—12	5—20	15,000	100,000
Tennessee 3/	10,000 23/	10,000 23/	10,000 23/	1,000 23/	1,000 23/	1.4—9.5	1.4—9.5	6.5—20	6.5—20	25,000	500,000
Texas 3/ 4/	25,000	25,000	25,000	10,000	500	1—6	1—6	3—10	5—20	50,000	1,000,000
Utah 2/	....	....	....	....	....	....	....	....	....	....	....
Vermont 3/	15,000	15,000	15,000	15,000	None	2—6	2—6	2—6	12	25,000	250,000
Virginia 3/	5,000	5,000	5,000	2,000	1,000	1—5	1—5	2—10	5—15	50,000	1,000,000
Washington 3/ 4/	5,000 24/	5,000 24/	5,000 24/	1,000 6/	None	1—10	1—10	3—20	10—25	25,000	500,000
West Virginia 3/ *	15,000	5,000	5,000	None	None	3—13	3—13	4—18	10—30	50,000	1,000,000
Wisconsin 3/ 25/	15,000	2,000	2,000	500	100	2—10	2—10	2—10	8—40	25,000	500,00
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6	11/	11/

1/ All States, except those designated by asterisk (*), impose also an estate tax to assure full absorption of the 80 percent Federal credit.

2/ Imposes only estate tax. See table 49.

3/ Exemptions are deductible from the first bracket.

4/ Community property passing to the surviving spouse is exempt, or only one-half is taxable.

5/ No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column, but no tax shall reduce the value of the amounts shown in the exemption column. In Maryland, it is the practice to allow a family allowance of $450 to a widow if there are infant children, and $225 if there are no infant children, although there is no provision for such deductions in the statute.

(Footnotes continued on the next page)

TABLE 3.14--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1969 (Continued)

6/ The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.

7/ An additional 30 percent surtax is imposed.

8/ Only one $10,000 exemption is allowed for beneficiaries in Class A, which includes minor and adult children.

9/ Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.

10/ Estates of less than $1,000 after deduction of debts are not taxable.

11/ Entire share (in excess of allowable exemption).

12/ Transfers of real property to Class I beneficiaries (all but non-relatives) are taxed at 3/4 of the indicated tax rates. There is no tax on the share of any beneficiary if the value of the share is less than $100.

13/ Plus an additional $5,000 for every minor child to whom no property is transferred.

14/ For a widow, an additional exemption is allowed equal to the difference between the maximum deduction for family maintenance ($5,000) and the amount of family maintenance actually allowed by the Probate Court. The total possible exemption therefore would be $35,000. If there is no surviving widow entitled to the exemption, the aggregate exemption is allowable to the children.

15/ In addition, an exemption is allowed for the clear market value of one-half of the decedent's estate, or one-third if decedent is survived by lineal descendents.

16/ Or the value of the homestead allowance, whichever is greater.

17/ No tax imposed.

18/ The beneficiaries in Class I (spouse, parents, lineal descendents, and adopted children) are allowed one $10,000 exemption for the entire class.

19/ A widow with a child or children under 21 and receiving all or substantially all of her husband's property, shall be allowed, at her option, an additional exemption of $5,000 for each such child. The children shall not be allowed the regular $5,000 exemption provided for such children.

20/ Imposes also an estate tax. See table 49.

21/ Oregon imposes a basic tax, measured by the entire estate in excess of a single exemption ($15,000 prorated among all beneficiaries and deductible from the first bracket); and an additional tax, measured by the size of an individual's share for which each beneficiary has a specific exemption. All members of Class I (spouse, children, parents, grandparents, stepchildren or lineal descendents) are exempted from the additional tax.

22/ In the absence of a spouse, the children may claim the $1,000 exemption.

23/ Widows and children are included in Class A, with one $10,000 exemption for the entire class. Beneficiaries not in Class A are allowed one $1,000 exemption for the entire class.

24/ An additional $5,000 exemption is allowed to the class as a whole.

25/ These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiary's share. An additional tax equal to 30 percent of the inheritance tax is also imposed.

Source: Advisory Council on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: U.S. Government Printing Office, November, 1968), pp. 111-115.

The Bureau of the Census has compiled data on per capita death and gift taxes of state governments.[1] Since death taxes account for the majority of such collections, the data give a quick idea of the relative burden of death taxes. In 1968 the median state (i.e., half of the states had higher amounts, and half lower) had a per capita figure of $2.90. Virginia's amount was $2.32 and compared with neighboring states as follows:

State	Per Capita Death and Gift Taxes
Virginia	$2.32
Maryland	1.98
West Virginia	2.79
Tennessee	3.07
Kentucky	3.01
North Carolina	2.93

The per capita data indicate that Virginia's inheritance tax is low whether compared with the national median or neighboring states.

To place the Virginia inheritance tax in better perspective, we shall compare it with the North Carolina tax for Class A, spouse. The North Carolina inheritance tax is chosen because it has a highly progressive rate structure over a large number of size classes. This allows any differences with Virginia to be sharply defined. Table 3.15 shows the comparison. Thirteen hypothetical sizes of inheritances are used. For Virginia, the exemption and

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1/ See U. S., Bureau of the Census, State Government Finances in 1968, GF68, No. 3 (Washington: Government Printing Office, 1969), p. 12.

rates are given above (see page 73). For North Carolina the exemption is $10,000 and the rate structure is as follows:

First $10,000 above exemption	1 per cent
Over $10,000 and to $25,000	2 per cent
Over $25,000 and to $50,000	3 per cent
Over $50,000 and to $100,000	4 per cent
Over $100,000 and to $200,000	5 per cent
Over $200,000 and to $500,000	6 per cent
Over $500,000 and to $1,000,000	7 per cent
Over $1,000,000 and to $1,500,000 ..	8 per cent
Over $1,500,000 and to $2,000,000 ..	9 per cent
Over $2,000,000 and to $2,500,000 ..	10 per cent
Over $2,500,000 and to $3,000,000 ..	11 per cent
Over $3,000,000	12 per cent

Several differences between the two states are obvious. First, in Virginia a tax is imposed on inheritances that North Carolina exempts from taxation. Second, the tax rates are more progressive over a larger number of size classes in North Carolina than in Virginia. Hence, the actual tax and the effective rate are higher in North Carolina than in Virginia for all but the two smallest taxable inheritances.[1/] This is true even though the "pick-up" statute comes into use in Virginia for the $995,000 taxable inheritance. In effect, this negates the effectiveness of the 5 per cent and, to some extent, the 4 per cent rate.[2/]

Inheritance Tax Receipts

In fiscal year 1968-69, inheritance tax receipts were $11.4 million, which represented 1.6 per cent of total general revenues. Receipts from the tax are subject to continual annual fluctuation because of dependence on large inheritances for much of the revenue.

1/ The greater progressiveness is also present in the rate structure for the North Carolina equivalent of Virginia Classes B and C. However, there are no exemptions in these classes.

2/ This is not to say that this phenomenon is always observable from actual returns. Large inheritance may also be in Classes B or C, especially the latter, and in these the inheritance tax rates generally override the federal credit. Nevertheless, for purposes of a simple comparison, the choice of Class A makes little difference with respect to this problem.

TABLE 3.15--A COMPARISON OF THE INHERITANCE TAX IN VIRGINIA AND NORTH CAROLINA USING CLASS A, SPOUSE, FOR THE PURPOSE OF ANALYSIS

Inheritance Before Exemption (1)	Virginia: Taxable Inheritance (2)	Virginia: Tax (3)	Virginia: Effective Rate (%) (4)	North Carolina: Taxable Inheritance (5)	North Carolina: Tax (6)	North Carolina: Effective Rate (%) (7)
$ 10,000	$ 5,000	$ 50	0.50	$ 0	$ 0	0
20,000	15,000	150	0.75	10,000	100	0.50
25,000	20,000	200	0.80	15,000	200	0.80
50,000	45,000	450	0.90	40,000	850	1.70
100,000	95,000	1,450	1.45	90,000	2,750	2.75
200,000	195,000	4,450	2.22	190,000	7,650	3.82
500,000	495,000	13,450	2.69	490,000	25,550	5.11
1,000,000	995,000	35,720[a/]	3.57	990,000	60,450	6.04
1,500,000	1,495,000	67,920	4.52	1,490,000	100,350	6.69
2,000,000	1,995,000	113,560	5.67	1,990,000	145,250	7.26
2,500,000	2,495,000	143,200	5.72	2,490,000	195,150	7.80
3,000,000	2,995,000	186,040	6.20	2,999,000	250,050	8.33
4,000,000	3,995,000	286,120	7.15	3,990,000	370,950	9.27

a/ "Pick-up tax" becomes effective at this level. Tax is based on the federal schedule for credit for state death taxes.

Source: Tax Codes for the States of Virginia and North Carolina.

The Burden of the Inheritance Tax

To see who bears the burden of the inheritance tax, Tables 3.16, 3.17, and 3.18 have been prepared. The data have been supplied by the Department of Taxation.

Table 3.16 shows the number of returns, the total net taxable estate after exemptions, and the total tax collections for ten size classes of net taxable estate. The table includes the returns that fall under the inheritance tax rates (Table 3.17) and those that fall under the "pick-up" (Table 3.18). As shown by Table 3.16, the distribution of the number of returns is skewed toward the lowest size classes with 27.8 per cent of the returns in the lowest size class, 44.5 per cent in the two lowest size classes, and 81.4

TABLE 3.16--INHERITANCE TAXES DISTRIBUTED BY NET TAXABLE ESTATE SIZE CLASS, FOR FISCAL YEAR 1968-69

Net Taxable Estate Size Classes		Returns		Total Net Taxable Estate		Total Tax Collections	
Equal to or More Than	Less Than	Number	% of Total	Amount (000)	% of Total	Amount (000)	% of Total
$ 0	$ 5,000	2,716	27.8	$ 6,363.6	1.6	$ 103.7	0.9
5,000	10,000	1,631	16.7	11,902.5	2.9	186.9	1.7
10,000	25,000	2,174	22.2	35,317.7	8.6	525.1	4.7
25,000	50,000	1,438	14.7	50,772.1	12.4	735.5	6.6
50,000	100,000	1,003	10.3	70,995.6	17.3	1,232.7	11.0
100,000	200,000	513	5.2	69,916.7	17.0	1,490.1	13.3
200,000	500,000	234	2.4	69,081.4	16.8	1,858.2	16.6
500,000	1,000,000	46	0.5	31,016.4	7.6	930.3	8.3
1,000,000	2,000,000	20	0.2	27,482.7	6.7	1,186.6	10.6
2,000,000	...	9	0.1	37,253.1	9.1	2,944.8	26.3
		9,784	100.0	$410,095.8	100.0	$11,193.9	100.0

Source: Special tabulation by the Department of Taxation.

TABLE 3.17--INHERITANCE TAXES EXCLUSIVE OF THE "PICK-UP" FOR FISCAL YEAR 1968-69

Number of Beneficiaries Taxable at Highest Rate Shown		Amount Taxable	Total Tax Collections
		Class A Beneficiaries	
1%	10,388	$172,372,033	$1,723,720
2%	867	42,586,370	851,727
3%	500	45,664,174	1,369,925
4%	16	4,180,812	167,232
5%	4	682,588	34,129
	11,775	$265,485,977	$4,146,733
		Class B Beneficiaries	
2%	3,655	$ 30,508,512	$ 610,170
4%	303	7,949,773	317,991
6%	115	5,640,927	338,456
8%	73	5,662,204	452,976
10%	3	401,762	40,176
	4,159	$ 50,163,178	$1,759,769
		Class C Beneficiaries	
5%	2,460	$ 16,127,680	$ 806,384
7%	112	2,683,338	187,834
9%	49	1,556,450	140,080
12%	17	1,001,108	120,133
15%	0	0	0
	2,638	$ 21,368,576	$1,254,431
Total, all classes	18,572	$337,017,731	$7,160,933

Source: Special tabulation by the Department of Taxation.

TABLE 3.18--INHERITANCE TAXES ASSESSED UNDER THE "PICK-UP" FOR FISCAL YEAR 1968-69

Net Taxable Estate (After Exemptions) Equal to or more than	Less Than	Number	Amount of Net Taxable Estates	Amount of Tax
50,000	- 60,000	2	$ 111,761	$ 254
70,000	- 80,000	-	...	...
80,000	- 90,000	1	85,174	361
90,000	- 100,000	1	90,913	415
100,000	- 125,000	1	119,097	866
125,000	- 150,000	2	274,295	2,382
150,000	- 175,000	6	956,851	10,004
175,000	- 200,000	4	754,939	8,645
200,000	- 250,000	4	893,979	12,854
250,000	- 300,000	10	2,806,651	44,926
300,000	- 350,000	9	2,966,619	57,142
350,000	- 400,000	4	1,499,376	28,564
400,000	- 500,000	7	3,291,729	78,804
500,000	- 600,000	7	3,771,329	97,323
600,000	- 700,000	4	2,591,725	59,096
700,000	- 800,000	3	2,241,061	69,411
800,000	- 900,000	1	877,725	29,713
900,000	- 1,000,000	3	2,860,701	101,747
1,000,000	- 1,500,000	8	9,167,991	364,035
1,500,000	- 2,000,000	3	5,495,098	275,414
2,000,000	- 2,500,000	2	4,268,557	228,707
2,500,000	- 3,000,000	2	5,479,777	328,780
3,000,000	-	3	22,472,726	2,233,697
Totals		87	$73,078,074	$4,033,141

Source: Special tabulation by the Department of Taxation.

per cent in the four lowest size classes. On the other hand, the returns in the lower size classes produce little revenue. The returns in the lowest size class account for only 0.9 per cent of the total tax collections, those in the two lowest size classes produce 2.6 per cent, and those in the first four size classes produce 13.9 per cent. These data confirm the hypothesis that many of the returns are in the lowest size classes, especially the 0-$5,000 class and, in turn, produce little revenue.

One factor that must be kept in mind in looking at Table 3.16 is that the distribution is by net taxable estate which has all exemptions taken out. It is the smallest of the three alternative estates--gross, net, and net taxable. The primary implication of using net taxable estate is that the data tend to fall in size classes that are lower than if gross or net estate were used. Thus, many of the returns that would fall in a $10,000-$25,000 gross estate class or a $5,000-$10,000 net estate class appear in the 0-$5,000 net taxable estate class. There is no way to determine exactly what the deductions are or in which estate classes the exemptions given in Table 3.17 fall. One hint on exemptions is that 10,388 of the total of 18,572 beneficiaries are in the first bracket for Class A beneficiaries. Thus, the use of net taxable estate forces one to look at smaller size classes to see where the majority of the returns are. Yet, it still leads to the same conclusions as the use of gross or net estate classifications.

Table 3.17 shows for those inheritances that fall under the inheritance tax rates the number of beneficiaries taxable at the highest rate shown, the amount taxable at each rate, and the tax at each rate for each beneficiary class. The table is largely self-explanatory, so only a few comments will be made. First, the number of beneficiaries, the amount taxable, and the tax are by far the greatest in the first bracket in all three beneficiary classes. This is especially true for the Class A beneficiaries. Second, the Class A grouping contains by and large the greatest number of beneficiaries and amount taxable over the several rates as compared to the other two classes. However, the tax in Class A tends to fall off comparatively in the higher brackets, and this reflects the relatively low rates in this class. Both of these findings may be expected, but they do point up several things. One is that the majority of inheritances are small, and many are taxable because of the small exemptions. The other is that some of the larger inheritances, which are the greatest revenue producers, come under the "pick-up" rather than the inheritance tax because of the low inheritance tax rates, especially in Class A.1/

The last point is brought out clearly in Table 3.18. It shows that only 87 returns, accounting for $73.1 million in net taxable estate, produced about $4 million in revenue. In percentage terms, 0.9 per cent of the returns accounted for 17.8 per cent of the total net taxable estates and produced 36 per cent of total revenue. What is even more interesting is that 3 returns of $3 million or more brought in 20 per cent of the total revenue. One factor that must be remembered in examining this table is that the revenue figure shows the total amount of tax generated by the "pick-up", not the increment added by the "pick-up" to what the inheritance tax itself produces. A special tabulation not shown in the tables provided the information that in fiscal year 1968-69 the "pick-up" accounted for $1.6 million.

1/ Table 3.15 illustrates the fact that for large inheritances, the "pick-up" becomes effective.

Possible Changes in the Inheritance Tax

A doubling of exemptions would serve to remove the tax liability of many small estates which contribute little to total revenues. However, such a step would not make a material change in administrative costs because any estate of more than $2,000 would still have to file a return[1/], and many non-taxable returns would need to be filed and processed in order to clear estates.

If maintaining or increasing the current revenue raising ability of the tax is desired along with exemption increases, changes in the tax rates and/or brackets are required. For example, if all exemptions had been doubled for fiscal year 1968-69, the amount taxable would have decreased by $69.8 million, and the tax collections would have declined by $900 thousand.[2/] To offset this, an increase in the rates within the present brackets would have been the simplest change. To increase the current revenue raising ability of the tax, the rates and/or brackets could be modified. Increasing the rates would require only a change in each rate by 1 or 2 percentage points with the present brackets. Changing both rates and brackets would involve a schedule like the one shown in Table 3.19.

Such a schedule would increase the progressiveness of the tax over a larger number of size classes. In this schedule, for Class A, the nominal rates are greater for all sizes of inheritances, especially the larger ones. For Classes B and C, the nominal rates remain the same to $100,000, except for the higher exemptions, and then become greater.

1/ It is possible that administrative changes could be made so that small estates would only have to file if they had a tax liability.

2/ These computations are based solely on Table 3.17.

TABLE 3.19--PROPOSED CHANGES IN THE INHERITANCE TAX

Class A	Rate (%)	Class B	Rate (%)
First $10,000	exempt	First $4,000	exempt
Over $10,000 and to $25,000	1	Over $4,000 and to $25,000	2
Over $25,000 and to $50,000	2	Over $25,000 and to $50,000	4
Over $50,000 and to $100,000	3	Over $50,000 and to $100,000	6
Over $100,000 and to $200,000	4	Over $100,000 and to $200,000	8
Over $200,000 and to $500,000	5	Over $200,000 and to $500,000	10
Over $500,000 and to $1,000,000	6	Over $500,000 and to $1,000,000	12
Over $1,000,000 and to $2,000,000	7	Over $1,000,000 and to $2,000,000	14
Over $2,000,000	8	Over $2,000,000	16

Class C	Rate (%)
First $2,000	exempt
Over $2,000 and to $25,000	5
Over $25,000 and to $50,000	7
Over $50,000 and to $100,000	9
Over $100,000 and to $200,000	11
Over $200,000 and to $500,000	13
Over $500,000 and to $1,000,000	15
Over $1,000,000 and to $2,000,000	17
Over $2,000,000	19

A special sample of fiscal year 1968-69 returns was taken in order to obtain an estimate of the revenue yield of such changes.[1/] The sample indicated that the provisions in Table 3.19 would result in a $1.2 million or 10.4 per cent increase over collection under the existing law. Revenue from the federal "pick-up" would have dropped to $0.8 million compared to the present $1.6 million. Several of the proposed rates never became effective in the sample. For example, although the highest proposed rate for Class B is 16 per cent, the highest actual rate in the sample was 10 per cent. For Class C the highest proposed rate is 19 per cent, but the highest actual rate in the sample was 11 per cent. The proposed increases in exemptions would have removed all tax liability of about 3,000 returns.

Other Considerations

At the same time that any rate and/or brackets changes are made in the inheritance tax, concomitant changes would have to be made in the gift tax. These would be necessary to maintain the existing uniformity of the gift tax vis-à-vis the inheritance tax.

The final problem to be discussed concerns the inclusion of life insurance in the inheritance tax base. At present, by administrative ruling,

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1/ A 100 per cent sample was taken of all returns subject to the "Pick-up" and of all other returns with estates of $500,000 or more. The sizes of samples for other estate size classes were based on the formula $1.96 \frac{\sigma}{\sqrt{n}} = E$ where E is the quantity the permissible error will not exceed 95 per cent of the time, σ is the standard deviation of the observations in the given size class, and n is the number of observations in the size class. E was calculated for each sample by making it equal to a given percentage of the actual mean for the size class. The percentage used was 10 per cent for the $0-4,999 class and 5 per cent for all other classes. See John E. Freund and Frank J. Williams, Modern Business Statistics (Englewood Cliffs: Prentice Hall, 1958), pp. 193-94.

the proceeds from life insurance are taxable only if they go to the estate. If they go directly to a designated beneficiary, they are exempt. Yet the basis of inheritance taxation is that property that succeeds from the decedent to a designated beneficiary is subject to tax. To exclude from taxation all life insurance proceeds just because they go directly to the beneficiary and not through the estate to the beneficiary may be arbitrary. Other death taxes do not have this exclusion. The base of the federal estate tax includes the proceeds from all life insurance. To give an example of how three neighboring states with similar but higher inheritance taxes treat it, Kentucky has the same provisions as Virginia; Tennessee exempts the first $40,000 that goes to the estate or directly to the equivalent of our Class A beneficiaries, and North Carolina exempts a certain amount of the proceeds that go directly to beneficiaries ($20,000 to Class A and $2,000 to Class B or C). It seems logical for an estate tax to include life insurance in the base and for an inheritance tax to include life insurance. In fact, two neighboring states do include it. Perhaps some modification of the ruling concerning life insurance proceeds should be considered.

If life insurance had been included in the tax base for fiscal year 1968-69, an estimate of its value would have been $19.2 million[1/]. Given the assumption that it would have fallen under the inheritance tax rates and the fact that the overall effective rate for the inheritance tax was 2.1 per cent, the additional revenue would have been $403,200.

1/ This estimate is based on federal estate tax returns filed during 1966. Since the value of life insurance in the tax base tends to grow at a small rate, it is not considered necessary to increase the estimate by any growth factor. Thus, the estimate may be low but not excessively so.

Alcoholic Beverages State Tax

Changes in this tax are discussed in the section on the sales and use tax. In particular, see pages 116 and 119.

Tobacco Products Tax

Virginia has a cigarette tax of $2\frac{1}{2}$ cents per pack. Prior to September 1, 1966, the tax was 3 cents, and cigars were also taxed. Except for North Carolina, which has a 2 cent tax, and Kentucky with a $2\frac{1}{2}$ cent tax, Virginia's tax is the lowest in the nation (see Table 3.20). To the north, the District of Columbia has a low tax (3 cents), but elsewhere the rates are significantly higher.

In fiscal year 1968-69, the tobacco products tax produced $13.5 million. Due to the slow growth of tobacco consumption, revenues from the $2\frac{1}{2}$ cent tax are not expected to rise at a fast pace in future years. For the 1970-72 biennium, the tax will probably earn about $14 million per year.

A higher tax than $2\frac{1}{2}$ cents could increase revenues substantially, provided a significant portion of sales were not lost to North Carolina or the District of Columbia. It is quite likely that if the present tax were doubled to 5 cents per pack, the number of packs sold would decrease so that total tax revenues would not double also. The following figures show the amount by which annual revenues would increase with a 5 cent tax under various hypothetical changes in sales.

Hypothetical Change in Number of Packs Sold	Millions of Dollars: Projected Revenue	Millions of Dollars: Change from Present Tax
None	$ 28.0	$ 14.0
1 per cent drop	27.7	13.7
5 per cent drop	26.6	12.6
10 per cent drop	25.2	11.2
20 per cent drop	22.4	8.4

TABLE 3.20--STATE CIGARETTE TAX RATES AS OF OCTOBER 1, 1969

State	Cents	State	Cents
Alabama	12	Missouri	9
Alaska	8	Montana	8
Arizona	10	Nebraska	8
Arkansas	12½	Nevada	10
California	10	New Hampshire	7 b/
Colorado	5	New Jersey	14
Connecticut	16	New Mexico	12
Delaware	11	New York	12
District of Columbia	3	North Carolina	2
Florida	15	North Dakota	11
Georgia	8	Ohio	10
Hawaii	8 a/	Oklahoma	13
Idaho	7	Oregon	4
Illinois	12	Pennsylvania	13
Indiana	6	Rhode Island	13
Iowa	10	South Carolina	6
Kansas	8	South Dakota	12
Kentucky	2½	Tennessee	13 c/
Louisiana	8	Texas	15½
Maine	12	Utah	8
Maryland	6	Vermont	12
Massachusetts	12	VIRGINIA	2½
Michigan	7	Washington	11
Minnesota	13	West Virginia	7
Mississippi	9	Wisconsin	14
		Wyoming	8

a/ Effective rate; tax is 40 per cent of wholesale price.

b/ Effective rate; tax is 30 per cent of retail price.

c/ Includes a 5¢ surtax which will expire May 31, 1971.

Source: Tobacco Tax Council.

The Sales and Use Tax

Introduction

The rationale for a sales tax rests on the belief that consumption is an appropriate basis on which to distribute part of the State tax load. The Virginia sales and use tax, however, falls short of this goal. While, in general, the sale of tangible personal property is taxed, the sale of services is not. Thus, much of the discussion on the sales tax has been over the extension of coverage to services. Both theoretical and empirical evidence related to the issue of services will be discussed.

In the first section, the present structure of the tax will be studied. Next, the revenue generated by it will be viewed. In the third section, the theoretical arguments pro and con on the inclusion of selected services in the tax base will be discussed. The fourth and fifth sections will compare Virginia to other states with emphasis on the coverage extended to services. The sixth section will investigate some of the related issues, such as the local taxes on public utilities. The seventh section will have revenue estimates for various tax bases.

The Present Structure of the Tax

The Virginia general sales and use tax covers the sale, rental, lease, and storage for either use or final consumption of tangible personal property at the level of final consumption. The tax rate is 3 per cent for the State. Moreover, there is a 1 per cent local option tax that all localities have adopted. Exempted from the base are public utility, professional, and nonprofessional services. Restaurant meals and transient lodging, two categories generally considered to be services, are taxed.1/

Sales and Use Tax Receipts

To see the revenue generated by the sales and use tax exclusive of the local option, fiscal year 1969-70 has been chosen as it is the first fiscal year for which the rate is 3 per cent for the entire period. For 1969-70, the projected revenue is $211 million, which represents 29 per cent of the total projected revenue of $729 million.2/ Thus, the sales and use tax may be considered a very important producer of revenue.

A Discussion of the Major Arguments on the Inclusion of Services in the Tax Base

There are several basic reasons for limiting the tax base to tangible personal property. One reason is simplicity. A blanket application of the tax to tangible property is most feasible. As will be shown below, the only practical means of including services in the base is through the enumeration of specific categories and even items to be included. Another reason is the notion that a tax on services is a tax on labor, even though the tax actually tends to rest on the consumer of the service.3/ Perhaps the most important reason for the limitation of the tax to tangible personal property is the tendency of a state to copy what others have done. It is still majority practice to confine sales and use taxes primarily to transactions involving tangible personal property. As will be seen below, Virginia has participated in the practice of following the leader.

1/ Some publications (e.g., the <u>1967 Census of Business: Selected Services</u>) do not classify restaurant meals as a service. Most publications on sales and use taxes do classify them as a service.

2/ Staff figures used in making projections contained in Chapter II.

3/ For a different view, see the footnote on page 115.

In actually selecting the services to be taxed, the problem of which ones to tax enters. Looking first at public utility services, it makes little or no difference from an administrative viewpoint whether they are taxed or exempted. Such services can logically be taxed under the philosophy of making the tax base as broad as possible. On the other hand, they are basic necessities that are utilized by all income groups. To consider taxing them may again raise the question of regressiveness.

Looking at all other types of services, the type most suitable for inclusion within the tax base is that rendered by business establishments rather than by professional men or other individuals. If the tax is limited to businesses, general administration will be simplified. If it is extended to personal services rendered by individuals and professional men, several new problems with administration are created. Moreover, significant objections that relate to social policy arise over the taxing of medical, dental, hospital and related services, legal service, and the like.

In summary, there are several strong arguments that support the inclusion of services. These, in turn, lead to the following list of services that may be covered:

Telephone and telegraph (intrastate only)
Electricity and gas
Water
Admissions
All repair of tangible personal property
Installation of all tangible personal property
Storage of all tangible personal property
Photographic services
Printing services (already taxed in Virginia)
Laundry and dry cleaning
Barber shop and beauty parlor services
Repair of motor vehicles and related activities
Parking of motor vehicles
Hotel, motel, and other transient accommodations (already taxed in Virginia)
Restaurant meals (already taxed in Virginia)

The only notable exclusion is the transportation of freight and passengers. Freight transportation is exempted on two bases. First, it is almost entirely related to production. Second, it is subject to severe competition from private transportation, which cannot be taxed. Passenger transport is likewise subject to competition from the private automobile. Exemption is warranted because of the general difficulties of maintaining an adequate public transportation system and the tax discrimination sustained by intrastate vis-à-vis interstate movements. In addition, the taxing of freight and passenger transport runs into the constitutional roadblock of the states being unable to tax interstate commerce.1/

A Comparison of the Virginia Sales and Use Tax with Sales Taxes of Other States

Table 3.21 illustrates concisely how the Virginia sales and use tax compares with those of other states. The table has the type of tax, the rate on tangible personal property at retail, the rates on selected services, and the rates on other services and businesses subject to tax. All of these data are for January 1, 1969.2/

The table shows that 45 states, including the District of Columbia, have a general sales tax. All of them tax the retail sales of tangible personal property. Only Mississippi and Hawaii also tax the sale of tangible property at the wholesale or intermediate levels, and they do so at reduced rates.

One notable exception to the general coverage of tangible personal property concerns food and medicine. Not all of the states cover one or both. The data, which are presented in Table 3.22, show as of January 1, 1969, that of the 45 states with sales taxes, 24, including Virginia, exempt medicine from the tax base in some manner, and 15 exempt food from the tax

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1/ John F. Due, Sales Tax Administration (Chicago: Public Administration Service, 1963), pp. 162-67.

2/ Several states have changed their rates, and Vermont has added a sales tax since January 1, 1969.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969
(Per Cent)

State	Type of tax[1/]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Alabama	Retail sales	4[2/]	4	4	4	....	....	....	....	Agricultural machinery and equipment, and mining and manufacturing machinery, 1-1/2%; gross receipts of amusement operators, 4%.
Arizona	do	3	3	3	3	3	3	3	3[3/]	Lease or rental of real and tangible personal property, advertising, printing, publishing, contracting, storage, and amusement operators, 3%; extracting and processing minerals, 2%; timbering, 1-1/2% meat-packing and wholesale sales of feed to poultrymen and stockmen, 3/8%.
Arkansas	do	3	3	3	3	3	3	3	....	Printing, photography, and receipts from coin-operated devices, 3%.
California	do	4	....	4	....	....	....	....	....	Renting, leasing, producing, fabrication, processing, printing or imprinting of tangible personal property, 4%.
Colorado	do	3	....	3	3	3	3	....	....	Selling, leasing or delivering in Colorado of tangible personal property by a retail sale for use, storage, distribution or consumption within the State, 3%.
Connecticut	do	3-1/2	....	3-1/2[4/]	3-1/2	....	....	....	....	Storing for use or consumption of any article or item of tangible personal property, 3-1/2%.
Florida[5/]	do	4[2/]	4	4	4	4	4[6/]	....	....	Fishing, hunting, camping, swimming and diving equipment, 5% of wholesale price or cost. Rental, storage or furnishing of taxable things or services, altering, remodeling or repairing tangible personal property, lease or rental of commercial offices or buildings, the rental of privately owned parking and docking facilities, and rental income of amusement machines, 4%; specified industrial machinery, ships and equipment designed for use exclusively by commercial fisheries, 3%.

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per Cent)

State	Type of tax[1]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Georgia	Retail sales	3	3	3	3	3	3	....	3[3]	Lease or rental of tangible personal property, and charges on amusements and amusement devices, 3%.
Hawaii	Multiple stage sales	4	4	4	4	....	....	....	....	Manufacturers, producers, wholesalers, and selected service businesses, 1/2%; sugar processors and pineapple canners, 1/2% insurance solicitors, 2%; contractors, sales representatives, professions, radio broadcasting stations, service businesses and other businesses (not otherwise specified), including amusement business, 4%.
Idaho	Retail sales	3	3	3	3	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, and gross receipts of amusement operators, 3%. (5% of the gross receipts from sales of tickets to closed circuit telecasts of boxing, sparring and wrestling matches).
Illinois[5]	do	4-1/4	....	4-1/4	....	....	....	....	....	Property sold in connection with a sale of service, 4-1/4%; remodeling, repairing and reconditioning of tangible personal property, 4-1/4%. Hotel operators are subject to a hotel occupancy tax of 3% of 97% of the gross receipts from the rental of rooms to transients.
Indiana	do	2	....	2	2	2[6]	2[6]	2[6]	....	Lease or rental of tangible personal property, 2%.
Iowa	do	3	3	3	3	3	3	3	....	Laundry, drycleaning, automobile and cold storage, printing, repair service to tangible personal property, and gross receipts derived from operation of amusement devices and commercial amusement enterprises, 3%.

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per Cent)

State	Type of tax[1]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Kansas	Retail Sales	3	3	3	3	3	3[6]	3[6]	....	Gross receipts from the operation of any coin-operated device, and lease or rental of tangible personal property, 3%.
Kentucky	do	5	5[7]	5	5	5	5[6]	5	....	Storage, use or other consumption of tangible personal property, sewer services, photography and photo finishing, 5%.
Louisiana	do	2	2	2	2	....	....	....	....	Laundry, drycleaning, automobile and cold storage, printing, repairing, renting or leasing of tangible personal property, 2%.
Maine	do	4½	....	4½	4½	4½	4½	4½	....	Renting, storing, fabricating or printing of tangible personal property, 4½%.
Maryland	do	3[2]	....	3[4]	3	....	3[6]	....	....	Lease or rental of tangible personal property, production, fabrication, or printing on special order, 3%; farm equipment, manufacturing machinery and equipment, 2%.
Massachusetts	do	3	....	[4]	....	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 3%. Transient lodging is subject to a 5% room occupancy excise tax.
Michigan	do	4	....	4	4	4	4	....	....	Lease or rental of tangible personal property, 4%.
Minnesota	do	3	3	3	3	3	3	3	....	Renting, leasing, processing, producing, fabricating or printing tangible personal property, 3%.
Mississippi[8]	Multiple stage sales	5[2]	....	5	5	5	5[6]	5	5[3]	Wholesaling, 1/8% (with following exceptions: sales of meat for human consumption, ⅛%; alcoholic beverages, motor fuel, soft drinks and syrups, 5%); extracting or mining of minerals, 5%; specified miscellaneous businesses (including bowling alleys, pool parlors, laundry and dry cleaning, photo finishing, storage, certain repair services), 5%, except cotton ginning, 15¢ per bale; sales of railroad track material (to a railroad whose rates are fixed) 3%; contracting (contracts exceeding $10,000), 2½%; farm tractors, 1%; electric power associations; renting or leasing manufacturing or processing machinery.

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per Cent)

State	Type of tax[1]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Mississippi (Cont'd)										and sales of manufacturing machinery and manufacturing machine parts over $500, 1%.
Missouri	Retail sales	3	3	3	3	3	3[6]	3	3[3]	Trailer camp rentals, and lease or rental of tangible personal property, 3%.
Nebraska	do	2	2	2	2	2	2	2	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 2%.
Nevada	do	3	....	3	....	....	....	....	....	Renting, leasing, producing, fabricating, processing, and printing, or imprinting of tangible personal property, 3%.
New Jersey	do	3	3[9]	3	3	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 3%.
New Mexico	do	3[2]	3	3	3	3	3	3	3	Leasing or storing tangible personal property, and sales of services, 3%; contracting, and sales of farm implements, 1½%; receipts from originating and servicing real property loans, 3/4%.
New York	do	2	2[9]	2[4]	2	2	2	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 2%.
North Carolina	do	3[2]	....	3	3	....	....	....	....	Leasing or renting of tangible personal property, laundry and drycleaning, 3%; airplanes, boats, railway locomotives and cars, 1½% (with a maximum tax of $120 per item); sales of horses or mules, sales of fuel to farmers, manufacturing industries and plants other than for residential heating purposes, and to

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per Cent)

State	Type of tax[1/]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
North Carolina (Cont'd)										commercial laundries or to pressing and drycleaning establishments, sales of machinery to farmers, manufacturing industries, laundry and drycleaning establishments, and other selected items, 1% (maximum tax is $80 per article for several items).
North Dakota	Retail sales	3[2/]	3	3	3	3	3	3	....	Leasing, renting, fabricating, and storing of tangible personal property, proceeds from coin-operated amusement or entertainment machinery, and the severance of sand or gravel from the soil, 3%.
Ohio	do	4	....	4	4	....	....	....	....	Printing, processing, and reproducing, 4%.
Oklahoma	do	2[2/]	2	2	2	2	2	....	2[3/]	Advertising (limited), gross proceeds from amusement devices, printing, automobile storage, 2%.
Pennsylvania[5/]	do	6	....	6	6	6	6	....	....	Repairing, altering, cleaning and lease or rental of tangible personal property, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 6%.

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per cent)

State	Type of tax[1]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Rhode Island	Retail sales	5	....	5	5	5	5	5	....	Renting, leasing, producing, fabricating, processing, and printing or imprinting of tangible personal property, 5%.
South Carolina	do	3	....	3	3	3	3[6]	....	....	Renting or leasing of tangible personal property, and laundry and drycleaning, 3%.
South Dakota	do	3[2]	3	3	3	3	3	3	....	Farm machinery, and agricultural irrigation equipment sold by licensed retailers, 2%; contractors, gross receipts from engaging in the practice of any profession or business in which the service rendered is of a professional, technical, or scientific nature, but not including persons engaged in the healing arts or veterinarians, and gross receipts from amusement devices, 3%.
Tennessee	do	3	....	3	3	3	3[6]	3[6]	....	Vending machine operators may pay a $2 registration fee plus $1 per machine, and 1 1/2% of gross receipts from such machines in lieu of privilege and sales taxes, except that the tax on gross receipts from machines dispensing tobacco items is 2 1/2%; parking lots and storage of motor vehicles, repair services, installation, lease or rental of tangible personal property, laundry and dry-cleaning, 3%; machinery for "new and expanded" industry, air & water pollution control equipment used in fabricating or producing tangible personal property, & farm machinery and equipment, 1%.

See footnotes at the end of table.

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)
(Per Cent)

State	Type of tax[1/]	Rate on tangible personal property at retail	Rates on selected services subject to tax: Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	Rates on other services and businesses subject to tax (including retail sales subject to special rates)
Texas	Retail sales	3[2/]	....	3	....	....	3[6/]	....	....	Producing, processing, and lease or rental of tangible personal property, 3%.
Utah	do	3	3	3	3	3	3	....	3[3/]	Laundry, and drycleaning, repairing, renovating, installing, fabricating, and lease or rental of tangible personal property, 3%.
Virginia	do	3[2/]	....	3	3	....	....	....	....	Fabricating, storage, lease or rental of tangible personal property, 3%.
Washington	do	4½	4½	4½	4½	....	....	....	....	Charges for certain specified services, 4½%; selected amusement and recreation activities, 4½% (unless subject to county or city admission taxes, in which case they remain taxable under the State business and occupation tax, 1%).
West Virginia	do	3[2/]	3	3	3	....	....	....	....	All services (including services rendered in amusement places), except public utilities and personal and professional services, 3%.
Wisconsin	do	3	3[9/]	3	3	3	3[6/]	....	....	Laundry, drycleaning, photographic services, the repair, service, maintenance, lease or rental of all items of taxable tangible personal property, 3%.
Wyoming	do	3[10/]	3	3	3	3	3[6/]	....	3	Laundry, drycleaning, producing, fabricating, repairing, altering, printing, lease or rental (with exceptions) of tangible personal property, plus numerous other service businesses, 3%.
Dist. of Col.	do	4[2/]	....	4	5	....	4[6/]	4	....	Producing, fabricating, printing, lease or rental (with exceptions) of tangible personal property, 4%.

See footnotes on the following page .

TABLE 3.21--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1969 (Continued)

1/ All but a few States levy sales taxes of the single-stage retail type. Hawaii and Mississippi levy multiple-stage sales taxes (although the Arizona and New Mexico taxes are applicable to some nonretail businesses, they are essentially retail sales taxes). Washington and West Virginia levy a gross receipts tax on all businesses, distinct from their sales taxes. Alaska also levies a gross receipts tax on businesses, and New Jersey levies a retail gross receipts tax plus an unincorporated business tax (which includes, unincorporated retail stores). The rates applicable to retailers (with exceptions) under these gross receipts taxes are as follows: Alaska ½% on gross receipts of $20,000 - $100,000, and ¼% on gross receipts in excess of $100,000; New Jersey, retail gross receipts - 1/20 of 1% on gross receipts in excess of $150,000, unincorporated business tax - ¼ of 1% on gross receipts in excess of $5,000; Washington, 44/100% and West Virginia, ½%.

2/ Motor vehicles are taxable at the general rates with certain exceptions. The following States apply different rates to motor vehicles under their general sales and use tax laws: Alabama, 1½%; Florida, 3%; Mississippi, 3%; and North Carolina, 1½% (maximum $120). The following exempt motor vehicles from their general sales and use taxes but impose special sales or gross receipts taxes on them under their motor vehicle tax laws: District of Columbia, 3% titling tax; Maryland, 3% titling tax; New Mexico, 1½% excise tax; North Dakota, 3% excise tax; Oklahoma, 2% excise tax; South Dakota, 3% excise tax; Texas 3% sales and use tax; Virginia, 2% sales and use tax; and West Virginia, 3% titling tax. See also table 56 for sales tax treatment of motor fuels.

3/ Arizona and Mississippi also tax the transportation of oil and gas by pipeline. Georgia exempts transportation of property, and charges by municipalities, counties, and public transit authorities for transporting passengers upon their conveyances. Missouri, Oklahoma, and Utah do not tax transportation of property. Mississippi taxes bus and taxicab transportation at the rate of 2%. Oklahoma does not tax local transportation, school transportation, and fares of 15 cents or less. Utah does not tax street railway fares.

4/ Restaurant meals below a certain price are exempt: Connecticut, less than $1; Maryland, $1 or less; New York, less than $1 (when alcoholic beverages are sold, meals are taxable regardless of price). The Massachusetts retail sales tax exempts restaurant meals, which ($1 or more) are taxed at 5% under the meals excise tax.

5/ Includes a temporary additional 1% tax through June 30, 1969.

6/ Florida exempts fuels used by a public or private utility in the generation of electric power or energy for sale. Indiana exempts gas, electricity, and water used in manufacturing, construction, mining, refining, oil or mineral extraction, and irrigation; also exempts sale of utility services to other utilities. Kansas exempts gas, electricity, and water used in farming, processing, manufacturing, mining, drilling, refining, irrigation, telephone and telegraph and other taxable services or for use in movement in interstate commerce by railroads or public utilities. Kentucky exempts energy or energy producing fuels used in manufacturing, processing, mining, or refining to the extent that costs exceed 3% of the cost of production. Maryland exempts sales of gas and electricity when made for purposes of resale or use in manufacturing, assembling, processing, refining, or the generation of electricity. Mississippi exempts wholesale sales of electricity between power companies and taxes industrial sales of gas and electricity at the rate of 1%. Missouri exempts electrical energy used in manufacturing, processing, etc., of a product, if the total cost of electrical energy used exceeds 10% of the total cost of production, excluding the cost of electrical energy so used. South Carolina's tax is not applicable to sales of gas used in manufacturing or in furnishing laundry service; also exempt are sales of electricity for use in manufacturing tangible personalty and electricity sold to radio and television stations used in producing programs. Tennessee taxes gas, electricity and water sold to or used by manufacturers at the rate of 1% (if used directly in the manufacturing process they are exempt). Texas exempts gas and electricity used in manufacturing, mining, or arigulture. Wisconsin's tax is not applicable to gas or to electricity for space heating charged at a specific rate. Wyoming exempts gas and electricity consumed in manufacturing, processing, and the transportation business. The District of Columbia exempts gas and electricity used in manufacturing, assembling, processing and refining.

7/ The tax on sale of tickets to prize fights or wrestling matches on closed circuit television is 5% of the gross receipts. The 5% tax also applies to payments received from broadcasting companies for the right to televise or broadcast any match.

8/ In Mississippi, effective August 1, 1968, the State sales tax on tangible personal property was increased from 3½% to 5%; however, authority for local sales tax was repealed.

9/ In New Jersey, admissions to a place of amusement are taxable if the charge is in excess of 75 cents. New York taxes admissions when the charge is over 10 cents; exempt are participating sports (such as bowling and swimming), motion picture theatres, race tracks, boxing, wrestling, and live dramatic or musical performances. Sales of admissions to motion picture theatres costing 75 cents or less are exempt in Wisconsin.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: U.S. Government Printing Office, November, 1968), pp. 60-67.

TABLE 3.22--EXEMPTION OF FOOD AND MEDICINE IN STATE GENERAL SALES TAXES, JANUARY 1, 1969

State	Tax rate (percent)	Food1/	Medicine2/
Arizona	3	....	x
California..........	4	x	x
Colorado.*..........	3	....	x
Connecticut.........	3 1/2	x	x
Dist. of Columbia...	4	x3/	x
Florida.............	4	x	x
Idaho...............	3	....	x
Indiana.*...........	2	....	x
Maine...............	4 1/2	x	x
Maryland............	3	x	x
Massachusetts.*.....	3	x	x
Michigan............	4	....	x4/
Minnesota...........	3	x	x
Nebraska.*..........	2	....	x
New Jersey..........	3	x	x
New York............	2	x	x
North Carolina......	3	....	x
North Dakota........	3	....	x
Ohio................	4	x	x
Pennsylvania........	6	x	x
Rhode Island........	5	x	x
Texas...............	3	x	x
Virginia............	3	....	x
Wisconsin...........	3	x	x

* Also allows personal income tax credit or cash rebate.

1/ Food exemptions usually apply to "food for human consumption off the premises where sold." Restaurant meals are taxable in all States, although meals costing less than a specified amount are exempt in some States.

2/ The exemption is usually applicable to medicine sold on prescription or compounded by druggists, and often to medical and dental aids or devices such as artificial limbs, eyeglasses, and dentures. Some States exempt patent medicines and household remedies.

3/ Rate on food is 1 percent.

4/ The exemption is applicable only to 50 percent of the amount charged for recorded drug prescriptions. Full exemption applies to artificial limbs and eyes.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: U.S. Government Printing Office, November, 1968), p. 68.

base in some way. Moreover, 7 states use a personal income tax credit or cash rebate to compensate for sales taxes or consumer type taxes paid. Four of these specify that the relief is for sales taxes on food for home consumption.

The justification for the food exemption is that the regressiveness of the sales tax is greatly reduced. Exemption also decreases the tax burden on lower income groups and the relatively heavy burden on large families. On the other hand, a food exemption reduces sales tax revenue by about 25 per cent. Other problems relate to enforcement and administration. One is that many stores selling food and taxable goods do not maintain correct records of the sale of exempt and taxable commodities. The result is usually loss of revenue since there is a tendency to overstate the exemption. The primary reasons for the overstatement are that time pressure at the counters is severe and that most stores use low-paid help and have a high rate of personnel turnover. To solve this problem some states have derived formulas on which to base the tax. The other problem concerns interpretation. Borderline cases raise problems when candy, soft drinks, and meals are taxable.

The exemption of medicine may be warranted in terms of social policy. However, to extend the exemption beyond prescriptions raises difficulties because of the lack of a clear-cut border between these items and related products such as dentifrices and cosmetics. Furthermore, many household remedies are handled not only by drugstores, but also by supermarkets, variety stores, and many others. The control problems are increased tremendously. Thus, the objective of this exemption can be attained by and large and with less difficulty if exemption is confined to prescriptions and a few major standard items, such as insulin.[1/]

1/ John F. Due, State Sales Tax Administration (Chicago: Public Administration Service, 1963), pp. 188-91.

Perhaps the most feasible method of solving the problems of food and even medicine exemptions is not to exempt them but rather to have a personal income tax credit. This credit will be discussed for food in greater detail below.

Table 3.21 shows that there is some disparity between the states with respect to the taxation of services. All of the 45 states with sales taxes make provision for taxing restaurant meals. Forty of the states, including Virginia, and the District of Columbia tax transient lodgings. As for public utility services, only 27 of the states tax telephone and telegraph services, 30 tax gas and electricity, and 17 tax water. Eight states tax intrastate transportation of persons and property.

Even more illustrative of the differences between the states with respect to services are the listings in the final column. Here are stated specific and mostly nonprofessional services that some of the states tax. Finally the last column includes other specific businesses, mainly the lease and rental of tangible personal property, that the states tax.

In summary, the states are consistent in their coverage of retail sales of tangible personal property except for food and medicine. However, there does appear to be a lack of uniformity as far as selected services are concerned. More generally, the table sheds some light on the fact that it is majority practice to exclude many services from the tax base.

Sales Tax Coverage for Selected Services in Virginia and 9 Other States

To study in greater detail the coverage of services, this section compares Virginia with 9 other states. Five of the states are chosen because the Virginia sales tax law is based on their laws. They are California, New York, Pennsylvania, Maryland, and Georgia. Regional states are also selected. They are, besides Maryland and Georgia, North Carolina, South Carolina, Tennessee, and West Virginia. Inquiries were made to each state asking for a listing of the items covered. All of the states responded to the question, and from the responses Tables 3.23 and 3.24 have been compiled.

Table 3.23 concerns the coverage of public utility services. It shows that, while Virginia taxes none of these at the statewide level, 6 of the states impose a sales tax on one or more of these public services. Of the 6, all tax electricity and gas, 5 tax telephone and telegraph (intrastate only), and 1 taxes water.

Table 3.24 compares the coverage extended to nonprofessional services by the states. The list of services in the table is based primarily on those services given above that may be considered for taxation. The only major deletion from the above list is printing services. This is done because printing is generally treated by the states as manufacturing or the final sale of tangible personal property, not as a service. The only major addition is advertising, for there has been some discussion on including this in the Virginia tax base.

Immediately evident is that no state taxes all the items enumerated. Further observation reveals little consistency in coverage among the states that do tax services.

Several things are apparent in looking at the states on which the Virginia sales tax is based. First, California and Maryland tax none of the services listed, and Georgia taxes only admissions. New York does tax some services, but they are only repairs, storage, installation, and some admissions. Pennsylvania extends the tax to the repair of tangible personal property, including motor vehicles, shoe repair, and laundry and dry cleaning.

TABLE 3.23--SALES TAXATION OF PUBLIC UTILITIES IN SELECTED STATES

Item	Rate (%)									
	California	New York	Pennsylvania	Maryland	Georgia	South Carolina	North Carolina	Tennessee	West Virginia	
Telephone and telegraph (intrastate only)	...	2	6	...	3	3a/	...	3	...	...
Electricity	...	2	6	3	3	3b/	...	3d/	...	...
Gas	...	2	6	3	3	3c/	...	3d/	...	...
	...	...	...	...	...	...	...	3d/	...	...

a/ Toll charges are exempt.

b/ Sales of electricity for use in manufacturing tangible personal property and for use by radio and television stations in producing programs are exempt.

c/ Sales of gas used in manufacturing or in furnishing laundry service are exempt.

d/ Gas, electricity, and water sold to or used by manufacturers are taxed at the rate of 1%.

Source: Correspondence in June, 1969, with the department or agency that administers the sales and use tax for each state.

TABLE 3.24-- SALES TAXATION OF SPECIFIC SERVICES IN SELECTED STATES

Item	Rate (%)									
	California	New York	Pennsylvania	Maryland	Georgia	South Carolina	North Carolina	Tennessee	West Virginia	Virginia
Advertising	...	...	...c/	...	...	...	...	...	...c/	...
Barber and beauty shops	...	...	...	...	...	...	...	...	...	...
Storage of tangible personal property (except motor vechs.)	...	2	...	...	...	...	...	...	3	...
Laundry and dry cleaning of tangible personal property	...	...	6	...	...	4	3	3	3	...
Repair of motor vechs. and related activities	...	2	6	...	...	...	...	3	3	...
Parking of motor vehicles	...	...	...	...	...	...	...	3	...	...
Photographic Services	...	...	...c/	...	...	...	...	...	3	...
Repair of tangible personal property and related activities (e.g. for clothing, television sets, radios)	...	2a/	6	...	...	...	...	3	3	...
Admissions	...	2b/	...	...	3	...	...	...	3	...
Installation of tangible personal property	...	2	...c/	...	...	...	...	...	3	...
Shoe cleaning and repair	...	...	6d/	...	...	...	...	...	3d/	...

a/ Repair of clothing is exempt.
b/ Admission charges to movies, to musical and dramatic arts performances, and to sporting activities where the patron is a participant are exempt.
c/ Based on available data, it is assumed these are not taxed.
d/ Shoe shines are exempt.

Source: Correspondence in June, 1969, with the department or agency that administers the sales and use tax for each state.

The most interesting fact about Pennsylvania is that it has the highest sales tax rate, 6 per cent, of any of the 44 states and the District of Columbia. The primary reason is that Pennsylvania does not have a personal income tax, thereby putting heavy reliance on the sales tax as a revenue producer.

In turning to the region, contiguous states are first considered. As mentioned above, Maryland does not tax services. North Carolina imposes the tax solely on laundry and dry cleaning. Tennessee and West Virginia, on the other hand, extend coverage to a number of services. Tennessee taxes laundry and dry cleaning, repairs, and the parking of motor vehicles. West Virginia extends the tax to all nonprofessional services except for personal services and thereby has a broader coverage than any of the other states studied. Looking at the other regional states, Georgia has already been discussed, and South Carolina taxes only laundry and dry cleaning.

As may already be apparent, it is rather difficult to derive any generalizations from Table 3.24. Nevertheless several comments can be made. Of the four states that tax more than one service (New York, Pennsylvania, West Virginia, and Tennessee) all include the repair of tangible personal property, including motor vehicles, in their coverage. Three of them (Pennsylvania, West Virginia, and Tennessee) also tax laundry and dry cleaning. Beyond that, any consistency between them diminishes rapidly. Of the three states that tax only one service (North Carolina, South Carolina, and Georgia), two (North Carolina and South Carolina) tax laundry and dry cleaning. Another observation is that those states that do tax services do not include personal services, such as manicures, haircuts, or shoe shines. In addition, none of the states, even those that include some services, tax advertising. Finally, there appears to be a propensity to extend the sales tax base to services in those states that have no income tax (Pennsylvania) or a very limited income tax (Tennessee[1/]).

In summary some of the states tax some of the services suggested above. However, none of them have in their sales tax base the broad coverage of services suggested by the enumeration on page 95.

Some Related Issues

Local Taxes

One factor that must be kept in mind is that 16 of the 44 states and the District of Columbia with a sales and use tax also allow some type of local sales tax (see Table 3.25). Also, Alaska, which lacks a statewide sales tax, permits local sales taxes. The table shows the state tax rate and then the local tax rates, which range from 0.5 per cent to 3 per cent. In the majority of the states with local taxes, the local rate is 1 per cent. Only 2 states have localities in which the rate is 3 per cent (New York and Alaska). A variable that is most important in the consideration of a local sales tax is the uniformity of the tax. At one extreme is Virginia, with a uniform rate, coverage identical to the state levy, and liability determination by the location of the vendor. At the other extreme is New York, with rates and coverage that differ and liability that depends on the destination of the goods because of local use taxes on in-state sales.[2/] The method used in Virginia appears to be simpler and more efficient, at least for administrative purposes.

1/ In Tennessee the individual income tax applies only to interest and dividends which are taxed at a 6 per cent rate. See Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: Government Printing Office, November, 1968), p. 82.

2/ John F. Due, "The New State Sales Taxes 1961-68," National Tax Journal, Vol. XXI, No. 3 (September, 1968), p. 287.

TABLE 3.25--LOCAL SALES TAX RATES, JANUARY 1, 1969[1/]

State and type of local government	State tax rate (percent)[2/]	Local government tax rates[2/] 1/2 Percent	3/4 Percent	1 Percent	2 Percent	3 Percent
Alabama	4					
151 municipalities[3/]	....	10	....	127	11	....
18 counties	....	2	....	14	2	...
Alaska	....					
45 municipalities[4/]	....	....	....	4	26	13
5 boroughs[5/]	....	....	....	1	2	
Arizona	3					
18 municipalities	....	....	....	18	....	....
Arkansas	3					
1 municipality	....	....	....	1	....	....
California	4					
380 municipalities	....	....	....	380[6/]	....	....
58 counties[7/]	....	....	....	58	....	....
Colorado	3					
29 municipalities	....	....	....	19	10	....
1 county	....	....	....	1	....	....
Illinois	4 1/4					
1,225 municipalities (approx.)	....	105	1,120	....	....	....
93 counties	....	6	87	....	....	....
Louisiana	2					
62 municipalities[8/]	....	3	....	55	1	....
9 parishes[8/]	....	....	....	7	....	....
34 school districts[8/]	....	3	1	29	....	....
Mississippi[9/]	5					
200 municipalities (prior to 8/1/68)	....	35	....	165	....	....
New Mexico	3					
47 municipalities	....	2[10/]	....	45	....	....
2 counties[11/]	....	1[10/]	....	....	....	....
New York	2					
10 municipalities[12/]	....	....	....	2	3	2
34 counties	....	....	....	....	15	19
North Carolina	3					
1 county	....	....	....	1	....	....
Oklahoma	2					
125 municipalities	....	....	....	125	....	....
Tennessee	3					
6 municipalities	....	....	....	6[13/]	....	....
69 counties[14/]	....	....	....	65[13/]	....	....
	3					
278 municipalities	....	....	....	278	....	....
	3					
142 municipalities	....	142	....	....	....	....
26 counties	....	26	....	....	....	....
Virginia	3					
37 municipalities	....	....	....	37	....	....
95 counties	....	....	....	95	....	....

See footnotes on the next page.

TABLE 3.25--LOCAL SALES TAX RATES, JANUARY 1, 1969 (Continued)

1/ This tabulation includes only these local sales taxes about which authoritative information is available: The following cities with 1960 populations of 50,000 or more impose a sales tax: Birmingham, Hunstville, Mobile, Montgomery, New York, Niagara Falls, and all cities of 50,000 or over in Arizona, California, Colorado, Illinois, Louisiana, Mississippi, New Mexico, Oklahoma, Texas (except Amarillo, Laredo, Midland, Odessa, and Tyler), Utah and Virginia. The District of Columbia, not included in this tabulation, levies a 4 percent sales tax. The 1 percent mandatory Nevada "local school support tax" is included with the State sales tax.

2/ The rates shown are applicable to sales of tangible personal property at retail.

3/ Includes 3 cities with a 1 1/2 percent rate. In some cases the legislation authorizing county sales taxes takes account of any city sales taxes in the county. Numerous cities specify that the rate outside the city but within its police jurisdiction is 1/2 of the rate applicable within the city. The rate within the police jurisdiction of the city of Hamilton is 1/8 of the 1 percent city rate.

4/ Includes one city with a 2 1/2 percent rate and one with a 4 percent rate. Seven of these cities are located in the five boroughs that also impose a sales tax. Sales in these cities are subject to both taxes. The city and borough rates are: Douglas and Juneau, 2 percent city plus 1 percent Greater Juneau Borough; Fairbanks, 3 percent city and North Pole, 2 percent city plus 2 percent North Star Borough; Sitka, 2 percent city plus 2 percent Greater Sitka Borough; Ketchikan, 2 1/2 percent city plus 1 1/2 percent Gateway Borough; Soldonta, 3 percent city (levied on utility services only) plus 3 percent Kenai Peninsula Borough.

5/ Includes one borough with a 1 1/2 percent rate.

6/ A county and its cities must agree on the amount of tax that is to be received by each of the cities from the State administered local tax collections. Usually the agreed city rate is between 0.85 percent and 1 percent, and the city tax must be credited against the countywide 1 percent tax. The city of Los Angeles levies an additional 1 percent local sales tax (total 2 percent) from October 1, 1968 to April 1, 1969. The additional tax is locally administered.

7/ Includes the city-county of San Francisco.

8/ Includes 3 cities with a 1 1/4 percent rate, and one school district with a 1 1/2 percent rate. Because of overlapping, a 2 percent local rate is in effect in numerous municipalities and several parishes: municipal rate plus parish or school district rate in municipalities, and parish rate plus school district rate in several parishes. Parish total includes 1 parish @ 1 1/4% and 1 @ 1 1/2%.

9/ The State rate was increased from 3 1/2 to 5 percent effective August 1, 1968. Also effective on the same date, the city sales tax law under which most municipalities of the State imposed either a 1/2 of one percent or a one percent local sales tax was repealed, but 19 percent of the State sales tax is returned to the cities in which it is collected.

10/ Taos and Questa, located in Taos County which levies a 1/2 percent county tax.

11/ Includes one county with a 1/4 percent rate.

12/ Includes the cities of Canandaigua (1 1/2%) and Geneva (1 1/2%) located in Ontario County (2 percent) and Salamanca (1 1/2 percent effective March 1, 1969) in Cattaraugus County (3 percent). The statutory maximum combined city and county local rate is 3 percent.

13/ The maximum tax on a single transaction is $5.

14/ Includes 4 counties with a 1 1/2 percent rate and a maximum of $7.50 on a single transaction.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: U.S. Government Printing Office, November, 1968), p. 69.

However, following the practice of other states does not override the logical arguments for applying the sales tax to services. First, the underlying philosophy of a sales tax is that it should cover as broad a base of consumer expenditures as possible, with exemptions only when specifically justified. Hence the tax should apply to services as well as commodities, for both categories satisfy personal wants. There is no inherent feature of most services that precludes their inclusion.

Second, expenditures on services tend to rise as incomes rise. Taxation of services thus can make a sales tax less regressive.[1/]

Third, as total personal income rises, total expenditures on services appear to rise faster than expenditures on commodities. Consequently, the yield of the tax adjusts more exactly in terms of rising levels of economic activity.

Finally, a number of services are rendered in conjunction with the sale of tangible personal property. Compliance and administration are much simpler if the entire charge is taxable than if a separation between service and commodity is necessary. (This is especially true of repair services.)

1/ The argument for regressiveness in a sales tax is based on the notion that the final burden of the tax in relation to income as a base is not proportional. Instead, the tax tends to be more onerous to lower-income than to higher-income families. This argument is derived from the acceptance of the view that sales taxes are finally paid by consumers rather than by factor owners. Whether this view on who finally pays a sales tax should be accepted is another matter. Most economists do accept it. Others, such as James Buchanan, do not. The other major problem with the argument is that, even when the tax is regressive with respect to income, there is no basis for the claim that such taxes are bad or undesirable, unless a specific value judgment is made to this effect. The reason is that any tax represents only half of a fiscal operation. Some fiscal authorities reject the idea of condemning a tax as regressive before investigating who receives the benefits when the tax money is spent. See James M. Buchanan, The Public Finances (Homewood: Richard D. Irwin, Inc., 1965), pp. 466-67.

Public Utility Services

A number of Virginia localities, especially cities, tax public utilities. This is a primary reason for the state sales tax not being extended to these services. Table 3.26 shows at least 41 localities that do have these taxes, the public utilities that are taxed, and the applicable rates. These rates vary by locality and range up to 20 per cent in at least one instance (Roanoke). Certain localities have fixed upper limits stated in dollar terms for the tax for commercial and residential consumers. These upper limits can make the effective rate lower than the nominal rate. The local taxes may discriminate against the users of electricity or natural gas when the alternatives for these users are fuel oil or bottled gas which are only subject to the regular sales tax.

To bring some uniformity to the taxing of public utility services may well be desirable even though it could be costly in foregone revenues to some localities. On the other hand, to impose the sales tax while maintaining local taxes is not precluded by previous policy. Nearly every item that is taxed in Virginia has other taxes already included in the price paid by the consumer.

A.B.C. Store Sales

At present, alcohol beverage sales by A.B.C. stores are subject to a 10 per cent State tax, and wine sales are subject to a tax of 35 cents per gallon. Additional taxes are levied on bottle sales for resale by the drink.[1/] The sales of A.B.C. stores are not subject to the sales and use tax. The imposition of the tax on the sales of A.B.C. stores would increase

1/ See the Code of Virginia, Section 4-15.3.

TABLE 3.26--UTILITY CONSUMERS' TAXES

City	Bottled Gas	Electricity	Gas	Telephone	Water
Alexandria	None	10%*	10%*	10%*	10%*
Arlington County	None	14%	14%	14%	None
Bristol	None	None	None	None	None
Buena Vista	None	20%*	20%*	20%*	(a)
Charlottesville	5%	5%	5%	5%	5%
Chesapeake	15%	15%	15%	15%	None
Clifton Forge	None	None	None	None	None
Colonial Heights	None	5%	5%	5%	None
Covington	None	5%	5%	5%	None
Danville	None	None	None	None	None
Emporia	None	5%*(b)	(b)	5%*(i)	None
Fairfax City	10%*	10%*	10%*	10%*	10%*
Fairfax County	None	10%*	10%*	10%*	None
Falls Church	None	10%	10%*	10%	10%
Franklin	None	None	None	None	None
Fredericksburg	None	5%*(b)	5%*(b)	5%*(c)	None
Galax	None	None	None	None	None
Hampton	None	(d)	15%*	15%*	None
Harrisonburg	None	10%	10%	10%	10%
Henrico County (e)	None	None	None	None	None
Hopewell	None	10%*	10%*	10%*	None
Lexington (f)	None	None	None	None	None
Lynchburg	None	9%	9%	9%	20%
Martinsville	None	(g)	None	None	(h)
Newport News	None	10%*	10%*	10%*	None
Norfolk	None	15%*	15%*	15%*	15%*
Norton	None	None	None	None	None
Petersburg	None	15%	15%	15%	15%
Portsmouth	None	20%*	20%	20%	20%
Radford	None	None	None	None	None
Richmond	None	15%*	15%*	15%*	None
Roanoke	20%	20%	20%	20%	20%
Salem	(j)	None	(j)	(k)	None
South Boston	None	10%	None	10%	None
Staunton	None	20%*	20%*	20%*	20%*

TABLE 3.26--UTILITY CONSUMERS' TAXES (Continued)

City	Bottled Gas	Electricity	Gas	Telephone	Water
Suffolk	None	10%	10%	10%	10%
Virginia Beach	None	15%*	15%*	15%*	None
Waynesboro	None	15%	15%	15%	None
Williamsburg	None	10%	None	5%	None
Winchester	None	5%*	5%*	5%*	None
York County	None	None	None	None	None

* These utilities have maximums over which the rates do not apply.

(a) 30¢ per month per service.
(b) License tax of 0.50% of gross receipts on electric and gas companies.
(c) License tax of $500 or 0.50% of the gross receipts whichever is greater.
(d) Residential 18%*; Commercial 10%*.
(e) Utility and service companies: 1/2 of 1% of gross receipts.
(f) Public utilities: 1/2 of 1% of gross receipts.
(g) $1.00 per month, plus $2.00 per month on electric bill less than $10.00; $2.50 between $10.00 and $20.00; $3.00 over $20.00.
(h) $1.00 per month tax on purchasers of water service within the City.
(i) $100 per year on telephone company.
(j) Gas company taxed 1/2 of 1% of gross receipts.
(k) Flat charge of $3,600 on telephone company.

Source: Virginia Municipal League and Institute of Government, University of Virginia, Tax Rates in Virginia Cities and Urban Counties, 1968, p. 45.

the price by 4 per cent (including the 1 per cent local option).

The one area that could suffer from the increase is Northern Virginia because of competition from the private liquor market in Washington, D.C. Casual observation reveals that prices are at present 50 to 75 cents per fifth lower in the District depending on the quantity discount offered. To increase the Virginia price by 4 per cent would widen the price differential. However, to conclude that it would be extremely harmful to sales in Northern Virginia may be fallacious. Those who live in Northern Virginia and work in the District would probably continue to buy in the District. Those who now travel to the District to purchase large quantities would probably continue to do so. Those who now live in Northern Virginia and buy there would in all likelihood not be affected by a 4 per cent increase. Moreover, a proposed $2 per gallon District tax on liquor is now before Congress. Such an increase could dampen any deleterious effects of a 4 per cent increase in Virginia.

Assuming additional taxation of liquor were desired, alternatives to imposing the sales tax on liquor would be (1) an increase in the mark-up, or (2) an increase in the present 10 per cent alcoholic beverages State tax to 13 per cent with a 1 per cent local option. Under the first alternative, additional profits would result, and two-thirds would be distributed to the localities on the basis of population. Under the second alternative, all of the additional State alcoholic beverage tax revenue would go to the General Fund for State purposes. This would be in contrast to the sales and use tax which provides for one-third of the State tax to be distributed to localities on the basis of school-age population.

Revenue Estimates

This section provides rough estimates of what revenues in fiscal year 1968-69 would have been under various tax structures and rates (see Table 3.27). The figures are for State revenues only; they do not include a local option. As a starting point, the current sales and use tax structure provided a tax base of $6,280 million. At 3 per cent, tax revenues would have been $188.4 million, but actual collections were slightly lower because the 3 per cent rate imposed on July 1, 1968, was not reflected in collections until a month later.

Adding all consumer expenditures now excluded would have added $5,256 million to the tax base or $157.7 million in tax revenues with a 3 per cent rate. Such a tax would cover items already taxed such as gasoline, automobile sales, and utilities, and would include house rents, and medical charges. If the additional retail sales and services were both included along with the present base, then all personal consumption would have been taxed. Only two states--New Mexico and Hawaii--have sales taxes with very broad bases including professional services which approach total consumption outlays.

Adding all services now excluded, including utilities, and medical, legal, and educational services,would have added $4,497 million to the tax base or $134.9 million in tax revenues with a 3 per cent rate.

Adding selected services now excluded such as those enumerated in Table 3.28 would have added $455 million to the tax base or $13.6 million in tax revenues with a 3 per cent rate.

The inclusion of Alcoholic Beverage Control Board sales would have added $161 million to the tax base or $4.8 million in tax revenues with a 3 per cent rate.

TABLE 3.27--ESTIMATED TAX YIELDS FROM ALTERNATIVE CHANGES IN THE SALES AND USE TAX, FISCAL YEAR, 1968-69

Item	Estimated Tax Base, F.Y. 1968-69 ($Mil.)	Estimated Receipts ($Mil.) at: 1%	2%	3%	4%
Existing sales and use tax[a/]	$6,280	$ 62.8	$125.6	$188.4	$251.2
Change by:					
Adding all consumer expenditures now excluded[b/]	+5,256	+ 52.6	+105.1	+157.7	+210.2
Adding all services now excluded[c/]	+4,497	+ 45.0	+ 89.9	+134.9	+179.9
Adding selected services now excluded[d/]	+ 455	+ 4.6	+ 9.1	+ 13.6	+ 18.2
Adding A.B.C. store sales[e/]	+ 161	+ 1.6	+ 3.2	+ 4.8	+ 6.4
Excluding food purchased from stores[f/]	-1,481	- 14.8	- 29.6	- 44.4	- 59.2
Excluding non-prescription drugs[g/]	104	1.0	2.1	- 3.1	- 4.2

a/ Based on actual taxable sales as reported by the Department of Taxation.

b/ Estimated by multiplying fiscal year 1968-69 Virginia personal income by the 1968 ratio of national consumption to personal income, (0.78 X $14,790 mil. = $11,536 mil.). The resulting estimates was reduced by $6,280 million to allow for goods already taxed by the sales and use tax.

c/ Estimated by multiplying fiscal year 1968-69 Virginia personal income by the 1968 ratio of national consumption of services to personal income. The resulting estimate was reduced by $99 million to allow for sales of selected service establishments already covered by the sales and use tax (see Table 3.28) and for sales of motels and hotels already taxed $137 mil. in f. y. 1968-69).

d/ For services included, see Table 3.28. This is a net figure; sales of service establishments which are already subject to the sales and use tax are not counted.

e/ A.B.C. Store net sales including State taxes in fiscal year 1968-69.

f/ Based on actual taxable sales of bakeries, confectioners, dairies, fruit and vegetable stands, and grocery stores as reported by the Department of Taxation.

g/ Based on actual taxable sales of drug stores selling a variety of merchandise in addition to prescription drugs. The figure was reduced by one-half to allow for sales of non-drug items.

Sources: Department of Taxation, Taxable Sales in Virginia Counties and Cities Based on Retail Sales Tax Revenues, Quarterly Report, issues for fiscal year 1968-69 (Richmond: Department of Taxation); Survey of Current Business, Vol. 49, No. 7 (July, 1969), pp. 26, 28. Virginia Alcoholic Beverage Control Board.

TABLE 3.28--ESTIMATED INCREASE IN TAX BASE FROM TAXING
SELECTED SERVICES, FISCAL YEAR 1968-69

	Total, Selected Services	Beauty and Barber Shops SIC 723 and 724	Auto Parking SIC 752	Auto Services, Except Repair (Mainly Auto Laundries) SIC 754	Auto Repair Shops SIC 753	Motion Pictures SIC 78	Amusements, Recreation Services, Except Motion Pictures SIC 79	Shoe Repair SIC 725	Misc. Personal Services SIC 729	Laundry, Laundry Service, Cleaning, Dyeing Plants SIC 721	Pressing, Alterations, Garment Repair, Fur Repair, Storage SIC 727	Misc. Repair Services (Elec. Repair Shops, Watch Repair, Reupholsterers, Locksmiths, Lawnmower Repair, Etc.) SIC 76
1963 Sales (Census)	$326,735,000	$48,429,000	$2,526,000	$3,156,000	$ 68,451,000	$16,924,000	$ 48,012,000	$4,382,000	$ 2,146,000	$83,314,000	$ 2,354,000	$47,041,000
1969 Sales a/	554,469,000	82,184,000	9,642,000		116,161,000		110,196,000		11,078,000		145,379,000	79,829,000
Amount currently nontaxable which would become taxable												
Ratio to total sales b/	...	0.962	0.879		0.586		0.865		0.798		0.947	0.726
Amount, 1968	455,396,000	79,061,000	8,475,000		68,070,000		95,320,000		8,840,000		137,674,000	57,956,000

a/ Estimated by multiplying 1963 sales by 1.697, the ratio of fiscal year 1968-69 Virginia personal income to 1962-63 Virginia personal income.

b/ Based on 1965 Internal Revenue Service national data for proprietorships and partnerships. Ratio derived by $\frac{BR-MP}{BR}$ where BR = business receipts and MP = merchandise purchased. In some cases IRS industry definitions differed slightly from standard industrial code (SIC) definitions.

Industries were matched as follows:

SIC	IRS Code	SIC	IRS Code
723,724	62	725,729	63
752,754	68	721,727	61
753	67	76	69
78,79	70		

Sources: U.S., Bureau of the Census, Census of Business: 1963 Selected Services, Virginia BC63 - SA48 (Washington: Government Printing Office, 1965), Table 2; U.S., Treasury Department, Internal Revenue Service, Statistics of Income: 1965 Business Income Tax Returns (Washington: Government Printing Office, 1968), Tables 2.2 and 3.2; this study, Table 1.5.

Excluding food purchased at stores (but not restaurant sales) would have resulted in a $1,481 million reduction in tax base or a $44.4 million tax loss with a 3 per cent rate. This estimate was derived from a report of the Department of Taxation showing taxable sales by business classification. All sales of bakeries, confectioners, dairies, fruit and vegetable stands, and grocery stores were counted as food sales. This is an oversimplification since a portion of their sales represent nonfood items. On the other hand, a portion of the sales of drug stores, delicatessens, and other stores represent food sales that would be exempt.

Excluding non-prescription drugs now taxed would have reduced the tax base by about $104 million and would have resulted in a $3.1 million tax loss with a 3 per cent rate.

Personal Income Tax Credit on Food for Home Consumption

If some allowance is to be made for the sales tax paid on food for home consumption, an alternative to exemption is an income tax credit.

As of the close of 1968, there were nine states that used some form of the tax credit device. Of these, three states--Colorado, Indiana, and Nebraska--grant a personal income tax credit to compensate for a sales tax on food. The credit is granted on all resident income tax returns; in addition, refunds are made to those without a tax liability. The credit, as these three states use it, is calculated by the number of exemptions per tax return times the credit. Nebraska and Colorado have a $7 credit; Indiana has an $8 credit. Two states--Hawaii and Massachusetts--grant credits for consumer type taxes, and Iowa allows a credit for sales taxes paid. The tax credit mechanism is used in Minnesota and Wisconsin for senior citizen homestead relief. In addition, Idaho grants a $10 tax credit against sales taxes paid for food for home consumption for all exemptions including old age, but allows no refund if the credit exceeds tax liability. For those over 65, a refund is provided if the credit exceeds the tax liability. For summary information on the tax credit plans used by eight of the states (Idaho is excluded) see Table 3.29.

A tax credit has the advantage of eliminating the administrative costs and difficulties of exempting food for home consumption from the sales tax and of excluding non-residents from exemption. However, it is estimated that it will increase the number of income tax returns filed in Virginia by 200,000 to 300,000 since any resident citizen qualifies for the tax credit regardless of his income. Administrative procedures would have to be adopted in order to avoid abuse of the credit. Another drawback of a credit is that increases in the cost of living are not accounted for unless the law is amended to raise the amount of the credit.

The following analysis gives an estimate of the impact of an income tax credit on Virginia. If the credit is to compensate in full for consumer purchases of food for home use, then an estimate of the amount of this consumption is necessary. In tax year 1967 an estimated $40.4 million would have come from the state sales and use tax from purchases of food for home consumption at a 3 per cent rate. The civilian resident population of the State in 1967 was estimated at 4,421,091. If we divide the sales tax receipts for food for home consumption by the civilian resident population, the tax credit per person is $9.14, or a

TABLE 3.29--STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES 1/

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Colorado	For sales tax paid on food	1965	$7 per personal exemption (exclusive of age and blindness)	Chap. 138, Art. 1, (secs. 138-1-18 & 138-1-19 added by H. B. 1119, laws 1965, effective 6/1/65)	Credit to be claimed on income tax returns. For resident individuals without taxable income a refund will be granted on such forms or returns for refund as prescribed by the Director of Revenue.
Hawaii	For consumer-type taxes	1965	Varies, based on income 2/	Chap. 121 (Secs. 121-12-1 & 121-12-2 added by Act 155 laws 1965)	The Director of Taxation shall prepare and prescribe the appropriate form or forms to be used by taxpayers in filing claims for tax credits. The form shall be made an integral part of the individual net income tax return. In the event the sales tax credits exceed the amount of the income tax payments due, the excess of credits over payments due shall be refunded to the taxpayer.
Indiana	For sales tax paid on food	1963	$8 per personal exemption (exclusive of age and blindness)	Chap. 50 (Chap. 30; Sec. 6d added by H. B. 1226, laws 1963, 1st sp. sess., effective 4/20/63)	Credit to be claimed on income tax returns. If an individual is not otherwise required to file a return, he may obtain a refund by filing a return, completing such return insofar as may be applicable, and claiming such refund.
Iowa	For sales taxes paid	1967	Varies, based on income 3/	Ch. 422 (sec. 18 added by H.B. 702, laws 1967)	Tax credit or refund to be claimed on income tax return If an individual is not otherwise required to file a return, he may obtain a refund by furnishing the Department of Revenue with proof of his taxable income and the number of his personal exemptions.
Massachusetts	For consumer-type taxes	1966	$4 for taxpayer, $4 for spouse, if any, and $8 for each qualified dependent 4/	Chap. 62 (Sec. 6b added by ch. 14, Ac s 1966)	Same as Indiana.
Minnesota	For senior citizen homestead relief 5/	1967	Varies with income from 75% to 10% of property tax or equivalent rent not to exceed $300 (Max. credit $225)	Chap. 32 (H.B. 27) Article VI	Tax credit or refund to be claimed on income tax return. Department of Taxation shall make available a separate schedule for information necessary to administration of this section and the schedule shall be attached and filed with the income tax return. Cash refund granted if property tax credit exceeds State personal income tax liability.
	Tax relief for renters.	1967	3.75% of the total amount paid by claimant as rent, not to exceed $45 6/	Chap. 32 (H.B. 27) Article XVII	

See footnotes at the end of table.

TABLE 3.29-STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES 1/ (Concl'd)

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Nebraska	For sales tax paid on food	1967	$7 per personal exemption (exclusive of age and blindness)	H. B. 377, laws 1967	Credit to be claimed on income tax returns. Refund will be allowed to the extent that credit exceeds income tax payable but no refund will be made for less than $2.
Wisconsin	For senior citizen homestead tax relief	1963	Varies, based on income and amount of property tax <u>or</u> rental payment	Chap. 71 (Sec. 7109 (7) added by ch. 566 (A.B. 301) eff. 6/10/64. Ch. 580 (A.B. 907) repealed & re-created Sec. 71. 09(7) effective Dec. 19, 1964	Tax credit or refund to be claimed on income tax return. The Department of Taxation shall make available a separate schedule which shall call for the information necessary to administering this section and such schedule shall be attached to and filed with the Wisconsin income tax form. Cash refund granted if property tax credit exceeds State personal income tax due.

NOTE: See table 30 for exemption of food an medicine in State general sales taxes.

1/ If a taxpayer has no State personal income tax liability or a tax liability insufficient to absorb the entire credit (a negative tax credit situation) he is entitled to the appropriate cash refund. If the taxpayer's State personal liability is equal to or greater than the tax credit, his personal income tax liability is reduced by the amount of the credit (a positive tax credit situation).

2/ The credits for consumer-type taxes are based on "modified adjusted gross income" (regular taxable income plus exempt income such as social security benefits, life insurance proceeds, etc.) and range from $20 per qualified exemption for taxpayers having a modified adjusted gross income of less than $1,000 to $1 per exemption where such income is between $5,000 and $6,999.

3/ Ranges from $12 per qualified exemption for taxpayers having taxable income under $1,000 to $0 where such income is over $7,000.

4/ Credits are only allowed if total taxable income of taxpayer and spouse, if any, does not exceed $5,000 for the taxable year.

5/ All homeowners residing in their own homes are allowed a direct reduction of their property taxes due by means of the Homestead Property. Tax Credit. This credit amounts to 35 percent of the tax levy, excluding the amount levied for bonded indebtedness, to a maximum credit of $250. Since senior citizen homeowners also receive this credit the amount of the Homestead Property Tax Credit must be applied against the amount of the Senior Citizen Income Tax Credit claimed. Local governments are reimbursed for their tax loss from the state property tax relief fund.

6/ Elderly may choose this relief or senior citizen relief but not both.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances: Significant Features, 1966 to 1969 (Washington: Government Printing Office, 1968), pp. 90, 91.

rounded figure of \$9. An estimated 4,101,118 people[1/] would have applied for this credit, costing the State \$36.9 million in revenue. If on the other hand, we were to grant an \$8 credit--as Indiana does--the cost to the State would be \$32.8 million.

An income tax credit for the sales tax on food would lose less revenue for the State than direct exemption of the sales tax on food. Nonresidents would not qualify for the credit and not all residents would apply. In addition, if the credit were below the exact resident per capita food consumption amount--at \$8 for example--not all food consumption would be exempt. Thus, luxury foods would still be taxable, and higher income people with a high propensity to consume food would only have a portion of their food budget excluded from tax.

In order to keep the tax credit current with costs of living, it would be necessary to review the amount at each legislative session.

Another possible option is to base the credit on income level[2/]. For example, the credit might be restricted to returns with less than

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1/ The 4,101,118 was derived by increasing the 1,550,518 returns in 1967 by 15 per cent to 1,783,096 and multiplying by an average 2.3 personal and dependent exemptions per return. The 15 per cent estimate is obtained as a high estimate of increased returns incurred by Colorado, Nebraska, and Indiana when they implemented the tax credit. See John F. Due "The New State Sales Taxes, 1961-68," National Tax Journal, Vol. XXI, No. 3 (September 1968), p. 270.

2/ The credit is tied to income in Hawaii, Massachusetts, Iowa, Minnesota, and Wisconsin.

$5,000 of adjusted gross income. In 1967 we estimate that this would have cost $13.7 million[1/]--less than half the cost for a credit not restricted by income. An argument against such a procedure is that limiting the credit to specific income levels arbitrarily chooses who shall and who shall not receive sales tax relief. Under the above proposal, a family or person with an adjusted gross income of $1 more than $5,000 would not receive a credit.

Through either an income tax credit or exemption of food for the home consumption from the sales tax, the State will lose substantial revenue. The income tax credit could be designed to provide a lower loss of revenue and would apply only to residents. In order to keep up with the cost of living the tax credit would need to be reviewed regularly. A credit geared below a certain level of income would be less costly than a general credit but would give tax relief only to low income residents.

1/ Based on the following estimates of number of exemptions:

Adjusted Gross Income	Number of Exemptions[a/]
None	534,929
$0 - $999	109,608
$1,000 - $1,999	168,354
$2,000 - $2,999	195,786
$3,000 - $3,999	240,856
$4,000 - $4,999	268,559
	1,518,092

a/ Excludes exemptions reported on separate returns since it was assumed the combined AGI of both husband and wife would exceed $5,000.

Virginia Motor Vehicle Sales and Use Tax

Receipts from the titling tax, unlike most of the other sources of revenue considered in this report, do not go to the general fund. The proceeds of the tax are earmarked for the construction, reconstruction, and maintenance of highways, and the regulation of highway traffic. Nevertheless, the tax is considered here because of its close relationship to the sales and use tax.

The motor vehicle sales and use tax is levied at a 2 per cent rate. It is a State tax, and cities, towns, and counties are prohibited from using it.1/ If the taxation of automobile sales were made consistent with the sale of other items in retail trade (i.e., a 3 per cent tax with a 1 per cent local option), there would be a substantial addition to revenues.

Forty-six states and the District of Columbia currently impose taxes on the sale of automobiles (see Table 3.30). The rates range from 1½ per cent to 6 per cent and are summarized below. The median rate is 3 per cent.

Rate (%)	Number of States
1½	4
2	6
3	21
3¼	1
3½	1
4	8
4½	2
5	3
6	1

Eleven states with taxes on the sale of automobiles allow local

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1/ See the Code of Virginia, Section 58-685.25.

TABLE 3.30--STATE TAXES ON AUTOMOBILE SALES AS OF JULY, 1969

State	Type of Tax	Rate (percent)	Collected b	Casual Sales Taxed	Trade-in Allowance
Alabama	sales/use	1½ a/	dealer	no	yes
Alaska	none b/				
Arizona	sales/use	3 c/	dealer	no	yes
Arkansas	sales/use	3 d/	dept. of revenue	yes	no
California	sales/use	4 e/	dealer	yes	no
Colorado	sales/use	3 f/	dealer	yes	special provisions
Connecticut	sales/use	3	dealer	yes	yes
Deleware	none				
District of Columbia	excise	3	treasurer	yes	no
Florida	sales/use	4	dealer	yes	yes
Georgia	sales/use	3	dealer	no	yes
Hawaii	excise	4	dealer	no	yes
Idaho	sales/use	3	dealer	yes	yes
Illinois	sales/use	3¼ g/	dealer	no	yes
Indiana	sales/use	2	dealer	yes	yes
Iowa	sales/use	3	dealer	no	no
Kansas	sales/use	3	dealer	special provisions	yes
Kentucky	sales/use	5	county clerk	yes	special provisions
Louisiana	sales/use	2 h/	div. of motor vechs.	yes	yes
Maine	sales/use	4½	dealer	yes	yes
Maryland	excise/use	4	optional	yes	no
Massachusetts	sales/use	3	optional	yes	yes
Michigan	sales/use	4	secretary of state	yes	no
Minnesota	sales/use	3	dealer	no	yes
Mississippi	sales/use	3	dealer	yes	special provisions
Missouri	sales/use	3	special provisions	yes	yes
Montana	sales/use	1½	i/	no	
Nebraska	sales/use	2	dealer	no	yes
Nevada	sales/use	2 j/	dealer	no	no
New Hampshire	none				
New Jersey	sales/use	3	dealer	yes	yes
New Mexico	excise	1½	div. of motor vechs.	yes	yes
New York	sales/use	3 k/	dealer	yes	no
North Carolina	sales/use	1½ l/	dealer	special provisions	no
North Dakota	excise/use	4 m/	dealer	yes	yes
Ohio	sales/use	4	dealer	yes	no
Oklahoma	excise	2	tax commissioner	yes	no
Oregon	none				
Pennsylvania	sales/use	6	dept. of revenue	yes	yes
Rhode Island	sales/use	5	div. of motor vechs.	yes	no
South Carolina	sales/use	3	dealer	no	yes
South Dakota	excise	3	special provisions	no	no
Tennessee	sales/use	3 n/	dealer	no	special provisions
Texas	sales/use	3	dealer	yes	yes
Utah	sales/use	4 o/	dealer	special provisions	yes
Virginia	sales/use	2	div. of motor vechs.	yes	no
Vermont	sales/use	5	div. of motor vechs.	yes	yes
Washington	excise	4½	dealer	yes	no
West Virginia	sales/use	3	div. of motor vechs.	yes	yes
Wisconsin	sales/use	3	dealer	yes	yes
Wyoming	sales/use	3	county treasurer	yes	no

a/ Additional local rates vary from 1/16 of 1% to 1%. The most frequent rates are 1/4 and 1/2 of 1%.
b/ All taxes are levied at the local level and may range from 1 to 5 percent.
c/ Additional local rates vary from 1/8 of 1% to 1%. The most frequent rate is 1%.
d/ Localities may levy an additional tax not greater than 1%.
e/ Cities and counties may levy a combined rate of 1% plus a 1/2 of 1% transactions and use tax.
f/ The most frequent rates levied locally are 1 and 2 percent.
g/ Localities may levy a rate of 3/4 of 1%.
h/ Cities and parishes may levy a sales and use tax not exceeding 1%.
i/ Tax collected only on new vehicles at time of registration.
j/ A compulsory county rate of 1% is also levied.
k/ Additional local rates vary from 1/2 of 1% to 3%.
l/ Mecklenburg County levies an additional tax of 1%.
m/ State rate will increase from 3% to 4% effective January 1, 1970.
n/ Most localities levy an additional tax of 1%, and some cities levy a tax of 1½%.
o/ A 1/2 of 1% uniform city or county tax is also levied.

Sources: Mr. King E. Harman, Director of the Bureau of Vehicles, Division of Motor Vehicles: All State Sales Tax Reporter, (New York: Commerce Clearing House): State Tax Reporter, (New York: Commerce Clearing House).

governments to impose additional taxes, and one state, Alaska, which does not have a state sales tax, permits localities to impose a sales tax. When local taxes are used, they are most frequently 1 per cent, but the range of actual rates is quite broad.

In comparison with neighboring states, Virginia's present tax is lower than in every area except North Carolina. The District of Columbia rate is 3 per cent with no allowance for trade-ins. Maryland levies a 4 per cent tax with a similar policy on trade-ins. North Carolina has a state tax of 1½ per cent with no allowance for trade-ins. In addition, Mecklenburg County levies a 1 per cent tax. Tennessee has a state tax of 3 per cent and may allow trade-ins. In addition, most Tennessee localities impose taxes ranging from 1 to 1½ per cent. West Virginia uses a 3 per cent tax and does allow for trade-ins. Kentucky imposes a tax of 5 per cent and allows trade-ins only on used vehicles previously registered in the state.

The present Virginia tax applies to "... the total price paid for a motor vehicle and all attachments thereon and accessories thereto, without any allowance or deduction for trade-ins or unpaid liens or encumbrances, but exclusive of any federal manufacturers excise tax."1/ Of the 47 states with sales taxes on automobiles, 26 allow trade-ins to be deducted in computing the tax base; 16 do not; and 4 make it optional. This information is not available for the State of Montana.

By not allowing for the value of trade-ins, the Virginia tax base can ex-ceed consumers' actual cash outlays. Suppose a man buys a new car with a list price of $3,500 exclusive of federal excise taxes. If the dealer gives him a

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1/ See the Code of Virginia, Section 58-685.11.

cash discount of $500 and an additional allowance of $800 on his trade-in, the consumer's cash outlay exclusive of the federal excise tax is $2,200, but his tax base is $3,000.

If deduction of the value of trade-ins were allowed, then it would be wise to make some provision for a case where an owner sells a car privately and then purchases another car a short time later. Upon presentation of evidence of sale, he should be permitted a reduction in the taxable value of the car purchased equivalent to the sale price he received for his other car.

According to the estimating procedure used in Table 3.31, liberalization of the present law to allow the inclusion of trade-ins would reduce revenues by about 20 per cent. In relation to tax collections in fiscal year 1967-68, this would mean that tax collections would have been about $16.7 million instead of the $21.1 million actually secured. The reduction may not be this large because under the present law there is an incentive for tax avoidance. Such avoidance is possible if the buyer and seller agree to understate the true value of a trade-in and add the amount of the reduction to the cash discount.

If the liberalized treatment of trade-ins were combined with an increase of 1 per cent in the State rate and a 1 per cent local option, then estimated tax collections in 1968 would have been $33.4 million, with $25.0 million for the State and $8.3 million for the localities if all chose to impose the local option.

Additional revenue could be obtained by eliminating the exclusion of the federal manufacturers' excise tax from the tax base for new cars. Unlike the sales and use tax which includes federal excise taxes in the tax base, the automobile titling tax specifically excludes the federal 7 per cent manufacturers'

TABLE 3.31 --ESTIMATED EFFECT OF GIVING ALLOWANCE FOR AUTOMOBILE TRADE-INS, FISCAL YEAR 1967-68

Item Number	Item	Amount
1	Fiscal year 1967-68 motor vehicle sales and use tax collections	$ 21,086,814
2	Taxable value of cars subject to titling tax (Item 1 divided by .02)	1,054,341,000
3	Estimated value of new cars (.532[a] x Item 2)	560,909,000
4	Estimated value of used cars (.468[a] x Item 2)	493,432,000
5	Estimated value of trade-ins on new cars (.243[b] x Item 3)	136,301,000
6	Estimated value of trade-ins on used cars (.170[b] x Item 4)	83,883,000
7	Estimated taxable value of cars after allowance for trade-ins (Item 2 less Item 5 + Item 6)	834,157,000
8	Estimated fiscal year 1967-68 motor vehicle sales and use tax collections if allowance were made for trade-ins (Item 7 x .02)	16,683,000
9	Estimated fiscal year 1968 motor vehicle sales and use tax collections if allowance were made for trade-ins and if the federal excise tax were not exempt. (Item 8 + Item 3 x .07 x .02)	17,468,000

a/ Based on estimates by the Automotive Trade Association of Virginia of the proportion of taxes collected on new and used vehicles in calendar year 1967.

b/ Based on the formula $\frac{A-N}{A}$ where A = average expenditure per car and N = net outlay per car. Data covered 1966, separately identified new and used purchases, and were from the Automobile Manufacturers Association.

Sources: Automobile Manufacturers Association, 1968 Automobile Facts/Figures (Detroit: Automobile Manufacturers Association, n.d.), p. 44; Automotive Trade Association of Virginia, "Total Vehicles Titled and Tax Collected, January 1, 1967--December 31, 1967", Legislative Report #4 (Revised, n.d.); Report of the Comptroller, Fiscal Year Ended June 30, 1968 (Richmond: Department of Accounts, 1968), p. 282.

excise tax. Inclusion of the excise tax in the base would result in a larger tax revenue yield. In 1967-68 this proposal combined with the liberalized treatment of trade-ins, a 3 per cent State rate, and a local 1 per cent option, would have provided $34.9 million, with $26.2 million for the State and $8.7 million for the localities if all chose to impose the local option.

Gasoline Taxes

State Taxes

Gasoline taxes go to the highway fund rather than the general fund and are therefore not within the main scope of this study. Nevertheless, they are a major source of revenue, and it is of interest to see how the tax rate in Virginia compares with the rates in other states.

The current rate in Virginia is 7 cents which equals the national median and is a rate shared by twenty-eight other states and the District of Columbia (see Table 3.32). As shown by Chart 3.4, the 7 cent rate is used by all of Virginia's neighbors except North Carolina (9.25 cents) and Tennessee (8 cents).

Local Taxes

During the Commission's public hearings, some speakers mentioned the possibility of a local gasoline surtax. For background purposes, the following information is provided on such taxes.

Seven states permit local taxes (Alabama, Florida, Hawaii, Mississippi, Missouri, Nevada, and Wyoming), and such taxes are in effect in six of the

TABLE 3.32 --STATE GASOLINE TAX RATES, JANUARY 1, 1970[a]
(per gallon)

5¢	6¢	6.5¢	7¢	7.5¢	8¢ or more
Hawaii[b]	Idaho[c]	Georgia	Alabama	Arkansas[a]	Alaska-(8¢)
Missouri	Nevada	Massachusetts	Arizona	Illinois	Connecticut-(8¢)
Texas[a]		Oklahoma[a] (6.58¢)	California		Indiana-(8¢)
			Colorado		Louisiana-(8¢)
			Delaware		Maine-(8¢)
			District of Columbia		Nebraska-(8.5¢)[e]
			Florida		North Carolina-(9.25¢)
			Iowa[a]		Rhode Island-(8¢)
			Kansas		Tennessee-(8¢)
			Kentucky		Vermont-(8¢)
			Maryland		Washington-(9¢)
			Michigan		
			Minnesota		
			Mississippi[a]		
			Montana[a]		
			New Hampshire		
			New Jersey		
			New Mexico		
			New York[a]		
			North Dakota		
			Ohio		
			Oregon		
			Pennsylvania		
			South Carolina[d]		
			South Dakota		
			Utah		
			VIRGINIA		
			West Virginia		
			Wisconsin		
			Wyoming		

a/ In most states diesel fuel is taxed at the same rate as gasoline. The states in which diesel fuel is taxed at a different rate are: Arkansas, 8.5¢; Iowa, 8¢; Mississippi, 10¢; Montana, 9¢; New York, 9¢; Oklahoma, 6.5¢; and Texas, 6.5¢. In all but a few states, liquified petroleum is taxed at the same rate as gasoline. Vermont does not tax diesel fuel or liquified petroleum.

b/ In addition to the state tax on gasoline, there is a separate county tax as determined by the county in which the fuel is used. These county rates are: Hawaii County, 8¢; Honolulu, 8.5¢; Maul, 10¢; and Kauai, 9¢.

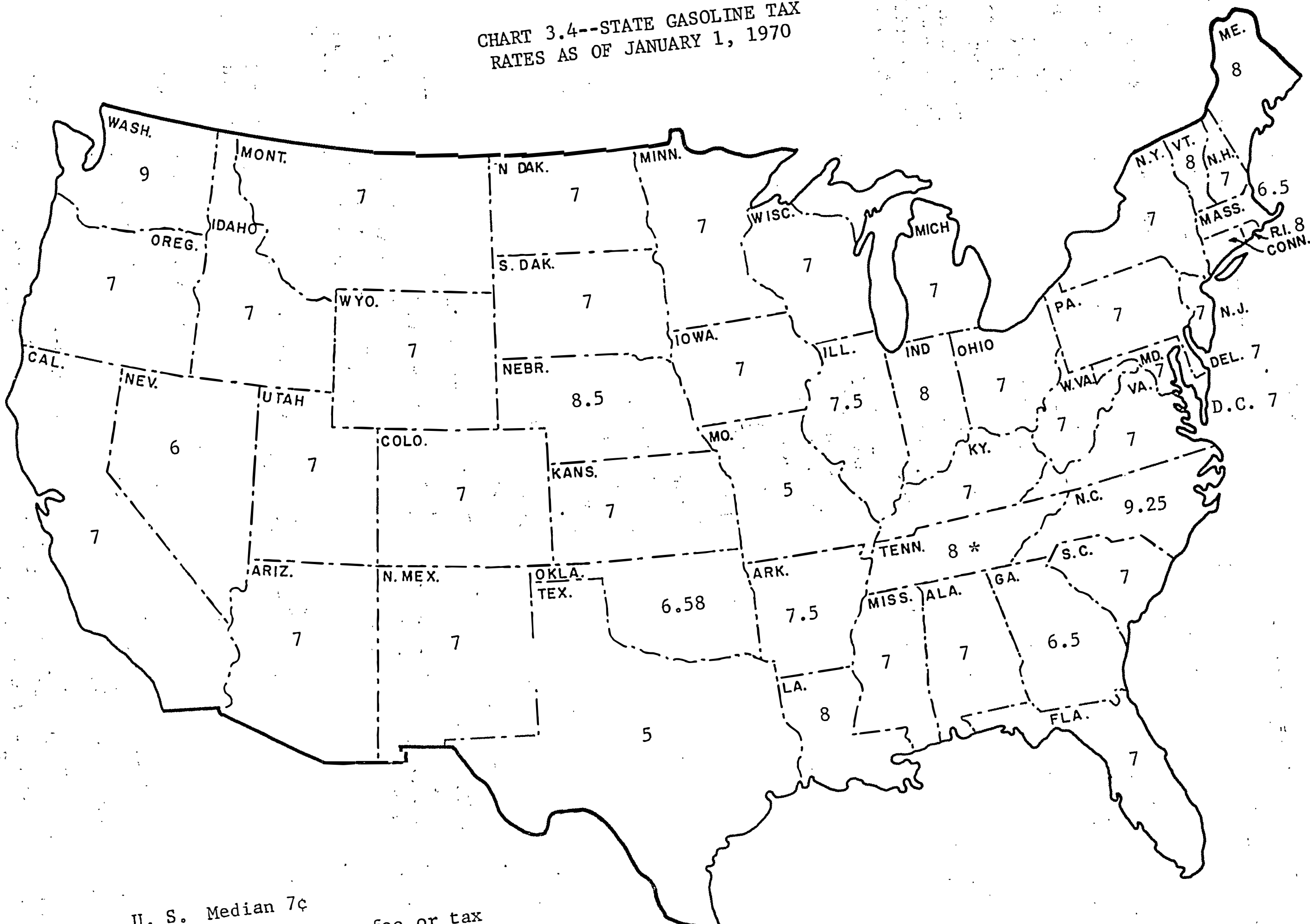
c/ The rate shown excludes the temporary 1¢ rate scheduled to expire December 31, 1969.

d/ The rate shown includes a temporary 1¢ rate scheduled to expire June 30, 1972.

e/ The rate shown is effective as of January 1, 1970.

Sources: Virginia Department of Highways, "State Gasoline Tax Rates as of Feb. 1, 1969", map; Prentice-Hall, State and Local Tax Service: All States Tax Guide (New York: 1969); Commerce Clearing House, Hawaii State Tax Reporter (New York: 1969); Advisory Commission on Intergovernmental Relations, State and Local Finances: Significant Features 1966 to 1969, M-43ACIR, (Washington, D. C.: 1968).

CHART 3.4--STATE GASOLINE TAX RATES AS OF JANUARY 1, 1970



U. S. Median 7¢

*Includes Inspection fee or tax

seven states. In Missouri, local gasoline taxes require two-thirds voter approval and as of January, 1969, no city had submitted a proposed tax for voter approval. Of the states with such taxes, their use is most widespread in Alabama and New Mexico.

In 1964, the latest year for information on rates, local tax rates varied from 0.5¢ to 5¢.1/

Pari-mutuel Racing

Pari-mutuel racing has been mentioned as a revenue producing opportunity for the State of Virginia. Revenue is obtained in two principal ways from the track receipts (the "turnover" or "handle").

1. The state receives a percentage of the "takeout" (the portion of money wagered which is taken out before the pari-mutuel payoff is made) with the track receiving the remainder.

2. The other source of revenue is "breakage" which is the odd cents of a payoff. If a state breaks at 10 cents and a payoff is $2.89, the breakage is 9 cents. Some states break at 5 cents. Breakage is usually divided between the track and the state, although some states take 100 per cent of the breakage, and others allow the tracks to keep 100 per cent.

Other sources of revenue from pari-mutuel racing can come from occupational

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1/ Sources of information: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969, Publication M-43 (Washington: Government Printing Office, 1968), p. 124; Advisory Commission on Intergovernmental Relations, Tax Overlapping in the United States, 1964, Publication M-23 (Washington: Government Printing Office, 1964), pp. 172-73.

license taxes on tracks, jockeys, and trainers, in addition to admission taxes.

The two factors which affect the profitability of racing are: (1) location, and (2) quality of racing and racing facilities. Tracks should be located near a large city and good transportation facilities. Competitive factors are also important so that strong competition from nearby tracks may diminish receipts. The quality of racing is determined by the purses which are offered and the availability of good horses. No states own their own tracks, but all tracks are state regulated. Initial capital investment, therefore, would be no risk to the State.

Table 3.33 shows the revenues from pari-mutuels for all states for 1968. Virginia's neighboring states having pari-mutuel racing received the following: Maryland--$13.9 million, Kentucky--$5.5 million, and West Virginia--$9.1 million. The percentage of state revenue to total turnover ranges from a low of 2.4 per cent in New Mexico to 10.7 per cent in New York. In a preliminary task force study conducted by the Commission of the Industry of Agriculture, it was estimated that Virginia's receipts for 1966 would have been between $3.5 million and $4.5 million.[1/] It was also assumed that Virginia's potential in racing is similar to Delaware's and New Hampshire's. Receipts in 1968 for Delaware were $6.9 million and for New Hampshire were $8.3 million which includes both thoroughbred and harness racing. Considering the established tracks of these two states, revenues in the vicinity of $7.5 million would be the upper limit that Virginia could possibly derive from pari-mutuel racing at the present time if it went to both thoroughbred and harness racing. This

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1/ The Commission of the Industry of Agriculture, The Horse Industry Task Force Study, Opportunities for Virginia Agriculture (Richmond: The Commission of the Industry of Agriculture, January, 1968), Preliminary Report, p. 14.

TABLE 3.33--PARI-MUTUEL TURNOVER, AND REVENUE BY STATE, 1968

State.	PARI-MUTUEL TURNOVER Total.	Thoroughbred.	Harness.	Quarter Horse & Fairs.	REVENUE TO STATE Total.	Thoroughbred.	Harness.	Quarter Horse & Fairs.
ARIZONA	$ 19,828,045	$ 18,705,369	$	$ 1,032,676	$ 1,006,346	$ 1,006,346	$	$ ....
ARKANSAS	35,796,288	35,796,288	....	....	2,328,901	2,328,901		
CALIFORNIA	756,615,821	623,293,012	78,601,200	54,721,609	57,326,182	48,714,066	5,186,015	3,426,081
COLORADO	19,127,756	15,413,482	....	3,714,274	660,184	539,583		....
DELAWARE	128,256,004	59,768,224	68,487,780	....	6,945,727	3,727,270	3,218,457	....
FLORIDA	212,959,749	200,584,565	12,375,184	....	16,877,543	15,858,290	1,019,253	....
ILLINOIS	556,621,386	312,600,150	244,021,236	....	40,024,116	23,777,144	16,246,972	....
KENTUCKY	115,413,796	95,469,969	19,943,827	....	5,505,489	4,636,648	868,841	....
LOUISIANA	70,262,119	70,262,119	....	....	4,340,635	4,340,635	....	....
MAINE	21,309,621	6,149,789	11,582,254	3,577,578	1,501,772	440,064	811,139	250,570
MARYLAND	238,007,993	210,807,803	27,800,190	....	13,911,393	12,139,712	1,771,681	....
MASSACHUSETTS	127,504,221	87,157,406	40,346,815	....	9,419,423	6,811,111	2,608,312	....
MICHIGAN	231,472,394	158,556,947	72,915,447	....	17,791,513	13,635,781	4,158,732	....
MONTANA	901,577	901,577	....	....	....		....	....
NEBRASKA	55,837,376	55,887,376	....	....	2,181,209	2,181,209	....	....
NEW HAMPSHIRE	115,813,861	55,576,933	59,450,392	786,536	8,308,470	4,482,780	49,418	....
NEW JERSEY	391,332,673	317,297,557	74,035,116	....	34,425,605	29,435,041	4,990,564	....
NEW MEXICO	34,093,531	23,971,635	....	10,121,896	803,016	803,016		....
NEW YORK	1,459,529,113	723,630,004	735,899,109	....	155,695,563	80,799,092	74,896,471	....
OHIO	213,325,689	137,585,835	74,345,311	1,394,543	15,103,971	10,564,337	4,466,296	73,337
OREGON	17,561,573	17,027,526	....	534,047	937,768	860,785		76,983
PENNSYLVANIA	126,737,666	....	126,737,666	....	7,407,983	....	7,407,983	....
RHODE ISLAND	116,232,376	116,232,376	....	....	10,560,003	10,560,003	....	....
SOUTH DAKOTA	4,054,342	3,715,699	....	338,643	143,795	132,415		11,380
VERMONT	37,205,714	28,684,554	8,521,160	....	2,272,133	1,882,814	389,319	....
WASHINGTON	42,566,276	42,313,846	....	252,430	2,169,008	2,154,002	....	15,007
WEST VIRGINIA	154,636,861	154,636,861	....	....	9,090,365	9,090,365	....	....
Grand Totals	$5,303,653,821	$3,572,116,902	$1,655,062,687	$76,474,232	$426,741,113	$290,891,430	$131,816,306	$4,023,377

At some meetings, wagering is not permitted.
Totals do not include $2,027,880 wagered in or $267,539 received by the State of Idaho; $218,481 wagered in Nevada; $195,000 wagered in or $13,655 received by the State of Wyoming.
Charity and scholarship days not included in revenue to State of Florida.
Revenue figures under Louisiana and New Mexico include combined amounts from thoroughbred and quarter horse racing.
The State of Montana receives no revenue from racing.
Revenue to the State of Oregon under "Quarter Horse and Fairs" includes thoroughbred racing at fair meetings.
Revenue to states include pari-mutuel taxes, track licenses, occupational licenses, admission taxes and breakage.
"Revenue to State" figures include amounts based on the fiscal operation of tracks in some states.
Statistical data on harness and quarter horse racing and revenue to state was made available through the National Association of State Racing Commissioners' annual report for 1968. All revenue totals were computed to the nearest dollar.

Source: American Racing Manual (Chicago: Triangle Publications, 1969), p. 312.

estimate assumes a track system in full operation, an event not likely to occur until the mid-1970's even if racing were approved in the near future.

Another point to be considered is that pari-mutuel racing will have a beneficial effect on the Virginia horse industry. States with pari-mutuel racing promote their own state horse industries by having exclusive races for home bred horses and by awarding breeder awards to home state horse breeders. Virginia's percentage of foals registered in the nation and its percentage of state winners have been declining over the years. Virginia has declined from 5.8 per cent of all registered foals in 1957 which ranked fourth in the nation to 4.8 per cent in 1965 and sixth in the nation.1/ Comparably, Virginia's percentage of stake winners declined from 3.7 per cent and fifth ranking in the nation in 1957 to 2.1 per cent and seventh in the nation in 1964.2/ If one of the aims of pari-mutuel racing is to benefit the Virginia horse industry, then this could be accomplished by promoting home bred horses and giving breeder awards on Virginia's tracks.

Summary of Major Sources

In Table 3.34 we show the effects of alternative changes in the State's revenue structure. For example, the individual income tax, which is the most important source of revenue, is forecast to produce $314.1 million in 1970-71 if its structure and rates are left unchanged. If it were changed to incorporate Proposed Structure IV and Proposed Rate Schedule F, then it would produce $363.5 million in 1970-71, or $49.4 million more than in the former case.

The table can be used to put together any revenue package desired. As a hypothetical example, assume $55 million is needed in 1970-71. One way to raise

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1/ Ibid., p. 7.

2/ Ibid., p. 8.

TABLE 3.34--PROJECTED REVENUES FROM ALTERNATIVE CHANGES IN THE TAX STRUCTURE, 1970-72 BIENNIUM
(Millions of Dollars)

	1970-71		1971-72	
	Projected Revenue	Change From Present Tax	Projected Revenue	Change From Present Tax
PUBLIC SERVICE CORPORATION TAXES				
Present structure; present rates	$ 34.6	$...	$ 36.2	$...
20% increase in effective rates	41.5	+$ 6.9	43.4	+$ 7.2
INDIVIDUALS AND FIDUCIARIES-- INCOME TAX				
Present structure; present rates	314.1	...	357.5	...
Present structure; rate schedule A	342.0	+ 27.9	389.3	+ 31.8
Present structure; rate schedule B	416.5	+102.4	474.0	+116.5
Present structure; rate schedule C	342.0	+ 27.9	389.3	+ 31.8
Present structure; rate schedule D	354.6	+ 40.5	403.6	+ 46.1
Present structure; rate schedule E	348.0	+ 33.9	396.1	+ 38.6
Present structure; rate schedule F	349.9	+ 35.8	398.2	+ 40.7
Proposed structure I; present rates	306.3	- 7.8	348.6	8.9
Proposed structure I; rate schedule A	336.0	+ 21.9	382.4	+ 24.9
Proposed structure I; rate schedule B	406.2	+ 92.1	462.2	+104.7
Proposed structure I; rate schedule C	333.6	+ 19.5	379.6	+ 22.1
Proposed structure I; rate schedule D	345.8	+ 31.7	393.6	+ 36.1
Proposed structure I; rate schedule E	339.7	+ 25.6	386.2	+ 28.7
Proposed structure I; rate schedule F	342.1	+ 28.0	388.3	+ 30.8
Proposed structure II; present rates	333.9	+ 19.8	380.0	+ 22.5
Proposed structure II; rate schedule A	366.2	+ 52.1	416.8	+ 59.3
Proposed structure II; rate schedule B	442.9	+128.8	504.1	+146.6
Proposed structure II; rate schedule C	361.8	+ 47.7	411.8	+ 54.3
Proposed structure II; rate schedule D	375.3	+ 61.2	427.2	+ 69.7
Proposed structure II; rate schedule E	368.1	+ 54.0	419.0	+ 61.5
Proposed structure II; rate schedule F	370.6	+ 56.5	421.8	+ 64.3
Proposed structure III; present rates	326.0	+ 11.9	371.1	+ 13.6
Proposed structure III; rate schedule A	357.4	+ 43.3	406.8	+ 49.3
Proposed structure III; rate schedule B	432.5	+118.4	492.3	+134.8
Proposed structure III; rate schedule C	353.7	+ 39.6	402.6	+ 45.0
Proposed structure III; rate schedule D	366.6	+ 52.5	417.2	+ 59.7
Proposed structure III; rate schedule E	360.0	+ 45.9	409.7	+ 52.2
Proposed structure III; rate schedule F	362.5	+ 48.4	412.6	+ 55.1
Proposed structure IV; present rates	325.7	+ 11.6	370.7	+ 13.2
Proposed structure IV; rate schedule A	357.3	+ 43.2	406.7	+ 49.2
Proposed structure IV; rate schedule B	431.9	+117.8	491.5	+134.0
Proposed structure IV; rate schedule C	354.6	+ 40.5	403.7	+ 46.2
Proposed structure IV; rate schedule D	367.7	+ 53.6	418.5	+ 61.0
Proposed structure IV; rate schedule E	360.9	+ 46.8	410.7	+ 53.2
Proposed structure IV; rate schedule F	363.5	+ 49.4	413.7	+ 56.2

TABLE 3.34--PROJECTED REVENUES FROM ALTERNATIVE CHANGES IN THE TAX STRUCTURE, 1970-72 BIENNIUM (Millions of Dollars) (Continued)

	1970-71		1971-72	
	Projected Revenue	Change From Present Tax	Projected Revenue	Change From Present Tax
CORPORATIONS--INCOME TAX				
Present structure; present rates	$ 53.4	$ ...	$ 57.4	$ ...
Present structure; 6% rate	64.1	+$ 10.7	68.9	+$ 11.5
INHERITANCE TAX				
Present structure; present rates	13.8	...	15.5	...
Present structure with inclusion of insurance; present rates	14.2	+ 0.4	15.9	+ 0.4
Proposed structure; proposed rates	15.2	+ 1.4	17.1	+ 1.6
GIFT TAX				
Present structure; present rates	0.7	...	0.7	...
10% increase in effective rates	0.8	+ 0.1	0.8	+ 0.1
ALCOHOLIC BEVERAGES STATE TAX				
Present structure; present rates	16.5		17.2	+ ...
Present structure; increase in		...		
10% rate to 13%	21.5	+ 5.0	22.4	+ 5.2
TOBACCO PRODUCTS TAX				
Present structure; present rates	13.8	...	14.0	...
STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION)				
Present structure; present rates	230.8	...	251.4	...
Adding all consumer expenditures now excluded; present rate	424.0	+ 193.2	461.8	+ 210.4
Adding all services now excluded; present rate	396.0	+ 165.2	431.4	+ 180.0
Adding selected services now excluded; present rate	247.4	+ 16.6	269.5	+ 18.1
Adding A.B.C. store sales; present rate	235.8	+ 5.0	256.6	+ 5.2
Excluding food purchased from stores; present rate	176.3	- 54.5	192.1	59.3
Excluding food purchase from stores and non-prescription drugs; present rate	172.6	- 58.2	188.0	- 63.4
TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD				
$9 credit per exemption	- 39.6	- 39.6	- 40.4	- 40.4
$9 credit per exemption but limited to AGI of $5,000 or under	- 14.7	- 14.7	- 15.0	- 15.0
MOTOR VEHICLE SALES AND USE TAX (EXCLUDING LOCAL OPTION)				
Present structure; present rate	25.4	...	27.0	...
Change in treatment of trade-ins; 3% rate	30.0	+ 4.6	31.9	+ 4.9
Change in treatment of trade-ins; 3% rate; inclusion of fed. mfg. excise tax in the tax base	31.5	+ 6.1	33.5	+ 6.5

(Notes to the table are on the following page.)

TABLE 3.34--PROJECTED REVENUES FROM ALTERNATIVE CHANGES IN THE TAX STRUCTURE, 1970-72 BIENNIUM (Millions of Dollars) (Continued)

Methodology for revenues due to changes: public service corporation taxes--projected revenue from present structure and rates multiplied by 20 per cent; individuals and fiduciaries, income tax--percentage relationships developed from 1967 actual collections and proposed changes were applied to projected revenues under present structure and rates; corporation, income tax--projected revenue from present structure and rates multiplied by 20 per cent; inheritance tax--projection for revenues from including insurance is based on the percentage relationship of the estimate for fiscal year 1968-69 to actual collections in that year; projection for revenues from the proposed changes in structure and rates based on the 10.4 per cent increase over the existing structure and rates indicated by the sample of 1968-69 returns; gift tax--projected revenue from present structure and rates multiplied by 10 per cent; alcoholic beverage state tax--projected revenues from the current tax were multiplied by 1.3; state sales and use tax--for all items except A.B.C. store sales, percentage relationships between present structure and rate and alternatives shown in Table 3.27 for 1968-69 were applied to projected revenues for present structure and rate in fiscal years 1970-71 and 1971-72. Data used for a 3 percentage point increase in the alcoholic beverage tax were used for A.B.C. store sales; tax credit to compensate for sales tax on food--estimated by assuming the number of exemptions to which the credit would apply was 4,101,118 in tax year 1967. This number was increased by 2 per cent compounded at 3½ and 4½ years, respectively, to allow for the fact that tax year 1967 contained one-half each of fiscal years 1967 and 1968. The limited exemption was based on a similar methodology except the initial number of exemptions was assumed to be 1,632,117; motor vehicle sales and use tax--auto titling tax base of $1,054,000,000 in 1967-68 was extrapolated to 1970-71 and 1971-72 using a 6.4 per cent annual rate of growth. This was the rate at which natural auto dealer sales grew from 1960 to 1968. Percentages were developed from data in the text showing changes in collections in fiscal year 1967-68 for various alternatives compared to the present structure and rate. These percentages were then applied to the projections for 1970-71 and 1971-72 under the existing structure and rate.

the revenue would be to keep the present structure of the individual income tax but adopt Rate Schedule D (+ $40.5 million) and to add selected services now excluded to the sales and use tax base (+$16.6 million). If this package were unacceptable, then the table suggests other alternatives.

CHAPTER IV

OTHER ISSUES

Covered in this chapter are two additional topics the Commission was instructed to study--the taxation of utility easements and the distribution of the local share of the State sales and use tax. State aid to local governments and local effort, two topics of general interest, are also included.

Taxation of Public Service Corporation Easements

Public service corporation easements are not now taxable as an interest in real estate. In the view of the State Tax Department, " ... an easement constitutes solely a right to the use of property and should in no way be construed as a transfer of real estate in itself." 1/ Three adjoining states--Maryland, North Carolina, and West Virginia--were surveyed to find out their policy on the taxation of easements as an interest in real estate.2/ All three followed the Virginia practice of not taxing easements as an interest in real estate.

An easement may reduce or add to the value of the property to which it applies. Those that fall within the "main line or transmission" categories--the main line of a railroad, a gas or oil transmission line, high tension power lines, etc.--generally depress land values since they

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1/ Virginia Advisory Legislative Council, Public Service Easements (October 6, 1967) (Richmond: Commonwealth of Virginia, 1967), p. 17.

2/ Persons contacted during July, 1969 were: Maryland--Mr. Doolittle, Public Utilities Commission; North Carolina--Mr. H. C. Stansbury, Director of Tax Research Department; and West Virginia--Mr. John E. Douglas, Public Utilities Division of the State Tax Department.

may bisect land areas and make them less usable or may create an unpleasant appearance. In contrast, distribution easements--e.g., those allowing the installation of electric and telephone lines in residential areas--generally increase the value of the land they serve. If the easement is the latter type that increases land values, then the land owner is subjected to higher taxes based on the increased land value. And conversely, if the easement reduces land values, then the appraised value and the tax bill for the property will go down.

It is true that localities with a preponderance of easements that reduce land values will incur some loss of revenues. However, it should be noted that main line or transmission easements are only one of many factors with a possible negative influence on land values. To cite an example, because of the noise of sirens and extra traffic, the location of a new fire station may reduce the previous value of houses across the street and cause a reduction of tax receipts from those properties. But, the fire station (or a main line or transmission easement) may add to other property values in the locality because of increased services to them. On the other hand, it is possible that the benefits afforded by granting the easement may accrue to people living in another locality. For example, a high tension power line may be of primary benefit to a distant city and not to the agricultural land it traverses to get there.

The above considerations show why taxation of easements is not a simple matter. In addition, such taxation, if attempted, would involve many administrative problems in determining the location and value of easements.

Alternative Methods of Distributing the Local Share of the State Sales and Use Tax

One of the tasks of the Commission is to determine the equity of the present method of distributing the local share of the State sales and use tax. Equity is a hard concept to handle because it is not very helpful unless we know what is defined as equitable. Possible meanings of equity in regard to the distribution of the sales and use tax are: (a) that revenues should be distributed to the locality where the taxpayers reside; (b) that revenues should be distributed to the locality where the tax is collected; and (c) that revenues should be distributed to the locality where there is a need for funds. Arguments can be cited for each of these positions and there is no universal guide to say which is correct for all contain value judgments and to some extent, an attempt to measure the unmeasurable. Instead of advocating one or a combination of the above methods of achieving equity, we shall merely show the end result of the current system and compare it to two alternative systems.

The State of Virginia returns 1 per cent of the 3 per cent State sales and use tax to the counties and cities. In fiscal year 1967-68, $57.2 million ($54.3 million from the State sales tax plus $2.9 million from the State consumer use tax and the out-of-state dealers' tax) was distributed to the localities.

The present system distributes the local share on the basis of the ratio of local school-aged population to the State total. Table 4.1 compares two possible alternative methods of distribution to the present system. One is distribution of the local share based on the ratio of local population to the State total and the other is distribution based on local taxable sales by place of sale.

TABLE 4.1--ALTERNATIVE METHODS OF DISTRIBUTING THE LOCAL SHARE OF THE STATE SALES AND USE TAX, FISCAL YEAR 1967-68 DATA

	Distributed on the Basis of:		
Locality	Total Population	School-Aged Population (present system)	Local Taxable Sales
County			
Accomack	$ 343,185	$ 366,840	$ 239,085
Albemarle	474,739	421,861	201,392
Alleghany	160,153	174,650	25,968
Amelia	102,955	119,902	43,012
Amherst	320,306	274,336	147,341
Appomattox	125,834	112,192	68,637
Arlington	2,247,860	1,731,966	2,846,946
Augusta	531,936	587,502	275,520
Bath	62,917	59,121	92,317
Bedford	411,822	411,892	205,053
Bland	68,637	69,618	15,157
Botetourt	217,350	220,768	93,632
Brunswick	211,631	245,422	116,054
Buchanan	457,580	695,034	250,010
Buckingham	131,554	157,878	57,712
Campbell	503,338	548,340	287,818
Caroline	171,592	186,654	78,932
Carroll	297,427	319,688	112,507
Charles City	80,076	105,045	11,096
Charlotte	165,873	186,784	72,526
Chesterfield	1,355,580	1,421,212	973,329
Clarke	97,236	122,837	68,008
Craig	40,038	39,620	15,729
Culpeper	205,911	214,540	218,952
Cumberland	80,076	96,219	37,293
Dickenson	223,070	273,421	99,581
Dinwiddie	314,586	304,823	80,076
Essex	91,516	112,606	92,545
Fairfax	5,147,772	5,585,706	4,615,950
Fauquier	337,465	367,630	289,705
Floyd	125,834	129,342	49,762
Fluvanna	91,516	96,242	31,802
Franklin	354,624	365,371	198,475
Frederick	331,745	351,668	281,354
Giles	205,911	223,453	167,703
Gloucester	165,873	165,788	117,655
Goochland	125,834	133,897	54,852
Grayson	205,911	215,693	64,576
Greene	68,637	62,156	22,021
Greensville a/	211,631	255,520	182,231

TABLE 4.1--ALTERNATIVE METHODS OF DISTRIBUTING THE LOCAL SHARE OF THE STATE SALES AND USE TAX; FISCAL YEAR 1967-68 DATA (Continued)

Locality	Total Population	Distributed on the Basis of: School-Aged Population (present system)	Local Taxable Sales
County (cont.)			
Halifax	$ 423,261	$ 466,300	$ 135,672
Hanover	440,420	431,358	276,492
Henrico	1,956,153	1,930,832	2,407,212
Henry	634,892	708,756	412,222
Highland	34,318	31,634	14,299
Isle of Wight	228,790	282,051	126,521
James City	194,471	172,326	87,970
King George	97,236	84,577	34,547
King & Queen	68,637	81,295	13,670
King William	97,236	103,770	89,457
Lancaster	114,395	119,551	126,464
Lee	285,987	359,338	133,213
Loudoun	434,701	439,943	357,713
Louisa	165,873	193,594	80,420
Lunenburg	160,153	174,911	80,992
Madison	108,675	114,065	61,888
Mathews	80,076	74,125	59,085
Mecklenburg	417,541	477,563	295,082
Middlesex	74,357	75,479	61,087
Montgomery	509,057	436,623	419,200
Nasemond	440,420	481,662	189,495
Nelson	148,713	157,659	46,273
New Kent	62,917	69,103	29,514
Northampton	205,911	193,962	162,784
Northumberland	125,834	129,991	58,170
Nottoway	183,032	217,096	144,767
Orange	160,153	152,806	149,972
Page	205,911	201,082	163,413
Patrick	194,471	211,124	78,761
Pittsylvania	777,886	853,690	240,000
Powhatan	97,236	98,040	29,628
Prince Edward	177,312	159,905	182,574
Prince George	377,503	293,777	112,164
Prince William	1,201,147	1,346,363	835,712
Pulaski	354,624	345,946	306,407
Rappahannock	68,637	71,401	18,875
Richmond	80,076	85,993	80,763
Roanoke b/	1,018,115	1,038,580	961,489
Rockbridge	200,191	212,831	87,398
Rockingham	571,975	588,274	282,441

TABLE 4.1--ALTERNATIVE METHODS OF DISTRIBUTING THE LOCAL SHARE OF THE STATE SALES AND USE TAX, FISCAL YEAR 1967-68 DATA (Continued)

Locality	Total Population	Distributed on the Basis of: School-Aged Population (present system)	Local Taxable Sales
County (cont.)			
Russell	$ 331,745	$ 369,551	$ 150,887
Scott	308,866	312,718	141,163
Shenandoah	280,268	272,234	217,350
Smyth	388,943	424,006	289,019
Southampton	245,949	286,967	79,447
Spotsylvania	205,911	217,666	102,555
Stafford	274,548	259,349	102,040
Surry	74,357	85,203	20,076
Sussex	148,713	189,506	86,711
Tazewell	520,497	559,267	448,943
Warren	188,752	211,983	212,317
Washington	497,618	599,740	309,724
Westmoreland	148,713	161,332	94,833
Wise	480,459	691,509	331,345
Wythe	274,548	287,143	214,090
York	394,662	413,558	128,408
Total Counties	$34,810,377	$36,552,345	$25,265,028
City			
Alexandria	$ 1,395,618	$ 1,110,256	$ 2,274,858
Bristol	205,911	166,400	342,098
Buena Vista	85,796	83,774	66,063
Charlottesville	463,299	394,510	1,010,393
Chesapeake	1,046,714	1,391,442	588,333
Clifton Forge	74,357	65,964	91,058
Colonial Heights	171,592	188,914	139,505
Covington	125,834	121,094	191,040
Danville	606,293	581,068	890,164
Fairfax	274,548	339,560	585,016
Falls Church	137,274	135,820	596,512
Franklin	97,236	85,431	145,739
Fredericksburg	183,032	156,274	528,161
Galax	80,076	75,777	206,483
Hampton	1,469,975	1,463,185	1,326,752
Harrisonburg	183,032	124,426	475,082
Hopewell	257,389	287,102	284,443
Lexington	102,955	63,568	147,627
Lynchburg	669,210	621,461	1,361,814
Martinsville	257,389	269,836	464,672

TABLE 4.1--ALTERNATIVE METHODS OF DISTRIBUTING THE LOCAL SHARE OF THE STATE SALES AND USE TAX, FISCAL YEAR 1967-68 DATA (Continued)

Locality	Distributed on the Basis of: Total Population	School-Aged Population (present system)	Local Taxable Sales
City (cont.)			
Newport News	$ 1,664,446	$ 1,632,835	$ 1,715,638
Norfolk	3,723,555	3,250,901	4,677,265
Norton	62,917	61,306	110,849
Petersburg	463,299	497,626	833,253
Portsmouth	1,550,051	1,253,187	1,342,138
Radford	142,994	114,114	172,508
Richmond	2,636,803	2,122,042	5,263,253
Roanoke	1,206,866	1,058,064	2,403,666
South Boston	91,516	101,116	166,445
Staunton	297,427	272,460	456,093
Suffolk	148,713	131,947	256,874
Virginia Beach	1,933,274	1,980,000	1,634,589
Waynesboro	217,350	223,668	344,329
Williamsburg	131,554	64,010	422,861
Winchester	183,032	155,978	416,626
Total Cities	$22,341,329	$20,645,116	$31,932,200
Total, Counties and Cities	$57,197,464	$57,197,464	$57,197,464

Note: Details do not add to totals due to rounding.

a/ Includes Emporia.

b/ Includes Salem.

Sources: Department of Accounts, Report of Comptroller for Fiscal Year Ended June 30, 1968, Errata to Appendix V, (Richmond: Commonwealth of Virginia, December, 1968); Bureau of Population and Economic Research, Estimates of the Population of Virginia Counties and Cities: July 1, 1968, (Charlottesville: University of Virginia, November, 1968); Department of Taxation, Taxable Sales, Quarterly Report, (Richmond: Commonwealth of Virginia, for all quarters from July, 1967 to July, 1968).

Local share figures based on total population were derived by first computing the ratio of the population of each county and city to the total population as of July 1, 1968. These ratios were then applied to $57.2 million to find each estimated local share. The figures show that adoption of this system would not significantly alter the results found under the present system. There would be an aggregate shift of approximately $2 million to the cities.

The second alternative system, that based on taxable sales, was similarly derived by finding the ratio of local to total taxable sales and then multiplying these ratios by $57.2 million. The result would be a redistribution of approximately $11.3 million to the cities.

Both the present system, based on school-aged population, and the alternative system based on total population favor the rural areas of the State and allocate roughly 36 per cent of the local share of the State sales and use tax to the cities. The system based on taxable sales would favor the cities by distributing about 56 per cent of the total local share to them.

State Aid to Local Government

Local governments in Virginia claim they need more revenue. The rural areas cite their inability to generate adequate levels of revenue due to low incomes. The suburban areas point to their fast growth and need to finance schools, sewer systems, parks, etc., and the central cities draw attention to their heavy concentration of low income residents who make large demands for expensive public services such as education, welfare, health services, and police protection.

There are several ways in which relief can be given to local areas. However, it should be noted that all proposals involving greater assistance from the State Government would result in higher State taxes. By transferring the burden from local government to State Government, the cost to particular counties and cities may be redistributed, but it still is a cost to the residents of Virginia.

In fiscal year 1967-68, Virginia local governments had revenues of slightly more than $1 billion of which 62 per cent came from their own sources (taxes and charges), and the remainder came from the State Government (33 per cent) and the federal government (5 per cent).1/

If the State Government were to assist local governments, it could do so in a number of ways:

1. by taking over financial responsibility or financial and administrative responsibility for functions now handled by local government;

2. by giving additional tax powers to local government;

3. by sharing revenues with local government.

The three methods have been used in the past. For example, (1) the State Department of Health now pays for health services previously paid for out of local funds; (2) the Sales and Use Tax Act of 1966 gave localities the right to levy an additional 1 per cent local option tax; and (3) the wine tax, ABC profits, and the State sales and use tax are shared with local government. The discussion will now turn to specific proposals which might be considered under the three major categories of assistance.

1/ Derived from Chart 1.2, p. 21.

Assumption of Financial Responsibility

Discussion usually revolves around three areas of responsibility--education, welfare, and highways.

Education

Education is the most expensive function of local governments. In 1967-68, it took 56 cents out of every dollar that local governments spent, and less than half (about 47 per cent) of the cost was covered by aid from the State.[1/] Assumption of a greater share of local cost might be argued on the basis that education is of statewide concern since people move frequently and that children living in low income areas should not have low quality schooling due to a lack of local revenue.

There are several alternatives from which the State could choose in financing more of the cost. One idea is that the State could take over 100 per cent of the cost of salaries based on the State minimum salary scale for State-aid teaching positions. This would be done by adding the 40 per cent not now paid by the State to the total State share, thereby avoiding any changes with respect to the present supplementary share. For fiscal year 1968-69, the total cost of salaries under the State minimum salary scale was $211.0 million of which the State paid $126.6 million plus supplementary aid of $54.7 million.[2/] Under this proposal, the State would have paid an additional $84.4 million.

1/ Derived from Table 1.12, p. 24.

2/ Figure for supplementary aid includes guaranteed loss of $0.6 million. This and other figures on education costs were derived from Distribution of Basic State School Aid Fund, 1968-69 (Estimated) (Richmond: Department of Education, Revised February, 1968).

However, the above formula change disregards all educational costs but the salaries of teachers. A formula that accounts in some way for all inputs would allow the State to consider the costs of all inputs in allocating funds rather than narrowly focusing on labor. One alternative is to have the State cover the total cost of the minimum program. In fiscal year 1968-69, this would have meant a total expenditure of $317.1 million or an increase of $135.8 million over the amount actually spent. Such a program would not only broaden the focus at the State level, it would also give the localities more funds with which to raise their respective programs above the minimum. Of course, the new formula as explained so far has no built-in guarantees that the localities would provide a program above the minimum. It would be assumed that they would, for many local governments do appear interested in a quality of education that goes beyond the current minimum. Nevertheless, some guarantees could be provided. For example, a provision could be inserted that State funds would be reduced unless local effort defined in some way were maintained.

Another alternative is to have the State pay a certain percentage of the total cost of the minimum program, say 85 per cent.[1/] Along with this could go a provision for the State to pay some part or all of the remaining 15 per cent depending on local ability and effort. In other words, there would be a built-in incentive structure to induce the localities to make as great an effort as possible. For example, a rich locality making a mediocre effort would only receive a part of the additional 15 per cent,and a poor county making a full effort would receive the 15 per cent.

1/ The cost of salaries represents a substantial portion of the total costs; in fiscal year 1968-69, it was 67 per cent. Hence, any new formula based on a percentage of total cost would have to exceed substantially the cost of salaries to vary from the first proposal.

Another alternative is to combine the above two plans in some manner. One idea is to guarantee full payment of the total cost of the minimum program to poorer localities while using the percentage share-incentive formula for the richer localities.

Either of the last two proposals would in fiscal year 1968-69 have cost the State a maximum of $135.8 million in additional expenditures. At the same time, an equivalent amount would have been released for use in localities.

The State could in addition embark on some kind of "educational improvement program." The purpose of this would be to raise expenditures above the minimum with the criterion for distribution the relative need of each locality for State aid. The State expenditures could take the form of either direct payments or matching grants. The amount expended by the State could be set at a certain percentage of the total cost of the minimum program.

In summary, there are several ways in which the State could increase its expenditure on education if it so desired. Any one of them would in all likelihood lead to greater equality of educational opportunity in the State.

Welfare

At present, the cost of the welfare programs is borne by the federal, State, and local governments. The majority of the cost is paid by the federal government while the difference is paid in about equal shares by the State and local governments. In fiscal year 1967-68, the last year for which complete data are available, the total expenditure for public assistance was $64 million. The federal government paid $35.8 million, the State paid $14.7 million, and the local governments paid $13.5 million.1/

1/ Source: Virginia Department of Welfare and Institutions, early release of Table IV to be incorporated in the 1967-68 annual report.

With additional revenue the State could take over the local share of the welfare burden. This would be of definite help to the large central cities, which are faced with an ever-increasing welfare load. Some of the local burden has already been taken over by the State. Beginning in fiscal year 1969-70, much of the medical assistance costs, part of which had been paid by the localities, were put under the Medicaid Program. The program is administered by the Department of Health and paid for by the State and federal governments. Thus, in the future the localities' relative share of welfare costs is likely to decline.

Of course, in looking at the distribution of the cost of present welfare programs, account must be taken of the proposed welfare reforms at the federal level. Any changes made there could substantially alter the picture at the State and local levels.

Highways

The State Department of Highways is responsible for road systems in all counties except Arlington and Henrico. In these counties, and in municipalities with 3,500 or more population, the State gives financial assistance for construction and maintenance, but this assistance falls short of covering total outlays. In 1967-68, local governments in Virginia made highway expenditures of $31 million which were not reimbursed by the State.[1/]

Additional Tax Powers for Local Government

The major source of revenue not available to local governments in Virginia is the income tax. Section 58-80 of the Code of Virginia prohibits local

1/ Derived from Table 1.12, p. 24.

governments from imposing any tax or levy upon incomes.1/ If such a tax were permitted, it could take either of two forms: (1) a local surtax on the State's tax on incomes of individuals and fiduciaries, or (2) a local payroll tax.

A surtax would have the advantage of utilizing the administrative machinery already established for the State individual income tax. Such a "piggy back" tax could be collected by the State for localities by adding a few lines on the present tax form. Moreover, such a tax would apply to all types of income now taxable, whereas a payroll tax would probably be limited to wage and salary income and proprietorship income.

If the goal of local income taxation is to redistribute the tax burden in metropolitan areas then the payroll tax would offer some advantage to central cities accounting for a heavy proportion of a metropolitan area's employment. Since the payroll tax is based on place of employment rather than residence, it tends to favor jurisdictions with a large amount of job net in-commuting. The local payroll tax incurs arguments about taxation without representation, but other widely used taxes such as the sales and use tax present a similar situation. Furthermore, some relief for the nonresident can be provided by the use of a tax credit or a lower rate. In addition, proponents of local payroll taxes argue that suburban residents obtain benefits that they do not pay for and therefore should be subject to central city taxation. However, the extent and dollar value of these services is very hard to quantify.

1/ The Virginia Supreme Court recently ruled that a $12 annual occupation tax for the City of Richmond was permissible even though it contains an income test. Exempt from the tax are persons working in Richmond fewer than 120 days per year, those earning less than $3,100 per year, and those paying professional license taxes. The occupation tax was not considered by the court to be a payroll tax since it (1) is not based on a percentage of wages and salaries paid to employees; (2) applies to the self-employed as well as persons on payrolls; and (3) is not collected by the employer.

The yield of a local option payroll tax with a credit for nonresident local income tax payments would depend on the actions of nearby localities. The fewer the number of localities electing the option, the higher the yield for localities which do impose it.

Information on localities with income or payroll taxes is contained in Tables 4.2 and 4.3. In 1968, nine states had some form of local income or payroll taxation. Many applied the tax to corporations as well as individuals. The majority of localities using the tax have flat rates that in no case exceed 2 per cent, and they have no exemptions or deductions. However, New York City uses graduated rates for residents and allows exemptions and deductions, and cities in Michigan, under the Uniform City Income Tax Act, allow exemptions. Moreover, New York City (for residents), the cities in Michigan, and the localities in Maryland and New Mexico are the only places that tax earned and unearned income.

There are several other interesting facts related to the tables. First, the most extensive use of local payroll taxes has occurred in three highly industrialized states, Ohio, Michigan, and Pennsylvania, none of which levied a state personal income tax at the time of adoption (Michigan does now). In fiscal year 1963-64, Pennsylvania local governments collected about $200 million through the tax, Ohio cities about $100 million, and Michigan cities about $50 million. The other states with local payroll taxes had state personal income taxes before their localities enacted income or payroll taxes. It should be noted, however, that all of these state personal income taxes, except in New York, are levied at low to moderate rates. Finally, most of the taxes have some provision to avoid double taxation between localities. For

TABLE 4.2 --LOCAL PAYROLL AND INCOME TAXES, RATES AND COLLECTIONS
(Dollar amounts in thousands)

State and local government	Rate December 31, 1968 (percent)	Municipal tax collections, 1966-67 (Cities with over 50,000 population in 1960): Total tax collections	Income tax collections: Amount	Income tax collections: As a percent of total collections
Alabama:				
Gadsden	2.0	$4,040	$2,296	56.8
Kentucky:				
Berea	1.5	xxx	xxx	xxx
Bowling Green	1.0	xxx	xxx	xxx
Catlettsburg	1.0	xxx	xxx	xxx
Covington	1.75	2,827	851	30.1
Flemingsburg	0.5	xxx	xxx	xxx
Frankfort	1.0	xxx	xxx	xxx
Fulton	1.0	xxx	xxx	xxx
Glasgow	1.0	xxx	xxx	xxx
Hopkinsville	1.0	xxx	xxx	xxx
Lexington	1.5	7,965	4,215	52.9
Louisville	1.25	29,182	15,072	51.6
Jefferson County1/	1.75	xxx	xxx	xxx
Ludlow	1.0	xxx	xxx	xxx
Mayfield	0.67	xxx	xxx	xxx
Maysville	1.0	xxx	xxx	xxx
Middlesboro	1.0	xxx	xxx	xxx
Newport	2.0	xxx	xxx	xxx
Owensboro	1.0	xxx	xxx	xxx
Paducah	1.25	xxx	xxx	xxx
Pikeville	1.0	xxx	xxx	xxx
Princeton	1.0	xxx	xxx	xxx
Richmond	1.0	xxx	xxx	xxx
Maryland:	% of State Tax			
Baltimore City	50%	177,904	24,804	13.9
2 counties	20%	xxx	xxx	xxx
1 county	25%	xxx	xxx	xxx
1 county	30%	xxx	xxx	xxx
5 counties	35%	xxx	xxx	xxx
1 county	40%	xxx	xxx	xxx
5 counties	45%	xxx	xxx	xxx
8 counties	50%	xxx	xxx	xxx
Michigan:				
Battle Creek	2/	xxx	xxx	xxx
Detroit	2/3/	154,295	46,482	30.1
Flint	2/	16,171	8,513	52.6
Grand Rapids	2/	9,082	4/	4/
Hamtramck	2/	xxx	xxx	xxx
Highland Park	2/	xxx	xxx	xxx
Lansing	2/	7,594	4/	4/
Lapeer	2/	xxx	xxx	xxx
Pontiac	2/	5,766	4/	4/
Port Huron5/	2/	xxx	xxx	xxx
Saginaw	2/	6,447	3,107	48.2
Missouri:				
Kansas City	0.5	43,894	10,646	24.3
St. Louis	1.0	84,304	28,754	34.1
New Mexico:6/				
New York:				
New York City	0.4-2.07/	2,443,891	329,327	13.5
Ohio:				
Akron	1.0	19,450	10,777	55.4
Canton	1.38/	5,772	4,335	75.1
Cincinnati	1.0	46,992	18,962	40.4
Cleveland	1.0	59,998	4/	4/

See footnotes at the end of table.

TABLE 4.2 --LOCAL PAYROLL AND INCOME TAXES, RATES AND COLLECTIONS (Continued)
(Dollar amounts in thousands)

State and local government	Rate December 31, 1968 (percent)	Municipal tax collections, 1966-67 (Cities with over 50,000 population in 1960) Total tax collections	Income tax collections Amount	As a percent of total collections
Ohio: (cont'd)				
Cleveland Heights	1.0	$3,377	4/	4/
Columbus	1.0	24,163	$17,481	72.3
Dayton	1.0	24,615	14,387	58.4
Euclid	0.5	3,829	4/	4/
Hamilton	1.0	3,192	1,822	57.1
Kettering	1.0	1,949	4/	4/
Lakewood	1.0	3,092	4/	4/
Lima	1.0	1,888	1,241	65.7
Lorain	0.5	2,556	4/	4/
Parma	1.0	3,295	4/	4/
Springfield	1.0	3,989	2,784	69.8
Toledo	1.5	20,496	11,774	57.4
Warren	1.0	3,060	2,158	70.5
Youngstown	1.5	9,047	4,901	54.2
184 cities and villages (with less than 50,000 population)	0.25-1.5	xxx	xxx	xxx
Pennsylvania: 9/				
Cities, 50,000 population and over--				
Abington Township	1.0 10/	2,289	4/	4/
Allentown	1.0 10/	5,851	1,629	27.8
Altoona	1.0 11/	2,663	519	19.5
Bethlehem	1.0 10/	3,891	664	17.1
Chester	1.0 12/	2,987	1,297	43.4
Erie	1.0 10/	8,033	1,712	21.3
Harrisburg	1.0 10/	4,315	757	17.5
Johnstown	1.0 11/	2,191	418	19.1
Lancaster	0.5 13/	2,196	567	25.8
Penn Hill Township	1.0 11/	1,769	652	36.9
Philadelphia	2.0 12/	254,998	118,770	46.6
Pittsburgh	1.0 10/	52,736	10,946	20.8
Scranton	1.0 10/ 14/	4,838	914	18.9
Wilkes Barre	1.0 10/	2,489	81	3.3
York	1.0 10/	2.176	474	21.8
Approx 3,100 other local jurisdictions (including over 1,000 school districts)	0.25-1.0	xxx	xxx	xxx

Note: Excludes Washington, D. C. which has a graduated net income tax that is more closely akin to a State tax than to the municipal income taxes

"xxx" Signifies a county, or cities under 50,000 population.

1/ A taxpayer subject to the 1.25 percent tax imposed by the City of Louisville may credit this tax against the 1.75 percent levied by Jefferson County.

2/ Under the Michigan "Uniform City Income Tax Act," the prescribed rates are 1.0 percent for residents and 0.5 percent for nonresidents. A resident is allowed credit for taxes paid to another city as a nonresident.

3/ The rate for residents in Detroit is increased from 1 percent to 2 percent from October 1, 1968 to December 31, 1970.

4/ Tax went into effect after reporting period.

5/ New tax effective January 1, 1969.

(Footnotes continued on next page)

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TABLE 4.2 --LOCAL PAYROLL AND INCOME TAXES, RATES AND COLLECTIONS (Continued)

6/ The 1968 legislature empowered local school boards to impose a county income surtax up to the maximum of 50% of the State income tax, subject to approval by the electorate. The surtax, if imposed, will be State collected and will not apply to corporations. Authorization is limited to the calendar year 1968 or any fiscal year commencing in 1968. No school board has imposed such a tax as of mid-November.

7/ New York City residents' rate ranges from 0.4 percent on taxable income of less than $1,000 to 2.0 percent on taxable income in excess of $30,000. An earnings tax of 0.25 percent of wages or 3/8 of 1 percent on net earnings from self-employment, not to exceed that which would be due if taxpayer were a resident, is levied against nonresidents.

8/ The Canton rate is 1.3 percent from September 1, 1968 thru December 31, 1968; 1.4 percent for 1969; and 1.5 percent thereafter.

9/ Except for Philadelphia, Pittsburgh, and Scranton, the total rate payable by any taxpayer is limited to 1 percent. For coterminous jurisdictions, such as borough and borough school district, the maximum is usually divided equally between the jurisdictions unless otherwise agreed. However, school districts may tax only residents. Thus, if a borough and a coterminous school district each have a stated rate of 1 percent, the total effective rate for residents is 1 percent (1/2 of 1 percent each to the borough and school district) and the tax on nonresidents is 1 percent, the stated rate imposed by the borough.

10/ The school district rate is the same as the municipal rate.

11/ The school district rate is 0.5 percent.

12/ There is no school district income tax.

13/ The school district rate is 1.0 percent.

Source: Advisory Commission on Intergovernmental Relations, State and Local Finances, Significiant Features, 1966 to 1969 (Washington: Government Printing Office, November, 1968), pp. 95-97.

TABLE 4.3 --LOCAL PAYROLL AND INCOME TAX BASES, 1967

City	Non-resident rate relative to resident rate	Business taxed[a]		Resident income base includes —				Reciprocal city tax credit allowed	Personal exemptions allowed	Personal allowed
		Incorporated	Unincorporated	Wages, salaries, similar income only	Income earned out of jurisdiction	Capital gains	Dividends			
New York, N. Y.	(b)	Yes	Yes	No	Yes	Yes	Yes	No	$600 ea. (b)	
Philadelphia, Pa.	Same	No	Yes	Yes	Yes	No	No	No	No	
Detroit, Mich.	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	$600 ea.	
Baltimore, Md.	Zero	Yes	Yes	No	Yes	Yes	Yes	No	$800 ea.	
Cleveland, Ohio	Same	Yes	Yes		Yes		No	Yes	No	
St. Louis, Mo.	Same	Yes	Yes	Yes	Yes	No	No (c)	No	No	
Cincinnati, Ohio	Same	No	Yes	Yes	Yes	No	No	Yes	No	
Pittsburgh, Pa.	Same	Yes	Yes	No	No	No	No	Yes	No	
Kansas City, Mo.	Same	Yes	Yes	Yes	Yes	No	No (c)	Yes	No	
Columbus, Ohio	Same	Yes	Yes	No	Yes	No	No	Yes	No	
Louisville, Ky.	Same	Yes	Yes	Yes	No	No (c)	No	No	No	
Toledo, Ohio	Same	Yes	Yes	No	Yes	No	No	Yes	No	No
Akron, Ohio	Same	Yes	Yes	Yes	Yes	No	No	No	No	No
Dayton, Ohio	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No
Flint, Mich.	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	$600 ea.	No
Youngstown, Ohio	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No
Erie, Pa.	Same	No	Yes	No	Yes	No	No	Yes	No	No
Canton, Ohio	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No
Scranton, Pa.	Same	No	Yes	Yes	Yes	No	No	No	No	No
Allentown, Pa.	Same	No	Yes	Yes	Yes	No	No	Yes	No	No
Grand Rapids, Mich.	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	$600 ea.	No

a. Charitable, religious, educational, and other nonprofit organizations exempt in most cases. Tax generally confined to income stemming from activities in city.

b. Non residents taxed on an entirely different basis from residents. The rate is markedly lower. Instead of deductions, an exclusion related to income level is allowed: The exclusion of $3,000 on income up to $10,000 drops to $2,000 for income over $10,000, to $1,000 for $20,000—$30,000 income, to none for income over $30,000.

c. Except where derived in connection with the conduct of a business.

Source: Tax Foundation, Inc., City Income Taxes, Research Publication No. 12 (New Series) as shown in Advisory on Intergovernmental Relations, State and Local Finances, Significant Features, 1966 to 1969 (Washington: U. S. Government Printing Office, November, 1968), p. 98.

example, cities in Michigan tax residents at 1 per cent and nonresidents at ½ per cent with the city of residence allowing a credit for taxes paid to another city. Thus, an individual living in one city and employed in another pays half of his local tax in each.

Revenue Sharing

To provide significant amounts to local government the State Government would have to share a major revenue source such as the income tax on individuals and fiduciaries. Another possibility would be an expansion of the localities' present one-third share of the State sales and use tax. Either action would reduce the State Government's ability to support existing commitments unless rates and/or structure were changed so that even after deduction of the local share there would be no decrease in the amount going to the State.

If additional revenue sharing were adopted, it would be necessary to devise the criteria for distribution, for example, place of collection, residence of taxpayer, locality's share of State population, or locality's relative position in regard to some accepted measure of need.

Federal Revenue Sharing Proposal

President Nixon has proposed legislation for federal revenue-sharing with state and local governments. The money would be distributed proportionate to each state's share of national population, with an adjustment for the state's relative revenue effort (defined as the ratio of state-local general revenues from own sources to personal income for the state).

The amount available would begin with $500 million in fiscal year 1970-71 and rise to $5.1 billion in 1975-76. After that it would equal 1 per cent of all taxable income of individuals (on the basis of federal income tax rules).

Each state would be required to distribute a portion of the shared revenue to local government. The portion would be based on the local government share of total state and local government revenues raised from own sources. In Virginia the local share would be about 43 per cent.

U. S. News and World Report has prepared estimates of how much each state would receive in 1970-71. The estimate is probably low for Virginia because the fiscal effort calculations use old data not reflecting the full impact of the sales and use tax. Moreover, Virginia's above national average population growth rate will increase its share in future years. Nevertheless, to give some idea of the magnitude of the State's share, the U. S. News and World Report estimate has been used to develop the figures shown in Table 4.4.

TABLE 4.4 --ESTIMATED VIRGINIA REVENUES FROM FEDERAL REVENUE SHARING PROPOSAL

Fiscal Year	Federal Fund ($bil.)	Distributed to Virginia ($Mil.) Total	State Share	Local Share
1970-71	0.5	10	5.7	4.3
1971-72	1.5	30	17.1	12.9
1972-73	2.2	44	25.1	18.9
1973-74	3.2	64	36.5	27.5
1974-75	4.2	84	47.9	36.1
1975-76	5.1	102	58.1	43.9

Sources: U. S. News and World Report, LXVII, No. 7 (August 18, 1969), pp. 20-22, 78-80; LXVII, No. 8 (August 25, 1969), pp. 69-70; Robert L. Joss, "A Discription of the Nixon Administration Proposal for Sharing Federal Revenues with State and Local Governments" [Paper submitted by the Assistant to the Assistant Secretary for Economic Policy, U. S. Treasury Department at the Twenty-Fourth Conference on Revenue Estimating of the Natural Association of Tax Administrators, New York, New York, (October 27, 1969), p. 4.]

By 1975-76 the proposed plan would produce $58.1 million for the State Government and $43.9 million for local governments. In terms of the expected size of State and local government budgets at that time, although federal sharing would probably be welcome, it would not be a major source. For the State alone, we project general fund revenues of $1.3 billion in 1975-76, assuming no changes in the revenue system.

Local Effort

Connected to the issue of greater State financial assistance to localities is the effort currently being made by localities. It is possible that some local governments are not making an adequate effort to meet outlays by using local sources of revenue.

There are several ways of measuring local effort, each of them subject to certain limitations. Because of the controversial nature of such measures, we have used five in Table 4.5. Four of the measures[1/] utilize data from the 1967 Census of Governments, and one is based on work by the Department of Taxation. The census revenue figures cover all governments within a geographic area. Thus, county figures include the finances of towns located within them. Moreover, the census figures reflect only a partial year of collections of the local option portion of the State sales tax. Furthermore, not all localities adopted the tax on September 1, 1967; some waited until later in the fiscal year, and the City of Emporia and the counties of Alleghany, Frederick, and Pittsylvania did not adopt the local option in fiscal year 1966-67. The income estimates used to develop revenues per $1,000 of personal income were developed by the Bureau of Population and Economic Research of the University of Virginia. Local income estimates are subject to many estimating problems so the results of computations employing them should be interpreted with caution. The average effective true tax rates for the local property tax compiled by the Department of Taxation mirror tax rates and assessment ratios used at the time of the survey in 1968. Changes since then are not reflected.

1/ Taxes per capita, taxes per $1,000 of personal income, general revenue from own sources per capita, and general revenue from own sources per $1,000 of personal income.

A further qualification is that demands for public services vary because of population density, income, and attitudes of the local citizenry. Those localities which favor a large number of high quality expenditures will generally have high tax and revenue burdens.

In Table 4.5 the counties and cities are ranked for each measure. This is a convenient way to approach the problem of the adequacy of local effort. The range of outcomes is large for each measure, and the rankings are far from consistent, i.e., each locaility varies in its rank order depending on the measure used. Nevertheless, the data do display general patterns, and it is possible to make some broad groupings of localities on the basis of their relative effort.

The fact that some localities hold a consistently low ranking is not sufficient evidence that they are making too low an effort. Such a judgment would ultimately depend on dollar amounts. If the amounts raised by some localities were considered too low, then it might be desirable to make the amount of additional State support relate in some way to local effort.

TABLE 4.5--MEASURES OF LOCAL FISCAL EFFORT

County or City	Taxes, 1966-67: Per Capita Amount	Per Capita Rank[b/]	Per $1,000 of Personal Income Amount	Per $1,000 of Personal Income Rank[b/]	General Revenue From Own Sources[a/] 1966-67: Per Capita Amount	Per Capita Rank[b/]	Per $1,000 of Personal Income Amount	Per $1,000 of Personal Income Rank[b/]	Average Effective Tax Rate for Real Estate, 1968: Tax Rate	Rank[b/]
County										
Accomack	$ 49.35	94	$25.13	75	$ 55.03	103	$28.02	90	$0.62	79.5
Albemarle	56.66	68	23.83	85	64.55	73	27.16	94	.66	69.5
Alleghany	61.76	59	30.08	47	71.34	61	34.74	52	.81	49.5
Amelia	46.57	99	19.54	112	55.55	101	23.28	110	.49	116.5
Amherst	30.49	130	16.04	127	40.86	126	21.50	118	.52	108
Appomattox	52.02	81	24.26	81	59.53	89	27.74	92	.72	61
Arlington	174.40	6	38.04	26	204.34	9	44.57	30	1.31	11
Augusta	64.39	57	28.10	61	78.20	51	34.12	57	.71	63.5
Bath	68.88	49	28.83	55	79.25	48	33.18	63	.82	47
Bedford[c/]	55.03	75	23.74	86	71.24	62	30.74	79	.54	103.5
Bland	32.31	128	21.38	104	33.67	130	22.32	115	.55	99.5
Botetourt	60.25	62	22.20	99	70.63	65	26.04	96	.54	103.5
Brunswick	50.46	91	27.74	63	62.37	83	34.30	54.5	.55	99.5
Buchanan	31.80	129	19.22	115	39.16	129	23.68	108	.59	88.5
Buckingham	51.59	83	30.96	45	52.60	109	31.54	70	.47	120.5
Campbell	54.45	79	22.50	97	67.61	68	27.94	91	.64	74.5
Caroline	44.74	107	23.04	91	59.28	91	30.54	81	.55	99.5
Carroll	38.53	120	22.48	98	42.44	125	24.78	101	.46	124
Charles City	55.65	72	24.36	79	64.13	76	28.12	89	.72	61
Charlotte	40.87	116	25.06	76	51.46	112	31.56	69	.52	108
Chesterfield	87.30	35	26.60	67	100.03	38	30.48	83	.94	31
Clarke	57.92	64	21.23	105	64.06	77	23.50	109	.51	112.5
Craig	42.12	114	15.18	130	53.34	108	19.11	129	.51	112.5
Culpeper	62.84	58	19.52	113	74.07	56	23.00	112	.59	88.5
Cumberland	48.40	96	30.02	49	60.15	88	37.34	45	.52	108
Dickenson	42.83	113	29.36	52	47.68	118	32.72	65	.59	88.5
Dinwiddie	33.26	127	15.28	129	40.44	127	18.58	130	.63	77
Essex	66.66	55	32.22	41	70.90	63	34.30	54.5	.48	118
Fairfax	145.82	11	42.14	18	180.86	15	52.27	17	1.45	4.5
Fauquier	83.20	38	22.74	94	94.40	41	25.81	97	.40	128.5
Floyd	45.90	101	18.44	120	51.53	111	20.72	122	.79	52.5
Fluvanna	72.36	46	50.54	7	78.59	49	54.84	14	.49	116.5
Franklin	47.86	97	24.75	77	58.26	95	30.13	84	.59	88.5
Frederick	37.02	123	18.08	123	42.56	124	20.80	121	.55	99.5
Giles	97.77	28	47.04	11	106.48	36	51.22	19	.59	88.5
Gloucester	56.14	70	20.86	107	64.19	74	23.86	107	.64	74.5
Goochland	56.77	66	23.84	84	58.50	93	24.54	104	.56	97
Grayson	26.68	131	17.55	126	31.14	131	20.46	123	.47	120.5
Greene	37.62	122	18.38	121	39.39	128	19.24	127	.46	124
Greensville	60.17	63	26.86	66	70.23	66	31.34	71	.54	103.5

TABLE 4.5--MEASURES OF LOCAL FISCAL EFFORT (Cont.)

County or City	Taxes, 1966-67: Per Capita b/ Amount	Per Capita b/ Rank	Per $1,000 of Personal Income b/ Amount	Per $1,000 of Personal Income b/ Rank	General Revenue From Own Sources a/ 1966-67: Per Capita b/ Amount	Per Capita b/ Rank	Per $1,000 of Personal Income b/ Amount	Per $1,000 of Personal Income b/ Rank	Average Effective Tax Rate for Real Estate, 1968 b/: Tax Rate	Rank
Halifax	$ 39.66	118	$26.32	69	$ 48.27	117	$32.06	68	.50	115
Hanover	55.63	73	19.30	114	62.96	81	21.84	117	.62	79.5
Henrico	95.35	31	23.61	87	116.33	31	28.80	87	.91	35.5
Henry	45.21	106	20.20	110	56.12	99	25.08	100	.52	108
Highland	56.76	67	34.25	35	73.88	58	44.56	31	.65	71.5
Isle of Wight	68.20	52	26.40	68	74.85	55	28.96	86	.64	74.5
James City	46.02	100	23.03	92	49.24	114	24.66	103	.92	32.5
King and Queen	50.27	92	21.63	103	56.43	97	24.26	105	.70	65
King George	51.08	85	21.98	100	53.01	107	22.79	114	.85	43
King William	68.71	50	24.36	79.5	72.69	59	25.76	99	.57 d/	95
Lancaster	54.74	77	22.66	95	63.56	78	26.30	95	.52	108
Lee	38.13	121	34.40	34	48.56	116	43.82	33	.76	56
Loudoun	124.63	16	43.14	16	137.02	20	47.44	23	.78	54.5
Louisa	43.68	111	22.86	93	56.13	98	29.39	85	.47	120.5
Lunenburg	43.90	110	26.28	71	51.62	110	30.87	75	.57	95
Madison	39.13	119	19.94	111	43.44	120	22.17	116	.71	63.5
Mathews	49.01	95	18.72	118	54.92	104	20.98	119	.75	57
Mecklenburg	51.90	82	30.40	46	67.44	69	39.48	40	.51	112.5
Middlesex	66.62	56	39.14	23	74.06	57	43.54	34	.61	82.5
Montgomery	41.52	115	17.62	125	53.87	105	22.87	113	.59	88.5
Nansemond	46.61	98	18.35	122	48.69	115	19.17	128	.74	58.5
Nelson	45.22	105	25.92	73	58.40	94	33.48	60.5	.46	124
New Kent	56.50	69	20.72	109	63.15	80	23.13	111	.69	66
Northampton	50.60	90	26.30	70	64.89	71	33.72	59	.59 e/	88.5
Northumberland	60.76	61	29.26	53	64.15	75	30.88	74	.72	61
Nottoway	50.65	87	25.54	74	60.50	87	30.52	82	.86	41
Orange	54.75	76	19.06	117	70.83	64	24.68	102	.61	82.5
Page	51.25	84	23.45	89	61.66	86	28.20	88	.66	69.5
Patrick	33.96	126	15.54	128	43.35	121	19.85	125	.43	127
Pittsylvania	45.60	103	26.25	72	53.68	106	30.90	73	.59	88.5
Powhatan	50.62	88	18.56	119	55.41	102	20.34	124	.62	79.5
Prince Edward	43.28	112	20.84	106	64.82	72	31.21	72	.27	131
Prince George	34.87	124	11.30	131	43.08	122	13.96	131	.80	51
Prince William	87.55	34	38.90	24	114.07	33	50.68	20	.97	28.5
Pulaski	61.41	60	27.40	64	77.94	52	34.78	51	.59	88.5
Rappahannock	50.13	93	28.69	57	57.91	96	33.06	64	.45	126
Richmond	68.59	51	33.08	38	78.24	50	37.68	44	.90	38.5
Roanoke c/	67.92	53	23.46	88	89.32	44	30.86	76	.87	40
Rockbridge	71.57	47	31.56	44	80.57	47	35.53	49	.82	47
Rockingham	55.75	71	23.90	83	71.55	60	30.68	80	.59	88.5
Russell	67.40	54	43.63	14	75.08	54	48.62	22	.54	103.5
Scott	34.05	125	21.86	101.5	42.76	123	27.44	93	.67	67.5
Shenandoah	54.66	78	22.54	96	62.50	82	25.78	98	.47	120.5
Smyth	45.56	104	24.08	82	63.34	79	33.48	60.5	.62	79.5
Southampton		102	17.86	124	50.63	113	19.76	126	.51	112.5

TABLE 4.5--MEASURES OF LOCAL FISCAL EFFORT (Cont.)

County or City	Taxes, 1966-67: Per Capita Amount	Taxes, 1966-67: Per Capita Rank b/	Taxes, 1966-67: Per $1,000 of Personal Income Amount	Taxes, 1966-67: Per $1,000 of Personal Income Rank b/	General Revenue From Own Sources a/ 1966-67: Per Capita Amount	General Revenue From Own Sources a/ 1966-67: Per Capita Rank b/	General Revenue From Own Sources a/ 1966-67: Per $1,000 of Personal Income Amount	General Revenue From Own Sources a/ 1966-67: Per $1,000 of Personal Income Rank b/	Average Effective Tax Rate for Real Estate, 1968: Tax Rate	Average Effective Tax Rate for Real Estate, 1968: Rank b/
Spotsylvania	$ 55.39	74	$28.66	58	$ 62.00	84	$32.08	67	.78	54.5
Stafford	50.89	86	20.80	108	58.49	92	23.92	106	.83	45
Surry	40.24	117	19.13	116	44.04	119	20.94	120	.31	130
Sussex	57.57	65	26.98	65	68.76	67	32.24	66	.57	95
Tazewell	44.66	108	24.58	78	55.87	100	30.75	78	.64	74.5
Warren	72.57	45	32.55	40	77.42	53	34.74	52.5	.40	128.5
Washington	50.61	89	28.04	62	61.84	85	34.28	56	.67	67.5
Westmoreland	73.03	44	35.07	32	87.68	45	42.11	35	.85	43
Wise	44.02	109	28.82	56	59.45	90	38.92	41	.82	47
Wythe	54.24	80	28.17	60	65.26	70	33.90	56	.65	71.5
York	77.21	42	29.94	50	86.20	46	33.44	62	.74 f/	58.5
City										
Alexandria	184.48	4	43.71	13	217.92	7	51.64	18	1.38	8
Bristol	96.46	29	42.72	17	133.81	21	59.28	11	1.07	22
Buena Vista	86.93	36	33.34	37	99.53	39	38.16	43	1.21	16
Charlottesville	167.85	7	41.32	20	199.92	10	49.22	21	1.09	19.5
Chesapeake	103.74	23	50.83	6	126.33	26	61.90	7	.91	35.5
Clifton Forge	101.17	26	36.82	28	127.76	25	46.50	25	1.14	18
Colonial Heights	103.04	24	33.05	39	111.37	35	35.72	48	1.24	15
Covington	106.74	21	29.05	54	113.12	34	30.78	77	1.04	23
Danville	79.09	40	28.43	59	122.06	28	43.88	32	.96	30
Fairfax	290.60	1	62.07	1	333.41	1	71.20	3	1.70	1
Falls Church	254.93	2	54.38	3	285.67	2	60.96	8	1.37	9
Franklin	76.89	43	21.86	101.5	128.83	24	36.60	47	.91	35.5
Fredericksburg	124.88	15	44.07	12	154.18	17	54.41	15	1.09	19.5
Galax	85.49	37	29.64	51	121.13	29	41.99	37	.79	52.5
Hampton	92.61	32	34.00	36	114.60	32	42.08	36	1.27	13
Harrisonburg	140.23	13	43.36	15	187.95	13	58.13	12	.91	35.5
Hopewell	143.23	12	48.12	9	234.56	4	78.80	1	1.19	17
Lexington	88.58	33	35.86	31	96.02	40	38.86	42	1.03	24
Lynchburg	165.08	8	53.99	4	186.08	14	60.86	9	1.40	7
Martinsville	99.39	27	38.28	25	139.38	19	53.66	16	.90	38.5
Newport News	102.32	25	32.16	42	147.08	18	46.22	27	1.30	12
Norfolk	120.57	17	34.88	33	222.68	6	64.42	5	1.26	14
Norton	80.09	39	39.90	22	92.96	42	46.38	26	1.00	26
Petersburg	110.75	19	36.32	30	231.18	5	75.82	2	1.45	4.5
Portsmouth	97.39	30	30.06	48	129.89	23	40.10	39	1.51	3
Radford	69.12	48	23.16	90	104.48	37	35.02	50	.85	43
Richmond	175.28	5	47.84	10	211.52	8	57.72	13	1.65	2
Roanoke	164.54	9	52.56	5	197.53	11	63.10	6	1.41	6
South Boston	112.08	18	37.60	27	123.32	27	41.36	38	.81	49.5
Staunton	107.00	20	41.65	19	117.80	30	45.86	28	1.00	26

TABLE 4.5--MEASURES OF LOCAL FISCAL EFFORT (Cont.)

County or City	Taxes, 1966-67: Per Capita Amount	Per Capita Rank[b/]	Per $1,000 of Personal Income Amount	Per $1,000 of Personal Income Rank[b/]	General Revenue From Own Sources[a/] 1966-67: Per Capita Amount	Per Capita Rank[b/]	Per $1,000 of Personal Income Amount	Per $1,000 of Personal Income Rank[b/]	Average Effective Tax Rate for Real Estate, 1968: Tax Rate	Rank[b/]
Suffolk	$138.48	14	$40.62	21	$160.00	16	$46.94	24	$1.35	10
Virginia Beach	77.43	41	31.83	43	90.29	43	37.12	46	1.08	21
Waynesboro	147.92	10	49.93	8	191.55	12	64.66	4	1.00	26
Williamsburg	241.18	3	55.14	2	259.49	3	59.32	10	.97	28.5
Winchester	106.72	22	36.46	29	133.61	22	45.64	29	.92	32.5
Exhibit:										
Range of values	26.68 - 290.60		11.30 - 62.07		31.41 - 333.41		13.96 - 78.80		0.27 - 1.70	
Median	56.77		26.86		70.23		32.24		0.69	

a/ Excludes utility revenue and employee-retirement revenues.

b/ Ranking is done in accordance with the method used in rank correlation, i.e., where two or more localities tie for the same rank, a mean rank is assigned to each one.

c/ Bedford and Salem became independent cities in 1968. They are included in Bedford and Roanoke Counties respectively.

d/ Applies only to real estate outside the Town of West Point.

e/ Applies only to real estate outside the Town of Cape Charles.

f/ Applies only to real estate outside the Town of Pouquson.

Sources: U. S. Department of Commerce, Bureau of the Census, 1967 Census of Governments, Vol. 4, Government Finances, Number 5, Compendium of Governmental Finances. Washington, D. C.: Government Printing Office, 1969; David C. Hodge, "Personal Income Estimates: Virginia Counties and Cities, 1960, 1965, and 1967". University of Virginia, Bureau of Population and Economic Research, 1969; Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates In Virginia Counties and Cities," (March 1, 1969).

APPENDIX TABLES

Background

Table A.1 provides five separate tax structures: (1) The present tax structure consists of the present Virginia tax structure which includes a $300 dependent exemption. Since the 1967 tax structure which produced our data had a $200 personal exemption, it was necessary to change the exemption to coincide with the present structure. (2) Proposed Tax Structure I changes the standard deduction of the Virginia tax structure from 5 per cent and a $500 maximum deduction to 10 per cent and a $1,000 maximum deduction, keeping the other features of the present Virginia law the same. (3) Proposed Tax Structure II changes the personal exemption from $1,000 to $600 and the $300 dependent exemption from $300 to $600. The blind and old age exemption is kept at $600, and the exemption for a single person who is the head of a household is changed from $700 to $600. (4) Proposed Tax Structure III changes the exemption and deduction items together, combining the change in Proposed Tax Structures I and II. (5) Proposed Tax Structure IV changes the exemptions and deductions to conform exactly with the federal law. This would add to Proposed Structure III a minimum deduction of $200 plus $100 per exemption.

Under each of the five separate tax structures, there are five separate items per adjusted gross income classification. These five items are: (1) total adjusted gross income; (2) total value of all exemptions; (3) total value of all deductions; (4) total income subject to tax; (5) tax receipts from the present tax rates.

Data are shown for twenty-five A.G.I. classes and for the total of all classes.

Table A.2 has three separate categories under each A.G.I. classification: individual returns, joint returns, and separate returns. Separate returns are returns filed separately by husband and wife. The columns give the following types of information for each category by A.G.I. class: (a) the total number of returns; (b) the total number of exemptions for $1,000 personal exemption, $600 age and/or blindness exemption, $300 dependent exemption, and $700 for single head of household exemption; (c) total number of exemptions; (d) the number of returns being filed separately with 1, 2, 3, 4, 5, and 6 and over exemptions other than age or blindness.

A.G.I. classifications for Table A.2 are the same as for Table A.1.

Discussion

1. A.G.I. classification 0-$999 in Table A.1 shows total A.G.I. to be less than total value of exemptions. This is a result of reported income of residents under $1,000 where no tax is paid and exemptions are equal to at least $1,000.

2. The value of exemptions in Table A.1 will always be less than the total value derived from Table A.2. For example, in A.G.I. classification 0-$999, total value of exemptions for the Present Tax Structure is $136,368,407, while the value derived from Table A.2 is $138,514,900. The reason for this is that prorated exemptions on partial residents do not show up when deriving the value of exemptions from Table A.2.

3. In Table A.1 there are taxable income and tax receipts in A.G.I. classification 0-$999 due to income under $1,000 earned by people who were residents of Virginia for only part of the year (partial residents). Exemptions for these returns are prorated, and this will leave some net taxable income.

4. There is an error in the total number of $1,000 exemptions filed under joint returns (see Table A.2, total for all classes). There are 607,200 returns and 1,214,398 $1,000 exemptions. The number of exemptions should be 1,214,412. This is due to a coding error and could not be corrected.

5. If a 10 per cent deduction were offered, 54,270 taxpayers now itemizing their deductions would take the standard deduction if they acted in their own best interest. The number itemizing would be reduced from 798,182 to 743,912. These figures were given as a by-product from the computer printout. This would not include separate returns where deductions when itemized on the tax form are itemized on all proposed tax structures. (See below, item 7, and item 1 under Comments.)

6. There are three types of taxpayers: resident, non-resident, and partial resident (a person who has moved into or moved out of Virginia during the taxable year and for the time he was in Virginia considered himself a resident, filing a resident return).

A. Non-resident Returns:

(1) Income - Total A.G.I. is used to classify the return by A.G.I classification.

(2) Deductions:

(a) The standard deduction is taken as a percentage of total income and the derived figure prorated by the ratio of Virginia income to total income.

(b) Itemized deductions are based on total income and then prorated by the ratio of Virginia income to total income. (When deductions are itemized, in order to choose which will benefit the taxpayer most, the standard 10 per cent deduction or the itemized deduction, the Virginia itemized deduction--the only figure on the computer tape--must be divided by the ratio of Virginia income to total income to give the itemized deductions on total income. This amount is compared to the standard deduction on total income. When the choice is made, the deduction is then prorated back.)

(3) Exemptions - Exemptions are prorated by the ratio of Virginia income to total income.

(4) Tax Credit - A tax credit is granted on non-resident returns for tax paid to state of residence on total income if deductions are itemized and the state of residence has a reciprocal agreement with Virginia for Virginia residents paying tax in that state. The tax credit is derived by multiplying the tax liability to the state of residence by the ratio of what the adjusted gross income earned in Virginia bears to the entire income subject to tax in the state of residence. The credit cannot exceed the Virginia tax liability.

B. Partial Resident Returns:

(1) Income subject to tax is Virginia income only.

(2) Deductions - Deductions are derived from Virginia income only and are not prorated. However, the minimum standard deduction as proposed in Tax Structure IV is prorated by ratio of days of residence in Virginia to 365. This is done because people with low incomes would have all or a great part of this income deductible. A person with $500 income would have $300 deductible income where under a standard deduction of 10 per cent his deductible income would be $50.

(3) Exemptions - Exemptions are prorated by the number of days residence in Virginia divided by 365.

7. For All Separate Returns - If deductions on the returns of both spouses are itemized, then the deductions are itemized on all proposed structures. The reason for this is that it is impossible to match separate returns in order to change itemized deductions to standard deductions.

8. For Joint and Individual Returns - The standard deduction is checked against the itemized deduction when the itemized deduction is used, and when the standard deduction is more advantageous, it is used in place of the itemized deduction.

Comments

1. Where itemized deductions are used on separate returns on all tax structures (see above item 7), this will cause an understatement of deductions and an overstatement of revenues. Anyone itemizing deductions which amount to more than 5 per cent but less than 10 per cent of income would gain by a 10 per cent standard deduction. Our program, however, will show the lower deduction.

2. The tax law has provision for taxes paid other states by residents of Virginia.

A. If the state where tax is paid has a reciprocal agreement with Virginia, then a tax credit is granted by the state of non-residence by the same formula as Virginia applies to its non-residents. This formula is shown above in the section on non-resident returns. This in no way affects our returns.

B. If the state where tax is paid does not have a reciprocal agreement with Virginia, then the tax credit is granted by Virginia. This credit is derived by multiplying the Virginia tax liability by the ratio of net income subject to tax of non-resident state to net income subject to tax of Virginia. In order to receive this credit, a taxpayer must itemize his deductions. This credit, believed to be very small as a percentage of total receipts, was not on our computer tape and not included in our figures. Therefore, our tax revenue will be overstated by the amount of this credit.

3. In Table A.2 the exemption category for age and blindness was grouped together in one category. The computer tape had these as only one category, and it was impossible to separate them. Except for some specialized uses such as knowing the number of blind exemptions, the grouping of the exemptions together presents no problem since both exemptions are worth $600.

4. It was not possible to test a split income option for joint returns, since there is no way of identifying from the computer tape the corresponding spouse's return where separate returns had been filed.

5. The total number of exemptions if calculated from the second part of Table A.2 by multiplying the number of returns under each exemption category by the number of that exemption and adding will be less than the total shown. The reason for this is that the 6/over category lumps together all returns with 6 and over exemptions. If we multiply the number of returns by 6 and there is one return with more than 6 exemptions, we will be underestimating the number of exemptions.

TABLE A.1--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX FOR PRESENT TAX STRUCTURE AND FOUR PROPOSED TAX STRUCTURES BY AGI CLASSIFICATION, TAX YEAR 1967

AGI CLASSIFICATION	PRESENT TAX STRUCTURE -$ AMOUNT-	PROPOSED TAX STRUCTURE I -$ AMOUNT-	PROPOSED TAX STRUCTURE II -$ AMOUNT-	PROPOSED TAX STRUCTURE III -$ AMOUNT-	PROPOSED TAX STRUCTURE IV -$ AMOUNT-
$0 - 999					
ADJUSTED GROSS INCOME	56,481,147	56,481,147	56,481,147	56,481,147	56,481,147
EXEMPTIONS	136,368,402	136,368,402	91,345,397	91,345,397	91,345,397
DEDUCTIONS	10,082,918	12,375,598	10,082,918	12,375,598	25,033,455
INCOME SUBJECT TO TAX	549,952	506,327	6,876,727	5,703,780	3,532,011
TAX RECEIPTS FROM PRESENT RATES	10,999	10,126	137,540	114,079	70,644
$1,000 - 1,999					
ADJUSTED GROSS INCOME	231,657,735	231,657,735	231,657,735	231,657,735	231,657,735
EXEMPTIONS	215,145,158	215,145,158	153,583,695	153,583,695	153,583,695
DEDUCTIONS	19,672,732	28,679,133	19,672,732	28,679,133	37,451,550
INCOME SUBJECT TO TAX	41,294,233	35,921,851	84,014,477	77,256,717	73,816,751
TAX RECEIPTS FROM PRESENT RATES	825,751	718,302	1,680,159	1,545,001	1,476,204
$2,000 - 2,999					
ADJUSTED GROSS INCOME	399,420,446	399,420,446	399,420,446	399,420,446	399,420,446
EXEMPTIONS	236,182,621	236,182,621	179,083,459	179,083,459	179,083,459
DEDUCTIONS	36,044,819	49,785,433	36,044,819	49,785,433	54,763,529
INCOME SUBJECT TO TAX	145,005,621	134,012,272	197,904,755	185,879,386	184,638,751
TAX RECEIPTS FROM PRESENT RATES	2,899,297	2,679,430	3,957,281	3,716,770	3,691,958
$3,000 - 3,999					
ADJUSTED GROSS INCOME	615,791,282	615,791,282	615,791,282	615,791,282	615,791,282
EXEMPTIONS	274,170,005	274,170,005	217,167,649	217,167,649	217,167,649
DEDUCTIONS	55,833,342	75,112,927	55,833,342	75,112,927	79,015,264
INCOME SUBJECT TO TAX	292,105,157	273,711,303	350,946,255	332,869,695	331,585,455
TAX RECEIPTS FROM PRESENT RATES	5,841,582	5,473,381	7,040,273	6,667,435	6,641,749
$4,000 - 4,999					
ADJUSTED GROSS INCOME	767,594,355	767,594,355	767,594,355	767,594,355	767,594,355
EXEMPTIONS	284,148,079	284,148,079	235,483,100	235,483,100	235,483,100
DEDUCTIONS	74,023,961	96,059,682	74,023,961	96,059,682	98,395,204
INCOME SUBJECT TO TAX	411,607,454	389,709,588	462,049,661	440,639,890	439,618,986
TAX RECEIPTS FROM PRESENT RATES	8,431,432	7,924,486	9,720,512	9,179,597	9,159,180
$5,000 - 5,999					
ADJUSTED GROSS INCOME	868,943,047	868,943,047	868,943,047	868,943,047	868,943,047
EXEMPTIONS	278,820,585	278,820,585	238,600,509	238,600,509	238,600,509
DEDUCTIONS	91,657,794	112,794,667	91,657,794	112,794,667	113,951,780
INCOME SUBJECT TO TAX	499,311,275	478,187,454	540,308,898	519,441,356	518,817,034
TAX RECEIPTS FROM PRESENT RATES	10,777,823	10,229,200	11,978,041	11,407,267	11,394,782

TABLE A.1--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX FOR PRESENT TAX STRUCTURE AND FOUR PROPOSED TAX STRUCTURES BY AGI CLASSIFICATION, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	PRESENT TAX STRUCTURE	PROPOSED TAX STRUCTURE I	PROPOSED TAX STRUCTURE II	PROPOSED TAX STRUCTURE III	PROPOSED TAX STRUCTURE IV
	-$ AMOUNT-	-$ AMOUNT-	-$ AMOUNT-	-$ AMOUNT-	-$ AMOUNT-
$6,000 - 6,999					
ADJUSTED GROSS INCOME	896,094,473	896,094,473	896,094,473	896,094,473	896,094,473
EXEMPTIONS	253,000,393	253,000,393	221,166,881	221,166,881	221,166,881
DEDUCTIONS	103,759,447	121,474,045	103,759,447	121,474,045	121,926,474
INCOME SUBJECT TO TAX	539,912,145	522,198,240	571,938,559	554,287,517	553,974,711
TAX RECEIPTS FROM PRESENT RATES	12,376,010	11,798,354	13,626,845	12,987,267	12,981,011
$7,000 - 7,9999					
ADJUSTED GROSS INCOME	846,173,653	846,173,653	846,173,653	846,173,653	846,173,653
EXEMPTIONS	218,726,220	218,726,220	194,641,201	194,641,201	194,641,201
DEDUCTIONS	107,395,749	120,906,488	107,395,749	120,906,488	121,059,550
INCOME SUBJECT TO TAX	520,377,755	506,867,016	544,509,127	531,012,509	530,894,031
TAX RECEIPTS FROM PRESENT RATES	12,853,435	12,330,476	13,962,244	13,402,404	13,399,952
$8,000 - 8,999					
ADJUSTED GROSS INCOME	695,717,076	695,717,076	695,717,076	695,717,076	695,717,076
EXEMPTIONS	166,482,496	166,482,496	149,903,787	149,903,787	149,903,787
DEDUCTIONS	92,323,934	101,740,993	92,323,934	101,740,993	101,777,700
INCOME SUBJECT TO TAX	437,160,012	427,742,952	453,733,214	444,317,849	444,285,375
TAX RECEIPTS FROM PRESENT RATES	11,670,938	11,237,051	12,529,261	12,092,359	12,091,625
$9,000 - 9,999					
ADJUSTED GROSS INCOME	560,348,563	560,348,563	560,348,563	560,348,563	560,348,563
EXEMPTIONS	123,367,646	123,367,646	111,857,683	111,857,683	111,857,683
DEDUCTIONS	75,887,731	82,610,510	75,887,731	82,610,510	82,628,000
INCOME SUBJECT TO TAX	361,236,532	354,513,753	372,733,548	366,011,522	365,996,397
TAX RECEIPTS FROM PRESENT RATES	10,461,812	10,130,778	11,076,509	10,749,683	10,749,274
$10,000 - 10,999					
ADJUSTED GROSS INCOME	441,330,170	441,330,170	441,330,170	441,330,170	441,330,170
EXEMPTIONS	89,943,183	89,943,183	81,951,712	81,951,712	81,951,712
DEDUCTIONS	60,214,085	64,715,938	60,214,085	64,715,938	64,719,750
INCOME SUBJECT TO TAX	291,335,605	286,833,751	299,315,288	294,813,434	294,809,623
TAX RECEIPTS FROM PRESENT RATES	9,077,614	8,854,580	9,494,424	9,272,192	9,272,050
$11,000 - 11,999					
ADJUSTED GROSS INCOME	342,208,053	342,208,053	342,208,053	342,208,053	342,208,053
EXEMPTIONS	64,810,252	64,810,252	59,240,377	59,240,377	59,240,377
DEDUCTIONS	46,509,530	49,330,371	46,509,530	49,330,371	49,332,152
INCOME SUBJECT TO TAX	231,033,416	228,212,575	236,594,031	233,773,190	233,771,409
TAX RECEIPTS FROM PRESENT RATES	7,638,980	7,499,565	7,921,363	7,781,912	7,781,837

TABLE A.1--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX FOR PRESENT TAX STRUCTURE AND FOUR PROPOSED TAX STRUCTURES BY AGI CLASSIFICATION, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	PRESENT TAX STRUCTURE -$ AMOUNT-	PROPOSED TAX STRUCTURE I -$ AMOUNT-	PROPOSED TAX STRUCTURE II -$ AMOUNT-	PROPOSED TAX STRUCTURE III -$ AMOUNT-	PROPOSED TAX STRUCTURE IV -$ AMOUNT-
$12,000 - 12,999					
ADJUSTED GROSS INCOME	280,447,096	280,447,096	280,447,096	280,447,096	280,447,096
EXEMPTIONS	49,354,746	49,354,746	45,361,260	45,361,260	45,361,260
DEDUCTIONS	37,906,780	39,797,830	37,906,780	39,797,830	39,798,446
INCOME SUBJECT TO TAX	193,350,337	191,459,288	197,337,163	195,446,113	195,445,497
TAX RECEIPTS FROM PRESENT RATES	6,702,543	6,609,162	6,902,597	6,809,171	6,809,146
$13,000 - 13,999					
ADJUSTED GROSS INCOME	236,738,795	236,738,795	236,738,795	236,738,795	236,738,795
EXEMPTIONS	39,242,131	39,242,131	36,250,017	36,250,017	36,250,017
DEDUCTIONS	31,993,929	33,310,013	31,993,929	33,310,013	33,310,217
INCOME SUBJECT TO TAX	165,569,476	164,253,392	168,555,990	167,239,906	167,239,702
TAX RECEIPTS FROM PRESENT RATES	5,954,133	5,889,178	6,103,575	6,038,609	6,038,603
$14,000 - 14,999					
ADJUSTED GROSS INCOME	206,021,062	206,021,062	206,021,062	206,021,062	206,021,062
EXEMPTIONS	31,916,521	31,916,521	29,540,057	29,540,057	29,540,057
DEDUCTIONS	27,347,445	28,274,557	27,347,445	28,274,557	28,274,657
INCOME SUBJECT TO TAX	146,806,466	145,879,354	149,181,763	148,254,652	148,254,552
TAX RECEIPTS FROM PRESENT RATES	5,456,914	5,411,048	5,575,249	5,529,359	5,529,354
$15,000 - 19,999					
ADJUSTED GROSS INCOME	542,811,578	542,811,578	542,811,578	542,811,578	542,811,578
EXEMPTIONS	71,766,221	71,766,221	66,478,871	66,478,871	66,478,871
DEDUCTIONS	70,443,026	72,024,093	70,443,026	72,024,093	72,025,022
INCOME SUBJECT TO TAX	400,835,617	399,254,549	406,112,570	404,531,503	404,530,574
TAX RECEIPTS FROM PRESENT RATES	15,880,417	15,802,037	16,143,749	16,065,339	16,065,293
$20,000 - 24,999					
ADJUSTED GROSS INCOME	518,657,506	518,657,506	518,657,506	518,657,506	518,657,506
EXEMPTIONS	59,453,158	59,453,158	54,909,312	54,909,312	54,909,312
DEDUCTIONS	64,586,580	65,663,524	64,586,580	65,663,524	65,663,539
INCOME SUBJECT TO TAX	394,812,858	393,735,914	399,342,346	398,265,403	398,265,388
TAX RECEIPTS FROM PRESENT RATES	16,289,061	16,235,544	16,515,218	16,461,700	16,461,700
$25,000 - 29,999					
ADJUSTED GROSS INCOME	198,988,323	198,988,323	198,988,323	198,988,323	198,988,323
EXEMPTIONS	16,974,057	16,974,057	15,571,474	15,571,474	15,571,474
DEDUCTIONS	23,556,046	23,772,364	23,556,046	23,772,364	23,772,564
INCOME SUBJECT TO TAX	158,490,323	158,274,004	159,888,347	159,672,028	159,671,828
TAX RECEIPTS FROM PRESENT RATES	6,928,223	6,917,446	6,998,018	6,987,240	6,987,230

TABLE A.1--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX FOR PRESENT TAX STRUCTURE AND FOUR PROPOSED TAX STRUCTURES BY AGI CLASSIFICATION, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	PRESENT TAX STRUCTURE -$ AMOUNT-	PROPOSED TAX STRUCTURE I -$ AMOUNT-	PROPOSED TAX STRUCTURE II -$ AMOUNT-	PROPOSED TAX STRUCTURE III -$ AMOUNT-	PROPOSED TAX STRUCTURE IV -$ AMOUNT-
$30,000 - 34,999					
ADJUSTED GROSS INCOME	116,566,623	116,566,623	116,566,623	116,566,623	116,566,623
EXEMPTIONS	8,384,653	8,384,653	7,774,969	7,774,969	7,774,969
DEDUCTIONS	13,128,435	13,212,459	13,128,435	13,212,459	13,212,459
INCOME SUBJECT TO TAX	95,070,154	94,986,130	95,679,310	95,595,286	95,595,286
TAX RECEIPTS FROM PRESENT RATES	4,254,057	4,249,858	4,284,540	4,280,341	4,280,341
$35,000 - 39,999					
ADJUSTED GROSS INCOME	86,953,558	86,953,558	86,953,558	86,953,558	86,953,558
EXEMPTIONS	5,374,547	5,374,547	5,000,029	5,000,029	5,000,029
DEDUCTIONS	9,218,276	9,273,079	9,218,276	9,273,079	9,273,079
INCOME SUBJECT TO TAX	72,363,726	72,308,924	72,736,916	72,682,113	72,682,113
TAX RECEIPTS FROM PRESENT RATES	3,287,949	3,285,211	3,306,531	3,303,794	3,303,794
$40,000 - 44,999					
ADJUSTED GROSS INCOME	69,539,866	69,539,866	69,539,866	69,539,866	69,539,866
EXEMPTIONS	3,816,793	3,816,793	3,536,306	3,536,306	3,536,306
DEDUCTIONS	7,415,510	7,441,973	7,415,510	7,441,973	7,441,973
INCOME SUBJECT TO TAX	58,354,974	58,328,512	58,634,162	58,607,699	58,607,699
TAX RECEIPTS FROM PRESENT RATES	2,687,133	2,685,810	2,701,086	2,699,763	2,699,763
$45,000 - 49,999					
ADJUSTED GROSS INCOME	53,637,028	53,637,028	53,637,028	53,637,028	53,637,028
EXEMPTIONS	2,620,388	2,620,388	2,453,422	2,453,422	2,453,422
DEDUCTIONS	5,644,326	5,662,758	5,644,326	5,662,758	5,662,758
INCOME SUBJECT TO TAX	45,396,668	45,378,237	45,562,122	45,543,691	45,543,691
TAX RECEIPTS FROM PRESENT RATES	2,104,955	2,104,034	2,113,198	2,112,277	2,112,277
$50,000 - 74,999					
ADJUSTED GROSS INCOME	148,532,987	148,532,987	148,532,987	148,532,987	148,532,987
EXEMPTIONS	5,731,508	5,731,508	5,383,856	5,383,856	5,383,856
DEDUCTIONS	15,400,789	15,439,769	15,400,789	15,439,769	15,439,769
INCOME SUBJECT TO TAX	127,450,247	127,411,267	127,794,299	127,755,319	127,755,319
TAX RECEIPTS FROM PRESENT RATES	5,997,726	5,995,779	6,014,971	6,013,023	6,013,023
$75,000 - 99,999					
ADJUSTED GROSS INCOME	66,308,729	66,308,729	66,308,729	66,308,729	66,308,729
EXEMPTIONS	1,733,614	1,733,614	1,643,847	1,643,847	1,643,847
DEDUCTIONS	7,125,430	7,132,250	7,125,430	7,132,250	7,132,250
INCOME SUBJECT TO TAX	57,556,453	57,549,632	57,645,019	57,638,199	57,638,199
TAX RECEIPTS FROM PRESENT RATES	2,720,613	2,720,272	2,725,070	2,724,729	2,724,729

TABLE A.1--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX FOR PRESENT TAX STRUCTURE AND FOUR PROPOSED TAX STRUCTURES BY AGI CLASSIFICATION, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	PRESENT TAX STRUCTURE -$ AMOUNT-	PROPOSED TAX STRUCTURE I -$ AMOUNT-	PROPOSED TAX STRUCTURE II -$ AMOUNT-	PROPOSED TAX STRUCTURE III -$ AMOUNT-	PROPOSED TAX STRUCTURE IV -$ AMOUNT-
$100,000 - OVER					
ADJUSTED GROSS INCOME	192,784,700	192,784,700	192,784,700	192,784,700	192,784,700
EXEMPTIONS	1,581,765	1,581,765	1,378,961	1,378,961	1,378,961
DEDUCTIONS	17,873,247	17,881,007	17,873,247	17,881,007	17,881,007
INCOME SUBJECT TO TAX	173,600,708	173,592,947	173,801,612	173,793,852	173,793,852
TAX RECEIPTS FROM PRESENT RATES	8,500,319	8,499,931	8,510,347	8,509,959	8,509,959
TOTAL FOR ALL CLASSES					
ADJUSTED GROSS INCOME	9,439,747,851	9,439,747,851	9,439,747,851	9,439,747,851	9,439,747,851
EXEMPTIONS	2,639,115,142	2,639,115,142	2,209,307,831	2,209,307,831	2,209,307,831
DEDUCTIONS	1,105,045,861	1,254,471,461	1,105,045,861	1,254,471,461	1,288,942,148
INCOME SUBJECT TO TAX	5,860,587,164	5,720,829,232	6,233,196,159	6,091,032,609	6,080,764,234
TAX RECEIPTS FROM PRESENT RATES	179,629,716	175,291,039	191,018,601	186,451,270	186,245,478

TABLE A.2--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS, BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1967

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS $1000	AGE AND/OR BLINDNESS $300		$700	TOTAL	NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS 1	2	3	4	5	6/OVER
$0 - 999												
INDIVIDUAL RETURNS	66,494	66,494	4,412	1,924	919	73,749	65,234	228	686	217	77	52
JOINT RETURNS	14,939	29,874	7,288	11,316	1	48,479		9,742	2,066	1,461	878	788
SEPARATE RETURNS	29,124	29,124	1,195	2,233		32,552	27,857	697	326	146	66	32
TOTAL	110,557	125,492	12,895	15,473	920	154,780	93,091	10,667	3,078	1,824	1,021	872
$1,000 - 1,999												
INDIVIDUAL RETURNS	76,480	76,480	10,721	10,175	5,537	102,913	69,546	860	4,208	1,279	419	168
JOINT RETURNS	30,458	60,915	15,760	20,784	2	97,461		20,340	4,804	2,523	1,368	1,422
SEPARATE RETURNS	49,014	49,014	3,014	9,671		61,699	43,323	3,294	1,427	571	258	141
TOTAL	155,952	186,409	29,495	40,630	5,539	262,073	12,869	24,494	10,439	4,373	2,045	1,731
$2,000 - 2,999												
INDIVIDUAL RETURNS	57,679	57,679	6,442	16,139	8,714	88,974	47,650	721	5,693	2,340	842	433
JOINT RETURNS	39,491	78,981	13,347	42,987	3	135,318		19,795	8,355	5,264	2,855	3,221
SEPARATE RETURNS	63,984	63,984	1,710	15,687		81,381	54,897	5,055	2,448	958	395	231
TOTAL	161,154	200,644	21,499	74,813	8,717	305,673	2,547	25,571	16,496	8,562	4,092	3,885
$3,000 - 3,999												
INDIVIDUAL RETURNS	48,714	48,714	4,006	16,695	9,004	78,419	38,682	610	5,633	2,254	912	623
JOINT RETURNS	51,570	103,137	10,344	72,310		185,791		20,677	11,517	8,287	5,221	5,865
SEPARATE RETURNS	78,181	78,181	1,339	25,506		105,026	63,425	8,243	3,828	1,631	704	350
TOTAL	178,465	230,032	15,689	114,511	9,004	369,236	2,107	29,530	20,978	12,172	6,837	6,838
$4,000 - 4,999												
INDIVIDUAL RETURNS	37,674	37,674	2,642	13,123	7,351	60,790	29,649	408	4,637	1,786	738	456
JOINT RETURNS	60,500	120,999	7,592	96,763	2	225,356		20,232	14,033	11,114	6,811	8,309
SEPARATE RETURNS	75,155	75,155	1,227	37,664		114,046	53,859	11,453	5,740	2,484	1,061	558
TOTAL	173,329	233,828	11,461	147,550	7,353	400,192	83,508	32,093	24,410	15,384	8,610	9,323
$5,000 - 5,999												
INDIVIDUAL RETURNS	30,200	30,200	1,982	10,495	5,943	48,620	23,729	315	3,805	1,430	567	354
JOINT RETURNS	64,747	129,493	5,932	110,758		246,183		18,766	15,312	13,276	8,298	9,094
SEPARATE RETURNS	65,984	65,984	1,002	43,938		110,924	41,961	12,192	6,844	2,971	1,302	714
TOTAL	160,931	225,677	8,916	165,191	5,943	405,727	65,690	31,273	25,961	17,677	10,167	10,162
$6,000 - 6,999												
INDIVIDUAL RETURNS	22,678	22,678	1,519	8,348	4,757	37,302	17,486	265	3,097	1,109	443	278
JOINT RETURNS	61,609	123,217	4,757	108,859		236,833		15,856	14,693	14,318	8,151	8,590
SEPARATE RETURNS	56,161	56,161	842	45,054		102,057	31,756	11,980	7,262	3,150	1,313	700
TOTAL	140,448	202,056	7,118	162,261	4,757	376,192	49,242	28,101	25,052	18,577	9,907	9,568
$7,000 - 7,999												
INDIVIDUAL RETURNS	15,430	15,430	1,140	5,747	3,458	25,775	11,691	156	2,368	774	290	151
JOINT RETURNS	57,822	115,643	3,448	103,834		222,925		13,805	13,444	14,558	8,353	7,661
SEPARATE RETURNS	41,777	41,777	667	39,640		82,084	20,592	9,854	6,738	2,915	1,099	579
TOTAL	115,029	172,850	5,255	149,221	3,458	330,784	32,283	23,815	22,550	18,247	9,742	8,391
$8,000 - 8,999												
INDIVIDUAL RETURNS	9,674	9,674	821	3,658	2,170	16,323	7,342	81	1,439	530	189	93
JOINT RETURNS	47,136	94,272	2,618	86,061		182,951		10,492	10,621	12,580	7,373	6,070
SEPARATE RETURNS	26,771	26,771	489	28,415		55,675	11,994	6,441	4,850	2,215	884	387
TOTAL	83,581	130,717	3,928	118,134	2,170	254,949	19,336	17,014	16,910	15,325	8,446	6,550

TABLE A.2--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS, BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS $1000					NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS 1					
		$1000	AGE AND/OR BLINDNESS	$300	$700	TOTAL	1	2	3	4	5	6/OVER
$9,000 - 9,999												
INDIVIDUAL RETURNS	6,476	6,476	593	2,250	1,396	10,715	4,992	53	962	293	118	58
JOINT RETURNS	36,217	72,434	1,959	67,717		142,110		7,552	7,761	10,087	6,111	4,706
SEPARATE RETURNS	17,691	17,691	418	19,559		37,668	7,732	4,184	3,304	1,533	649	289
TOTAL	60,384	96,601	2,970	89,526	1,396	190,493	12,724	11,789	12,027	11,913	6,878	5,053
$10,000 - 10,999												
INDIVIDUAL RETURNS	4,334	4,334	496	1,584	950	7,364	3,314	36	640	225	78	41
JOINT RETURNS	27,196	54,392	1,529	52,056		107,977		5,469	5,642	7,642	4,767	3,676
SEPARATE RETURNS	11,642	11,642	331	12,908		24,881	5,111	2,611	2,298	1,061	374	187
TOTAL	43,172	70,368	2,356	66,548	950	140,222	8,425	8,116	8,580	8,928	5,219	3,904
$11,000 - 11,999												
INDIVIDUAL RETURNS	2,928	2,928	325	1,099	650	5,002	2,240	21	404	172	60	31
JOINT RETURNS	20,156	40,312	1,135	38,762		80,209		3,972	4,234	5,577	3,607	2,766
SEPARATE RETURNS	7,639	7,639	254	8,882		16,775	3,277	1,671	1,477	763	337	114
TOTAL	30,723	50,879	1,714	48,743	650	101,986	5,517	5,664	6,115	6,512	4,004	2,911
$12,000 - 12,999												
INDIVIDUAL RETURNS	2,171	2,171	288	765	446	3,670	1,692	22	289	100	42	26
JOINT RETURNS	15,489	30,978	869	30,549		62,396		2,972	3,047	4,339	2,930	2,201
SEPARATE RETURNS	5,625	5,625	219	6,687		12,531	2,380	1,204	1,121	596	223	101
TOTAL	23,285	38,774	1,376	38,001	446	78,597	4,072	4,198	4,457	5,035	3,195	2,328
$13,000 - 13,999												
INDIVIDUAL RETURNS	1,611	1,611	232	545	341	2,729	1,256	11	221	80	26	17
JOINT RETURNS	12,489	24,978	725	25,205		50,908		2,289	2,358	3,589	2,432	1,821
SEPARATE RETURNS	4,109	4,109	175	4,871		9,155	1,738	886	799	449	178	59
TOTAL	18,209	30,698	1,132	30,621	341	62,792	2,994	3,186	3,378	4,118	2,636	1,897
$14,000 - 14,999												
INDIVIDUAL RETURNS	1,231	1,231	212	469	276	2,188	940	7	172	76	22	14
JOINT RETURNS	10,126	20,252	633	20,439		41,324		1,927	1,881	2,812	1,964	1,542
SEPARATE RETURNS	3,343	3,343	143	4,030		7,516	1,416	698	659	359	145	66
TOTAL	14,700	24,826	988	24,938	276	51,028	2,356	2,632	2,712	3,247	2,131	1,622
$15,000 - 19,999												
INDIVIDUAL RETURNS	2,319	2,319	517	869	493	4,198	1,786	21	323	108	48	33
JOINT RETURNS	23,327	46,654	1,593	47,026		95,273		4,626	4,261	6,335	4,494	3,611
SEPARATE RETURNS	6,763	6,763	407	8,301		15,471	2,809	1,414	1,354	736	320	130
TOTAL	32,409	55,736	2,517	56,196	493	114,942	4,595	6,061	5,938	7,179	4,862	3,774
$20,000 - 24,999												
INDIVIDUAL RETURNS	1,803	1,803	484	689	400	3,376	1,371	18	255	104	35	20
JOINT RETURNS	19,383	38,765	1,541	38,545		78,851		4,113	3,584	4,950	3,713	3,022
SEPARATE RETURNS	5,627	5,627	464	6,771		12,862	2,412	1,149	1,093	614	260	99
TOTAL	26,813	46,195	2,489	46,005	400	95,089	3,783	5,280	4,932	5,668	4,008	3,141
$25,000 - 29,999												
INDIVIDUAL RETURNS	536	536	197	186	103	1,022	427	5	56	30	10	8
JOINT RETURNS	5,549	11,098	593	10,683		22,374		1,323	985	1,364	1,023	854
SEPARATE RETURNS	1,570	1,570	214	1,850		3,634	714	295	283	160	91	27
TOTAL	7,655	13,204	1,004	12,719	103	27,030	1,141	1,623	1,324	1,554	1,124	889

TABLE A.2--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS, BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1967 (Continued)

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS $1000	AGE AND/OR BLINDNESS $300		$700	TOTAL	NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS 1	2	3	4	5	6/OVER
$30,000 - 34,999												
INDIVIDUAL RETURNS	295	295	139	89	44	567	244	4	25	16	2	4
JOINT RETURNS	2,637	5,274	352	5,235		10,861		603	446	659	512	417
SEPARATE RETURNS	846	846	127	1,105		2,078	370	145	153	102	51	25
TOTAL	3,778	6,415	618	6,429	44	13,506	614	752	624	777	565	446
$35,000 - 39,999												
INDIVIDUAL RETURNS	189	189	79	67	34	369	153	1	20	7	5	3
JOINT RETURNS	1,686	3,372	252	3,369		6,993		402	282	385	325	292
SEPARATE RETURNS	590	590	90	724		1,404	278	103	86	70	37	16
TOTAL	2,465	4,151	421	4,160	34	8,766	431	506	388	462	367	311
$40,000 - 44,999												
INDIVIDUAL RETURNS	111	111	50	40	19	220	91		9	4	6	1
JOINT RETURNS	1,220	2,440	149	2,413		5,002		285	224	260	230	221
SEPARATE RETURNS	401	401	62	492		955	188	68	61	53	17	14
TOTAL	1,732	2,952	261	2,945	19	6,177	279	353	294	317	253	236
$45,000 - 49,999												
INDIVIDUAL RETURNS	90	90	40	28	15	173	72	2	10	4	1	1
JOINT RETURNS	791	1,582	150	1,589		3,321		196	123	161	180	131
SEPARATE RETURNS	318	318	57	436		811	138	56	49	43	19	13
TOTAL	1,199	1,990	247	2,053	15	4,305	210	254	182	208	200	145
$50,000 - 74,999												
INDIVIDUAL RETURNS	227	227	106	63	36	432	188	1	23	9	2	4
JOINT RETURNS	1,719	3,438	248	3,627		7,313		399	274	353	342	351
SEPARATE RETURNS	740	740	141	903		1,784	371	101	117	78	48	25
TOTAL	2,686	4,405	495	4,593	36	9,529	559	501	414	440	392	380
$75,000 - 99,999												
INDIVIDUAL RETURNS	78	78	48	20	15	161	62	1	12	2	1	
JOINT RETURNS	486	972	99	977		2,048		137	69	98	90	92
SEPARATE RETURNS	314	314	66	456		836	139	46	52	33	27	17
TOTAL	878	1,364	213	1,453	15	3,045	201	184	133	133	118	109
$100,000 - OVER												
INDIVIDUAL RETURNS	97	97	47	13	9	166	88		5	4		
JOINT RETURNS	463	926	141	742		1,809		172	74	80	75	62
SEPARATE RETURNS	424	424	110	378		912	271	48	35	36	23	11
TOTAL	984	1,447	298	1,133	9	2,887	359	220	114	120	98	73
TOTAL FOR ALL CLASSES												
INDIVIDUAL RETURNS	389,519	389,519	37,538	95,080	53,080	575,217	29,925	3,847	34,992	12,953	4,933	2,869
JOINT RETURNS	607,206	1,214,398	83,054	1,002,606	8	2,300,066		86,142	30,090	32,072	82,103	76,785
SEPARATE RETURNS	553,793	553,793	14,763	326,161		894,717	79,008	83,888	52,404	23,727	9,881	4,885
TOTAL	1,550,518	2,157,710	135,355	1,423,847	53,088	3,770,000	708,933	273,877	217,486	168,752	96,917	84,539