

REPORT
of
THE REVENUE RESOURCES AND ECONOMIC
STUDY COMMISSION
to
THE GOVERNOR
and
THE GENERAL ASSEMBLY OF VIRGINIA



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Introduction

In this report the Revenue Resources and Economic Study Commission presents its findings and recommendations based on the many state and local fiscal issues that it has studied in the last two years. The first section provides a fiscal backdrop for state and local governments in the Commonwealth and their fiscal outlook for the remainder of the 1970's.

The second section is an examination of state fiscal issues and is divided into three parts. Tax equity issues are discussed first. An overriding reason for the recommendations made on the first three issues is the furtherance of Virginia's conformity to the federal income tax laws begun in 1972. The second part reviews possible tax sources that could provide additional revenues to the Commonwealth if necessary. The commission has assigned no priority to the alternative revenue sources and only lists them for informational purposes. The last part deals with issues related to the question of the possible exemption of food products for home consumption and nonprescription drugs from the sales tax base. Because of the interest in this issue, the commission feels that a rigorous examination is warranted.

The third section examines local fiscal issues, and its format is identical to that of the previous one. The first part is devoted to issues whose major consideration is tax equity and includes a report on the effects of the Wetlands Control Act. The second part provides possible alternative revenue sources for local governments. The commission does not specifically recommend any of these revenue sources but again presents them on an informational basis. Finally, there is a brief discussion of state-local funding for elementary-secondary education in the Commonwealth.

The fourth section concerns the property tax in Virginia. The commission has worked with the Governor's Advisory Committee for Property Tax Reform in studying the property tax but has decided to defer its final statement on the issues in this area until the Governor's Advisory Committee makes its recommendations. The commission does have two preliminary recommendations: (1) that a service charge should be imposed on all tax exempt property except that owned by the federal government and (2) that the state government should fund any system of property tax relief for the elderly.

The fifth section enumerates the issues that the commission feels warrant further study. Largely because of the number of issues that require further examination, the commission recommends that the Revenue Resources and Economic Study Commission be made a permanent body. The final section presents materials relating to the formation, organization, and work of the commission.

There are three appendixes. The first one provides the legislation proposed by the commission (Appendix A), the second one has an analysis of the administrative problems of exempting food products from the sales tax base (Appendix B), and the third one lists the alternative forms of property tax relief used by the states (Appendix C).

The Fiscal Setting

State and Local Background

The scope of state and local government functions in Virginia has grown rapidly over the past decade. In fiscal year 1961-62, general revenue from own sources of Virginia state and local governments was 10.2 percent of Virginia personal income. Ten years later, the figure stood at 13.0 percent. This growth of general revenue from own sources has been even more impressive if it is recognized that this growth occurred at the same time that Virginia personal income increased by 138 percent and that per capita personal income rose from

\$2,020, or 85.2 percent of the U.S. average, to \$3,899 or 93.8 percent of the U.S. average.

Although the fiscal burden upon the citizens of Virginia has increased over the last decade, Virginia continues to be a low effort state. In terms of state and local general revenue from own sources per \$1,000 of personal income, Virginia ranks 45th from the state making the most effort when compared to the 50 states and the District of Columbia in fiscal year 1970-71. Virginia collected \$131.04, and the U.S. average was \$148.67. On a per capita basis Virginia is 38th with collections of \$467.75 versus the U.S. average of \$575.89. When compared to the effort of the states in the southeast, Virginia fares somewhat better. For example, even though Virginia ranks 38th in state and local general revenue from own sources per capita, eleven southeastern states rank below Virginia, and only two are above. On a per \$1000 of personal income basis Virginia ranks near the bottom of southeastern states; however, a number of the states are grouped together near Virginia.

If unutilized tax capacity is defined as the effort made by the average state relative to the measured state, then Virginia has a sizable capacity to increase revenues. *Fiscal Prospects and Alternatives: 1974*, the staff report to the Revenue Resources and Economic Study Commission, examined several studies to illustrate unutilized tax capacity in the Commonwealth. Most studies measured unutilized tax capacity for Virginia by examining Virginia's effort relative to the tax effort of the average state. The crudeness of this concept is shown by the unutilized tax capacity estimates for Virginia in fiscal year 1970-71, which ranged from \$79 million to \$330 million. These differences underline the observation that any method used to estimate overall tax effort and to calculate unused tax potential are most useful as a guide to further inquiry rather than as a definitive blueprint for policy.

It is important not to analyze state and local taxes in a vacuum. Because of our varied fiscal structure, spending on one level will have an impact on the others. Thus, the interrelationships of governmental units must be emphasized. In fiscal year 1970-71, 33.8 percent of local government general revenue came from the state government while 5.9 percent came from the federal government. It should be noted that a portion of the state aid was actually federal aid that was passed through the state. Most of this state aid — slightly under 70 percent in fiscal year 1970-71 — was spent for one function, education. The remainder was primarily devoted to public welfare, highways, and general local government support. The state also benefits from intergovernmental relationships. Approximately one-fourth of its revenue came from the federal government.

Fiscal Outlook

Although the economy has been subject to many changes and much uncertainty since July, 1973, when *Fiscal Prospects and Alternatives: 1974* was formally presented to the commission, the long-term fiscal outlook has changed little since that time. The staff report paints a mildly favorable fiscal outlook for the state government. For the general fund, revenues are not projected to increase during the 1970's as rapidly as they did in the late 1960's but neither are expenditures. Various assumptions about the growth of future general fund outlays were used. Using the broadest and probably the most accurate projection of expenditures, scope and quality plus capital outlay, along with the forecast of revenues yields a \$44.5 million surplus for the 1974-76 biennium.¹ In the 1976-78 biennium, the fiscal outlook turns to a \$13.7 million deficit while in the 1978-80 biennium a surplus of \$7.8 million reappears.

¹ Recent developments in the economy will probably make the forecasted surplus even smaller although at the present time it would be premature to quantify their precise impact.

These gaps are residual measures particularly sensitive to estimating errors, since a small change in projected revenues or expenditures would have a magnified impact on them. In addition, the short-run forecasts are generally more accurate than the long-run forecasts. Another note of caution in evaluating the gaps is that the methodology for the expenditure projections has an upward bias. It assumes that all current expenditure programs will continue at baseline levels or will be expanded for improvements in scope and quality. There is no allowance for new priorities that would lower or eliminate expenditures on some programs. Moreover, there is no provision for new, lower-cost methods of fulfilling program requirements.

If the gaps forecast are reasonably accurate, there may be no need to raise taxes or borrow for capital outlays to meet anticipated expenditure demands. There may, however, be a desire to undertake large, new programs, which would probably require additional revenue from a major, new or existing revenue source. This report, therefore, presents a group of revenue alternatives to which the General Assembly could turn, if necessary, to fund additional expenditures.

The outlook for local governments in Virginia is also mildly favorable. The projections encompass all local governments in Virginia and to a certain extent show only average trends that do not apply equally to the diverse local governments of the Commonwealth — central cities, urban counties, and rural counties. The localities have different revenue sources and varying expenditure requirements. Thus, even with a generally favorable outlook, there will be some localities that will experience fiscal difficulties.

To forecast the gaps of local governments, the staff report again used the broadest and probably the most accurate projection of expenditures, scope and quality plus capital outlay. Combining these figures with the forecast of revenues yields a \$21.9 million surplus for fiscal year 1973-74, a \$85.3 million surplus in fiscal year 1974-75, and a surplus of \$156.9 million in fiscal year 1975-76. These positive gaps increase steadily through the forecast period that ends in 1979-80. By that fiscal year, the surplus is expected to stand at \$429.8 million.

State Fiscal Issues

Tax Equity Issues

Capital Gains

Under the preconformity structure 100 percent of all capital gains, short-term and long-term, were taxable on the Virginia individual income tax. With conformity the federal provision of taxing 50 percent of long-term capital gains (those realized on assets held longer than six months) was adopted. There are reasonable and convincing arguments to support both types of treatment.

Those who favor taxing long-term capital gains at 100 percent advance several arguments. One is that the notion of horizontal equity requires that income, regardless of whether it comes in the form of wages or capital gains, be treated equally. If wages and salaries are taxed at 100 percent, then so should income from capital gains. Another is that state taxation of all capital gains would probably not significantly deter the growth of industry because the state income tax rates are relatively low as compared to the federal tax rates. In Virginia the top marginal rate is 5.75 percent; at the federal level it is 71 percent, which might well curtail capital investment if fully applied. If capital gains were fully taxed, the state would experience approximately a \$6 to \$12 million increase in revenues.

An equally strong case can be made for retaining the present treatment of long-term capital gains. Taxing long-term capital gains at 100 percent would go

against the conformity structure that Virginia, as well as a large number of other states, have adopted. Conformity, by making the Virginia individual income tax very similar to the federal income tax, has led to greater simplicity for the taxpayer, better reporting of income tax data, and more efficient administration of the tax. The final argument for the present treatment is that taxing capital gains at 100 percent would decrease the effective rate of return on investments and thus reduce the amount of investment.

The commission seriously considered both lines of reasoning and weighed the effects of both types of treatment. It recommends that Virginia continue to adhere to the federal treatment and tax 50 percent of all long-term capital gains.

The Treatment of Retirement Income

A large number of people believe that an equitable tax, particularly an income tax, should be based on some concept of "ability to pay" and that "ability to pay" is positively, yet not completely, related to a person's total dollar income less the costs directly attributable to the receipt of such income. The ever increasing number of exclusions for retirement income pushes the Virginia individual income tax away from the notion of horizontal equity and away from conformity.

For retired persons several components of income are excluded from the adjusted gross income used to determine tax liability. They include:

1. Retirement income received under the Virginia Supplemental Retirement System (after cost recovery).
2. The first \$2,000 of retirement income received by civil service retirees and the first \$1,000 received by the surviving spouses of civil service retirees (after cost recovery).
3. The first \$2,000 of retirement benefits received by military retirees age sixty or over and the first \$1,000 of benefits received by the surviving spouses at least age sixty of military retirees (after cost recovery).
4. That portion of the first \$2,000 of retirement benefits, other than civil service or military retirement benefits, that exceeds social security benefits for persons age sixty-five or over.

An example of the differences in the treatment of retirement income is shown in the following example. Assume five single men over age sixty (but less than age sixty-five) each with a \$10,000 income, itemized deductions of \$2,000, and a personal exemption of \$600 but with their incomes from separate sources; their tax would be as follows, based on the present rate schedule:

Total Dollar Income	With All Their Income From the Following	Their Virginia Income Tax Would Be
\$10,000	Wages	\$240
10,000	Industrial Pension Plan (after cost recovery)	240
10,000	Virginia Supplemental Retirement Plan (after cost recovery)	None
10,000	U. S. Civil Service Retirement Plan (after cost recovery)	140
10,000	Military Retirement Plan	140

The exclusions may be reasonable for retirees with, say, a \$5,000 pension plus social security, which is also not taxable. The case is weakened, though, when it is recognized that the retiree with the industrial pension receives no exclusion and that wage earners probably have expenses in connection with raising a family much greater than those of most retirees. It is further weakened by the continuously increasing number of retired persons who supplement their pensions through part-time employment and investment opportunities and earn a total of \$10,000 to \$20,000 annually.

The commission believes that these examples indicate inequitable treatment among retirees sufficient enough to suggest that, if the General Assembly wishes to exempt some income of retirees, the exemption should uniformly apply to retirees in both private industry and public service. The commission specifically recommends that an exemption be adopted but that it be limited to the middle and lower income brackets, for example, \$12,000 or less in total income. The commission further recommends that a \$2,000 exclusion be granted to taxpayers on industrial pension plans as well as Civil Service and military retirees whose total income is \$12,000 or less. This measure would bring equal treatment to all retirees except those on the Virginia Supplemental Retirement System. For those with income above that amount, the commission recommends that exclusions be reduced by the amount that they exceed AGI in excess of \$12,000.¹ In addition, the commission proposes that there be no military age limit to qualify for retirement treatment.

As examples of the proposed systems assume four different types of retirees, each between ages sixty and sixty-five, with \$6,000 in taxable interest income and a \$12,000 pension. The income used to compute tax would be as follows:

<u>Type of Retirement Plan</u>	Total AGI	AGI over \$12,000	Present Exclusion	Proposed Exclusion	Proposed AGI Subject to Tax
Industrial Pension	\$18,000	\$6,000	None	None	\$18,000
Virginia Supplemental	18,000	6,000	\$12,000	\$6,000	12,000
U.S. Civil Service	18,000	6,000	2,000	None	18,000
Military	18,000	6,000	2,000	None	18,000

If the same four retirees only have a pension of \$8,000, the income used to compute tax would be:

<u>Type of Retirement Plan</u>	Total AGI	AGI over \$12,000	Present Exclusion	Proposed Exclusion	Proposed AGI Subject to Tax
Industrial Pension	\$8,000	None	None	\$2,000	\$6,000
Virginia Supplemental	8,000	None	\$8,000	8,000	None
U.S. Civil Service	8,000	None	2,000	2,000	6,000
Military	8,000	None	2,000	2,000	6,000

Although there is a lack of sufficient data to make reliable estimates, the commission feels that this package would increase individual income tax

¹ In no case would social security benefits be subject to taxation. At the same time the receipt of social security benefits places no limits on unearned income (e.g., interest or dividends).

revenues by a small amount, perhaps about \$1 million. Some of the measures would increase revenues by a small amount while others would decrease revenues by a small amount. (See the proposed legislation in Appendix A.)

Dividends Paid by Virginia Corporations

Since the adoption of the state income tax on corporations, the dividends paid by such corporations have been deductible by the recipients on the grounds that if an income tax is paid at the corporate level, an income tax should not again be paid on the same income at the stockholder level.

The following types of corporations and associations are not subject to the state corporation income tax and the dividends paid by them are not deductible by the recipients:

- Public service corporations;
- Insurance companies;
- Reciprocal or inter-insurance exchanges; and credit unions.

The following types of corporations are not subject to the state corporation income tax — but the dividends paid by them are fully deductible by the recipients:

- National banks wherever located; and
- State banks and trust companies located in Virginia.

Thus, for the most part, the problem is confined to dividends paid out of earnings and profits of corporations engaged in manufacturing, mining, merchandising, business service, and farming.

During pre conformity (all taxable years beginning before January 1, 1972), Virginia law provided that if only part of the income were assessable — that portion derived from business within the state — then only the corresponding part of the dividends would be deductible. For example, if 40 percent of a corporation's income were taxable by Virginia, 40 percent of its dividends would be deductible on the Virginia individual income tax. The varying percentages of different corporations made this a complicated procedure. Conformity attempted to simplify this procedure. If less than 50 percent of the corporation's net income is taxable by Virginia, then no portion of the dividends paid by the corporation to Virginia residents is deductible. On the other hand, if 50 percent or more of the corporation's income is taxable in Virginia, then all of the dividends paid by the corporation to Virginia residents are deductible.

There are strong arguments for continuing the present treatment. The exclusion of dividends attracts additional investment in Virginia corporations and thus encourages their development and growth. The present treatment of Virginia corporate dividends also prevents double taxation. That is, if a tax is paid by a corporation on its earnings and profits and if a stockholder is taxed again when the profits are distributed to him in the form of dividends the original income is taxed twice. It should be pointed out that the double taxation theory has been subject to much controversy. In effect, this theory implies that, if it were not for the tax at the corporate level, the stockholder would receive additional dividends equal to the amount of the tax paid in his behalf. If this implication were a fact, it could be argued that there is double taxation. It may be a fact in extremely rare cases but, as a general rule, would not be the case as this tax is viewed by most corporations as just another factor in the costs of production. If removed, it could be spread in at least three ways — in part as additional dividends, in part in lowered prices, and in part to higher wages, or other costs. Thus, there is no general agreement as to who pays the tax, for the situation varies widely between corporations, and within specific corporations may vary from year to year depending upon the economics of the situation at the time.

There are, however, some very sound reasons to change the treatment of dividends paid by Virginia corporations. The treatment goes against Virginia's conformity to the federal law, and appears to violate the notion of horizontal equity, or "equal treatment of equals." The \$100 dividend exclusion already granted under conformity mitigates any adverse effects of double taxation. Moreover, it is argued that this form of tax relief is so limited that it gives very little additional incentive to invest in Virginia corporations. Finally, the exclusion of Virginia corporate dividends costs the state \$3 to \$5 million in revenue annually.

After having considered the advantages and disadvantages of both forms of treatment, the commission believes that there is no overwhelming reason for Virginia corporate dividends to be accorded preferential treatment. With this in mind the commission recommends that Virginia corporate dividends be treated as any other dividend subject to the Virginia individual income tax. The commission does wish to see the continuation of the present exclusion from individual income taxation of dividends paid by national banks and state banks and trust companies. (See the proposed legislation in Appendix A.)

Bank Stock Tax

Currently Virginia taxes the value of the shares of all state and national commercial banks in the state at the rate of \$1 per \$100 of stock value. Cities may receive up to 40 percent of the revenues collected, and counties and incorporated towns may take up to 80 percent. Revenues are paid directly to the state and the localities by the banks. In recent years the split of total revenues has been about 45 percent to the state and 55 percent to local governments with nearly all localities participating. Virginia is one of 14 states with a shares tax as the principal form of bank taxation. Among neighboring states, Kentucky, Tennessee, and West Virginia have a shares tax.

The commission has considered various changes in the taxation of banks. Bringing banks under the corporate income tax would bring greater uniformity in the business tax structure. However, this switch would lower revenues and widen interstate differences in effective bank tax rates. A corporation franchise tax would only substitute one special business tax for another and would have little effect on revenues or interstate differences in effective tax rates.

The commission does not want local governments to lose this source of revenue and does not believe that the alternative methods of treatment examined appear more attractive. Therefore, it recommends that the taxation of banks remain unchanged. The commission also recommends that the subject of bank stock taxation continue to be evaluated and studied closely in the future by the Revenue Resources and Economic Study Commission. This study should especially focus on the precise operation of the tax and the reasons why cities receive up to 40 percent of the revenues while counties and incorporated towns can take 80 percent.

Public Service Corporations

The subject of public service corporation taxation is large and complex. There are substantial differences in the taxation of various types of public service corporations as well as in the taxation of public service corporations compared to other types of corporations. Because of the vast number of issues in this area and the limited amount of time available, the commission could only examine a few of the issues.

Fiscal Prospects and Alternatives: 1974 shows that railroads pay more state and local taxes than trucks, but the commission cannot conclude from this that trucks ought to pay more or that railroads should pay less. The area of electric power, natural gas, and telephone companies has also been studied. The various measures that the study utilized to measure effective tax rates

indicate some disparities in effective state tax rates among these types of public service corporations. The differences are reduced by the relatively unequal amounts of taxes collected from the public service corporations by the various localities.

After having considered these tentative findings in relation to the whole area of public service corporations, the commission recommends that the Revenue Resources and Economic Study Commission continue to study this area of taxation as suggested in *Fiscal Prospects and Alternatives: 1974*. The commission has several specific recommendations regarding the scope and direction of future efforts in this area:

1. That a comparison be made of state and local taxes paid by public service corporations and other industries in Virginia. Non-neutralities in the tax structure induce resource flows between the public service sector and non-public service sector as well as within the public service sector. The basic indicator of any disparities could be the ratio of state and local taxes to gross receipts or value-added. Value-added figures for most Virginia manufacturing industries are available from U.S. Bureau of Census, *Census of Manufactures* for 1967 and soon to be available for 1972; for public service corporations, value-added figures could be easily derived from the gross receipts data available at the SCC. Unfortunately, data on state and local taxes in Virginia are not presently available on an industry-wide basis and would have to be generated by the State Department of Taxation or elsewhere.
2. That for each public service corporation sector a determination of the ability to pay taxes ought to follow from an examination of the structure of the individual firms, the degree of competition in each sector, both intrastate and interstate, the profitability within each sector, and any other critical factors. Effective tax rates are useful in quantifying the problem, but final policy recommendations must rest on a more thorough analysis.
3. That with respect to the taxation of trucks and railroads:
 - a. A transportation economist should be hired to completely investigate the issues, some of which were covered in the staff work. The economist should be hired for one year and the General Assembly should allocate up to \$50,000 to fund this aspect of the study.
 - b. The individual ought to be granted full access to statistics, records of previous studies, testimony of witnesses, etc., held by the SCC, the Division of Motor Vehicles, the State Highway Department, and any other relevant agency.
 - c. In particular, the economist should thoroughly investigate the issue of the taxation of trucks versus the taxation of other modes of transportation.

Inheritance and Gift Taxes

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 and exemptions) received by the beneficiary and on the class of the beneficiary. There are three classes of beneficiaries.

Class A beneficiaries consist 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 amounts above that are taxable as follows:

Over \$5,000 to \$50,000	1 percent
Over \$50,000 to \$100,000	2 percent
Over \$100,000 to \$500,000	3 percent
Over \$500,000 to \$1,000,000	4 percent
Over \$1,000,000	5 percent

The class B beneficiaries are brothers, sisters, nephews and nieces. This class exempts the first \$2,000 of the inheritance and amounts above that are taxed in the following manner:

	<i>Class B</i>	<i>Class C</i>
Over \$1,000 to \$2,000		5 percent
Over \$2,000 to \$25,000	2 percent	5 percent
Over \$25,000 to \$50,000	4 percent	7 percent
Over \$50,000 to \$100,000	6 percent	9 percent
Over \$100,000 to \$500,000	8 percent	12 percent
Over \$500,000	10 percent	15 percent

Class C beneficiaries are comprised of grandnephews and grandnieces, firms, associations, corporations, other organizations, and those not elsewhere classified. In this class the first \$1,000 of the inheritance is exempt.

Qualifying these rates is the state law allying the Virginia inheritance tax with the federal estate tax laws in order to take full advantage of the federal credit for state death taxes. Virginia statutes impose a tax equal to the federal estate tax credit if that credit is larger than the Virginia inheritance tax. In this manner the state can maximize its revenues, given the federal rate, because the Virginia tax assessment will never be less than the maximum federal credit for state death taxes. This process of imposing a floor on the tax is referred to as the "pick-up" statute.

In fiscal year 1972-73, the revenues from the inheritance tax were \$15.1 million which represented 1.4 percent of total general fund revenues. It should be noted that the revenues from this source are subject to continual fluctuation because of the dependence on large inheritances for much of the revenue.

When comparing death taxes in Virginia and other states (see *Fiscal Prospects and Alternatives: 1974*, pp. 141-147), it is quite evident that Virginia's treatment of the inheritance tax is out of line relative to the treatment in other states. Virginia has a less progressive rate structure than the majority of other states and the state's exemption allowances are lower than those in other states. In addition, Virginia's inheritance tax laws have not basically changed since the early 1930's.

In order to bring the Virginia tax into line with other states, the commission recommends that the Virginia inheritance tax rates be increased and the exemptions doubled for classes A, B, and C as provided in Table 1. These changes would have the net effect of increasing revenues from the inheritance tax by 10 percent on an annual basis. In fiscal year 1974-75 revenues would increase by \$1.1 million to \$19.4 million. In fiscal year 1975-76 revenues would increase by \$2.1 million to \$22.3 million. The commission further recommends that the minimum gross estate necessary to file be increased from \$1,000 to \$4,000. Since most returns of less than \$5,000 contribute nothing to revenues, such an increase in the minimum gross estate necessary to file a return would relieve some of the administrative burden on the Department of Taxation while causing only a small decline in revenues.

To maintain the existing relationship between the inheritance tax and the gift tax, the gift tax rates and exemptions would have to be changed to those provided in Table 1. In addition, the commission recommends that a \$30,000 lifetime exemption from the gift tax, similar to the federal provision, be made a part of the law. In 1972-73 gift tax revenues were \$1.6 million; therefore, the net effect of these changes would probably be to increase revenues by less than \$150,000 annually. (See the proposed legislation in Appendix A.)

It should be noted that the anticipated reform of the estate and gift tax laws at the federal level would not have any significant ramifications on these proposed Virginia inheritance and gift tax changes.

TABLE 1—PROPOSED INHERITANCE TAX RATES

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

State and Local License Taxation

State and local governments in Virginia impose a wide variety of license taxes. At the state level, license tax collections were \$3.1 million in 1972-73, or .3 percent of total general fund revenues. Of the 65 license classifications listed in the *Annual Report of the Department of Taxation*, 6 classifications produced about three-fourths of the revenue. Most state license taxes are levied at low, flat amounts; as a result, they may not even offset their own cost of administration. A few state licenses, particularly the itinerant merchant's license, are regulatory rather than revenue producing and confront a nonregulatory agency, the Department of Taxation, with the problem of regulatory activity.

All local governments have the authority to impose license taxes. Generally only the cities, incorporated towns, and suburban counties use them. Problems at the local level include complex and inflexible license codes, more license classifications than at the state level, discriminatory rates, and attempts to regulate certain types of activity.

The commission recommends that the Revenue Resources and Economic Study Commission continue to study state and local license taxation. Specifically, it recommends an examination of the possibility of eliminating state license taxes and a thorough study of the many issues involved in local license taxation.

Alternative Revenue Sources

This section will examine various alternative revenue sources that could be utilized to provide additional revenue that might be needed. The revenue sources are not considered in any order of priority, but are simply listed as possible alternatives to be considered by the General Assembly.

Individual Income Tax

The 1971 extra session of the General Assembly adopted an individual income tax structure that conforms in large part with the federal income tax structure. Virginia is one of 29 states that conform their tax in some degree to the federal provisions.

The present or conformity structure became effective January 1, 1972. Its basic elements are:

1. \$600 exemption for three classes, personal, dependent, and blindness, and, beginning in 1973, a \$1,000 exemption for age sixty-five or over. (The federal exemption for all classes is \$750.)
2. The federal maximum standard deduction of 15 percent up to \$2,000.
3. The federal minimum standard deduction of \$1,300.
4. Existing treatment of joint returns (or no provision for a split income option).

The present rate schedule also became effective January 1, 1972, and is only slightly different from the previous one:

<u>Previous Rate</u> <u>Schedule</u>		<u>Present Rate</u> <u>Schedule</u>	
<u>Taxable Income</u>		<u>Taxable Income</u>	
First \$3,000	2%	First \$3,000	2%
\$3,001 - \$5,000	3%	\$3,001 - \$5,000	3%
\$5,001 and over	5%	\$5,001 - \$12,000	5%
		\$12,001 and over	5.75%

With the present rate schedule Virginia's revenues from the individual income tax are expected to be \$628.7 million in fiscal year 1974-75 and \$723.4 million in fiscal year 1975-76. If the Commonwealth needed additional revenues, one possible source could be a change in the Virginia individual income tax rate schedule. Nine alternative rate schedules, as set forth in *Fiscal Prospects and Alternatives: 1974*, are given in Table 2. Of course, the nine alternative schedules provided here represent only a fraction of the number that could be developed. For any others a quantitative basis for their analysis is provided in *Fiscal Prospects and Alternatives: 1974* (see appendix Table A.3, pp. 361-364 of that report). Each proposed rate schedule would have the following projected impact on revenues in the 1974-76 biennium:

Fiscal Year 1974-75

<u>Rate Schedule</u>	<u>Revenues</u> (Mil.)	<u>Change from Present</u> <u>Rate Structure</u> (Mil.)
Present	\$ 628.7	\$...
1	696.4	+ 67.7
2	839.2	+ 210.5
3	725.3	+ 96.6
4	719.5	+ 90.8
5	714.6	+ 85.9
6	551.9	- 76.8
7	665.9	+ 37.2
8	738.5	+ 109.8
9	733.5	+ 104.8

TABLE 2 — PROPOSED INDIVIDUAL INCOME TAX RATE SCHEDULES

<u>Schedule 1</u>		<u>Schedule 2</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	3%
\$3,001 - \$5,000	3%	\$3,001 - \$5,000	4%
\$5,001 and over	6%	\$5,001 and over	6%
<u>Schedule 3</u>		<u>Schedule 4</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$2,000	2%
\$2,001 - \$5,000	3%	\$2,001 - \$5,000	3%
\$5,001 and over	6%	\$5,001 - \$10,000	5%
		\$10,001 and over	7%
<u>Schedule 5</u>		<u>Schedule 6</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$5,000	2%
\$2,001 - \$5,000	3%	\$5,001 - \$8,000	3%
\$5,001 - \$8,000	5%	\$8,001 - \$15,000	5%
\$8,001 - \$15,000	6%	\$15,001 - \$25,000	7%
\$15,001 and over	7%	\$25,001 and over	8%
<u>Schedule 7</u>		<u>Schedule 8</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$2,000	2%
\$3,001 - \$5,000	3%	\$2,001 - \$5,000	3%
\$5,001 - \$10,000	5%	\$5,001 - \$10,000	5%
\$10,001 - \$25,000	6%	\$10,001 - \$25,000	7%
\$25,001 - \$50,000	7%	\$25,001 - \$50,000	8%
\$50,001 and over	8%	\$50,001 and over	9%

Schedule 9

<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 - \$8,000	5%
\$8,001 - \$15,000	6%
\$15,001 - \$25,000	7%
\$25,001 - \$50,000	8%
\$50,001 and over	9%

Fiscal Year 1975-76

<u>Rate Schedule</u>	<u>Revenues</u> (Mil.)	<u>Change from Present</u> <u>Rate Structure</u> (Mil.)
Present	\$723.4	\$...
1	782.7	+ 59.3
2	907.9	+ 184.5
3	808.0	+ 84.6
4	803.0	+ 79.6
5	798.6	+ 75.2
6	656.1	- 67.3
7	756.0	+ 32.6
8	819.6	+ 96.2
9	815.3	+ 91.9

Tobacco Products

Another revenue source is the tax on tobacco products. At present, Virginia has a state cigarette tax of 2.5 cents per pack, which is the second lowest tax in the nation. Virginia is, however, one of ten states in which localities impose additional cigarette taxes. In fiscal year 1972-73, 19 cities and 2 counties in Virginia imposed rates ranging from 2 to 10 cents per pack. In fiscal year 1972-73, these localities received \$12.1 million in revenue from the locally imposed cigarette taxes while the state tobacco products tax produced \$16.1 million in revenue. One possible rate change would be a doubling of the state tobacco products tax to 5 cents per pack. If the state tobacco products tax were doubled (assuming a 5 percent drop in sales), revenues in fiscal year 1974-75 would increase from \$16.1 million to \$30.6 million, a \$14.5 million increase, and in fiscal year 1975-76 revenues would increase from \$16.3 million to \$31.0 million, a \$14.7 million increase.

Alcoholic Beverages

Liquor sold in the A.B.C. stores of Virginia is subject to a percentage markup and also a 14 percent alcoholic beverages state tax. Both of these rates were raised by 4 percentage points effective January 1, 1970, and July 1, 1970, respectively. Additional taxes are levied on bottle sales for resale by the drink.¹ Wine sales are subject to a tax of 35 cents per gallon on unfortified wine and 70 cents per gallon on fortified wine (raised from 35 cents per gallon effective July

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

12-ounce bottle and \$6 per barrel.¹

Net profits from liquor sales and all alcoholic beverage taxes, except the additional tax on beverages that are bought for resale by the drink, are allocated to the general fund; however, two-thirds of the wine and spirits sales tax and two-thirds, but not less than \$14,805,677 of A.B.C. profits, are distributed to localities on the basis of population for general purposes. In fiscal year 1972-73, revenues from the alcoholic beverages state tax were \$26,261,694. The wine and spirits sales tax contributed \$2,465,953 and the revenues from the beer and beverage excise tax were \$12,055,897. The tax on alcoholic beverages bought for resale by the drink amounted to \$637,509 (allocated to a special fund), and A.B.C. profits were \$26,345,874.

Increasing the tax on alcoholic beverages is another alternative method to meet demands for additional revenues. There are two factors to consider in such a change. First, the VALC Committee on Alcoholism considered the possibility of increasing alcoholic beverage tax rates to finance the treatment of alcoholism in the Commonwealth but finally determined to seek such finances from A.B.C. profits, the general fund, and available federal grants. However, on the basis of the experience of the proposed trial program, it may be necessary to increase alcoholic beverage taxes in the future to finance a more comprehensive treatment program. In this case it might be too onerous for consumers to bear two tax increases that close together. Second, the prices of liquor in the District of Columbia are lower than those in Virginia because of competition between sellers and a lower tax rate. The relatively high revenue per capita in the District indicates that this differential in prices attracts a substantial number of nonresidents, including Virginians, to purchase liquor there. Future discussion of raising additional revenues via an increase in alcoholic beverage taxation should bear in mind that a further increase in such taxation in Virginia will increase the price differential and worsen the already poor competitive price position of Virginia vis-à-vis the District. Thus, any increased rate of taxation will produce greater revenues, but this increase in revenues will be tempered by the resulting decline in sales because of higher prices and by the loss of sales to other political subdivisions offering more attractive prices.

Pari-Mutuel Betting

This commission and the Pari-Mutuel Betting Study Commission have studied pari-mutuel betting as a new source of revenue for the Commonwealth. The latter commission has estimated that pari-mutuel betting would require approximately 5 years of operation before revenues reached their full potential. Its report estimates that in the first year of operation the state would receive at least \$3 million in revenues and that in the second or third year the state share would rise to about \$7.5 million and after five years to around \$10 million.² These revenue estimates are made using the following assumptions:

1. That there would be two racing facilities operating, one in Northern Virginia and the other in the Hampton Roads area.
2. That the racing facilities would be designed for year-round use with each track allowed 100 or more days of racing.
3. That at each facility there would be a one mile thoroughbred racing strip and a five-eighths mile standardbred strip.

¹ *Ibid.*, Section 4-40.

² For more on the subject see *Report of the Pari-Mutuel Betting Study Commission* (Richmond: Department of Purchases and Supply, 1972). This commission was continued by the 1973 General Assembly but in the last year has primarily studied the possibility of a relationship between pari-mutuel betting and crime.

4. That the take-out from the pari-mutuel handle would be 15 percent with the state, the horsemen, and the racing association each receiving one-third. The breakage, or odd cents of a payoff, would also be divided equally among those three.

Lottery

A state lottery is another new source of revenue that the commission has considered. In the last nine years eight states have established lotteries. New Hampshire was the first in 1964 followed by New York in 1967, New Jersey in 1970, Massachusetts and Connecticut in 1971 and Pennsylvania, Michigan, and Maryland in 1972.

For New Hampshire and New York the results fell short of expectations. For the first eight years the New Hampshire lottery netted an average of \$1.6 million per year (about \$2.00 per capita), and the New York lottery produced in net revenues an average of \$34 million per year (also about \$2.00 per capita) in its first five years. In New Jersey the lottery began operations in January, 1971, and proved more successful than either of its predecessors. Net revenues for the first eighteen months were \$102 million, or roughly \$10.00 per capita on an annualized basis.

General interest in this revenue source has recently been increasing. This rising interest has been based on the success of the New Jersey lottery and the apparent success of the lotteries in Massachusetts, Pennsylvania, Connecticut, Michigan, and Maryland that use the New Jersey lottery as a model.

The basic elements of the New Jersey system are:

1. Low priced tickets (50 cents).
2. Frequent drawings (at first weekly and as of November, 1972, also daily).
3. Numerous and easily accessible outlets for the purchase of tickets (including supermarkets, department stores, drug stores, and restaurants).
4. 45 percent of gross revenues set aside for prizes and a division of prizes among a relatively large number of persons.
5. Numbered tickets in lieu of recording the names and addresses of purchasers.
6. A concerted effort by the state to promote the lottery after recognizing that it is a consumer service that not only must be designed to appeal to consumer tastes but to be successful must be merchandised like one.

There are, of course, other factors to consider besides the nature and structure of the lottery in trying to estimate its revenue potential. These include competition from lotteries in neighboring states, the level of personal income in the state and in surrounding ones, and the propensity of residents and nearby nonresidents to gamble.

To estimate the revenue potential of a lottery in Virginia, the commission assumes that its main elements would fit the New Jersey pattern and that it would face competition from the Maryland lottery. With poor response the estimate would be for a net of \$9.5 million, with average response, \$23.5 million, and with very good response, \$47 million.

Food Products and the Sales Tax

This section will address itself to questions concerning the possible exemption of food and nonprescription drugs from the sales tax base. Although

this commission has no specific recommendation on changing the sales tax base, the commission does feel that the issue of exemption is important enough to warrant rigorous examination.

If food products for home consumption and nonprescription drugs were exempted from the sales tax, the state and its localities would experience a substantial decline in revenues, for the sales on these items account for 25.7 percent of sales tax revenues on a state-wide basis. The exclusion would force the state and local governments to look to alternative sources to offset the revenue loss.

If the General Assembly felt it desirable to eliminate the sales tax on food and nonprescription drugs, this commission would recommend as an alternative that the legislature look to an increase in the state sales and use tax rate from the present 3 percent to 4 percent and the inclusion of selected services (which would be chosen by the General Assembly) in the sales tax base. The impact of this recommended alternative is summarized in Table 3.

In 1974-75 the revenue loss from excluding food and nonprescription drugs is expected to be \$82.9 million for the state and \$27.6 million for the localities, or a total of \$110.5 million. In 1975-76 the revenue loss is expected to be \$97.9 million for the state and \$32.6 million for the localities, or a total of \$130.5 million. Increasing the state sales tax rate from 3 to 4 percent (raising the state and local sales tax rate from 4 to 5 percent) would not alone provide enough revenue to offset the decline caused by eliminating food and nonprescription drugs from the sales tax base. In 1974-75 the rate hike would increase revenues by \$79.8 million, which would be \$30 million short of offsetting the state and local revenue loss caused by exemption. In 1975-76 revenue would increase by \$94.3 million, which would be \$36 million short of offsetting the state and local revenue loss.

Applying the 4 percent rate to the selected services listed in *Fiscal Prospects and Alternatives: 1974* (see p. 183 of that report) would, however, more than offset the remaining combined state and local revenue loss caused by exclusion. In 1974-75 taxing those selected services would increase state revenues by \$42.1 million and local revenues by \$10.5 million, or a total of \$52.6 million. The final result of the tax changes would be a state gain of \$39 million, a local loss of \$17.1 million, and a combined state and local gain of \$21.9 million. In 1975-76 taxation of that set of selected services would produce \$49.7 million at the state level and \$12.4 million at the local level, or a total of \$62.1 million. The final result of the tax changes would be a state gain of \$46.1 million, a local loss of \$20.2 million, and a combined state and local gain of \$25.9 million. One-third of the state gain, \$13 million in 1974-75 and \$15.4 million in 1975-76 would have to be distributed under present law to localities on the basis of school age population. The remainder, \$26 million in 1974-75 and \$30.7 million in 1975-76, could be used in a formula distributing revenues to local governments, since imposition of the 1 percent local option sales tax on selected services would eliminate only about one-third of the remaining local revenue loss.

TABLE 3 — PROJECTED REVENUE CHANGES IN THE SALES AND USE TAX, FISCAL YEAR 1974-75 AND 1975-76

	<u>Change in Revenue, 1974-75 (mil. of dollars)</u>		
	<u>State</u>	<u>Local</u>	<u>Total</u>
Present Sales Tax Base Minus Food and Nonprescription Drugs	\$ -82.9	\$ -27.6	\$ -110.5
Increase State Sales Tax Rate to 4 Percent	+79.8	...	+79.8
Net Result	-3.1	-27.6	-30.7
Include Selective Services in Sales Tax Base (at 4 percent)	+42.1	+10.5	+52.6
Final Result	+39.0	-17.1	+21.9

	<u>Change in Revenue, 1975-76 (mil. of dollars)</u>		
	<u>State</u>	<u>Local</u>	<u>Total</u>
Present Sales Tax Base Minus Food and Nonprescription Drugs	\$ -97.9	\$ -32.6	\$ -130.5
Increase State Sales Tax Rate to 4 Percent	+94.3		+94.3
Net Result	-3.6	-32.6	-36.2
Include Selective Services in Sales Tax Base (at 4 percent)	+49.7	+12.4	+62.1
Final Result	+46.1	-20.2	+25.9

To allocate funds the formula could rely on the amount of nontaxable sales that stores would probably have to report to the Department of Taxation on, say, a quarterly or yearly basis if food and nonprescription drugs were excluded from the tax base. As a result, there would be some lag between exempt sales made in a locality and the receipt of monies from the state. This formula would guarantee that each locality would receive funds equivalent to those received prior to exemption. It would also solve the difficulty of each locality being affected differently by the revenue decline. Localities receive different relative amounts of local option sales tax revenue from the tax on food for home consumption and nonprescription drugs. These relative amounts range from a low of 5 percent to a high of 54 percent.

The changes in Table 3 would increase total sales tax revenues by about 3.5 percent. Raising the Virginia figures in Table 4 by that amount would provide some idea of how state and local sales tax effort in Virginia would compare to neighboring states after the changes.

If the General Assembly did not wish to tax selected services, an alternative would be to increase the state sales tax by more than 1 percentage point. If complete funding to offset the possible exemption of food and nonprescription drugs from the sales tax base were desired through a sales tax rate increase, a fractional sales tax rate of 5.4 percent would be necessary. Although a fractional sales tax rate could be an administrative nuisance, there are presently seven states that have fractional state and local sales tax rates with a fraction of .25 or .5 percent. In Virginia the fractional rate could be made 5.5 percent to reduce the chances for administrative problems.

TABLE 4 — STATE AND LOCAL SALES TAX RECEIPTS
IN FISCAL 1970-71^a

<u>State</u>	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
District of Columbia	\$ 105.26	\$ 17.65
Kentucky	88.32	26.71
Maryland	65.71	14.51
North Carolina	57.93	16.88
Tennessee	86.78	26.26
Virginia	64.79	16.60
West Virginia	109.49	33.13
U. S. Average (Incl. D. C.)	86.27	20.76

Another way to gain insight into the possible alternatives for financing the revenue decline would be to examine the behavior of states that have recently exempted food products from the sales tax base. This same question has been the subject of a recent study by the Department of Taxation, and the results were not unexpected. Most states that had to replace revenues lost through a food exemption have gone to a major revenue source, such as the sales tax, individual income tax, or the corporate income tax. For example, in 1972, when Kentucky eliminated the state sales tax on food for home consumption, the revenue decline was offset by an increase in the corporate income tax and a severance tax on coal. In 1973 Indiana excluded food products for home consumption from the sales tax base and replaced the lost revenues by raising the sales tax rate from 2 to 4 percent.

One possible alternative to a food exemption would be an income tax credit on food for home consumption. At the close of 1971, ten states and the District of Columbia used some form of the tax credit device. The credit could be granted on all resident income tax returns based on the number of personal exemptions; in addition, refunds would be made to those without a tax liability.

A tax credit has several advantages over an exemption. Of course, the advantages of a tax credit are the disadvantages of an exemption, and conversely the advantages of an exemption are the disadvantages of a tax credit. A tax credit would eliminate the administrative costs and difficulties of exempting food for home consumption from the sales tax (see Appendix B for a discussion of the administrative problems of exemption.) In addition, if there were a desire to provide benefits to a specific group, such as residents or low income persons, a tax credit could be devised to benefit only those persons, but a food exemption would apply to all residents and nonresidents. Since any tax credit system would at least exclude nonresidents, the revenue losses caused by it could not exceed and would probably be less than those caused by a food exemption. Finally, food consumption differs by income level, family size, age distribution, marital status, tastes, and other less obvious factors. As a result, outlays for food for home consumption are a crude measure for designing a specific pattern of tax distribution. A tax credit can be designed to provide a constant amount of relief regardless of income or can be made to vary by income class and perhaps other designated policy variables.¹

^a Kenneth E. Quindry, *State and Local Revenue Potential 1971* (Atlanta: Southern Regional Education Board, 1972) p. 32.

¹ For more on the subject of a tax credit versus the exemption of food for home consumption, see James A. Papke, "New Perspectives in Retail Sales Taxation," *Proceedings, National Tax Association*, (New Orleans, 1965). pp. 258-270.

An exemption has several advantages over a credit. An exemption is directly correlated with food expenditures; therefore, everyone's relief is based on their food expenditure and not on a hypothetical formula granting people an "average" amount of relief. An exemption is flexible and would vary with the price of food products. If food prices rose, as they recently have, the exemption would rise, and, conversely, if food prices fell, the relief granted by the exemption would also fall. Two final arguments for an exemption are that it seems more visible to taxpayers than a credit and that it would not cause an increase in the number of income tax returns filed in Virginia.

Any of the revenue sources discussed in the previous section, especially a lottery, could be utilized singly or collectively to offset revenues lost through a credit or an exemption. The income tax credit could probably be financed in a greater variety of ways than an exemption, for with a credit only the state, and not the localities, would experience a decline in revenues.

Local Fiscal Issues

Tax Equity Issues

Rolling Stock

The rolling stock of motor carriers of property in the Commonwealth is taxed *ad valorem* in one of two ways — through a state administered and collected rolling stock tax or through a locally administered and collected personal property tax.

Sections 58-618 to 58-626.1 of the *Code of Virginia* provide for a rolling stock tax of one dollar per hundred dollars of assessed value on *intrastate common carriers* in lieu of local personal property taxes. Proceeds from this State Corporation Commission (SCC) administered tax are prorated to the localities based on the mileage traveled over regular routes by each subject carrier.¹ In 1972, there were sixteen motor carriers operating under intrastate common carrier freight certificates; these carriers paid \$87,111 in rolling stock taxes.² The owners of all other trucks, whether in for-hire or private use, are subject to personal property taxes, which are administered and collected in the locality of domicile.

The rolling stock tax recently has come under criticism from several sources. Some truckers assert that it constitutes differential treatment for one class of motor carriers, the intrastate common carrier. Fueling the charge of differential treatment is the procedure whereby most intrastate common carriers operate under more than one authority. For example, if a motor carrier operates under an intrastate common carrier certificate, then the entire fleet of that firm is exempt from local personal property taxes and subject to the rolling stock tax. This situation could exist even though only a very small portion of the carrier's total operation may be as an intrastate common carrier. These critics argue that, if the fleets of the intrastate common firms were subject to the local personal property taxes, the tax bill of these firms would be higher; therefore, the intrastate common carriers enjoy a competitive advantage.

Criticism also comes from some commissioners of revenue. These commissioners feel that the rolling stock tax is preempting them from a source of revenue and that repeal of this tax in favor of local property taxes would increase local revenues. Finally, the SCC views the tax with disfavor. Since the

¹ Data limitations prevent the inclusion of miles traveled over irregular routes.

² "A Statement of Rolling Stock and Taxes for the Year 1972 for Motor Vehicle Carriers," State Corporation Commission, Commonwealth of Virginia, 1972.

tax yielded less than \$90,000, in 1972, several parties within the SCC view it as a nuisance.

Investigating these criticisms, the Revenue Resources and Economic Study Commission employed two consultants to examine the relative merits of the rolling stock tax and the personal property tax as vehicles for levying the rolling stock of motor carriers of property.¹ The study was commissioned to investigate the equity and efficiency of the present dual system.

The consultants found weaknesses in the present system. Significant differences were found to exist across the state in the assessment and collection of personal property taxes on motor carriers of property. While urban areas generally used fixed depreciation schedules in assessing rolling stock, rural areas used a variety of assessment methods. Some commissioners of revenue indicated that they used no specific schedule but rather negotiated assessments or relied on published data. Some of this data proved to be nonexistent. Consequently, assessment of rolling stock varies significantly throughout the Commonwealth.

Many local commissioners of revenue complained that staff size precluded their determining what rolling stock was actually domiciled in their locality and thus subject to personal property taxation. Several commissioners related that a number of vehicles were escaping local taxation entirely. They noted that when they approached carriers, they were told that the vehicles in question were domiciled elsewhere and taxes paid there. These commissioners felt that carriers were playing one locality against the other.

All commissioners of revenue questioned said that they would welcome the opportunity to tax intrastate common carriers in the same manner that they currently assess all other private and for-hire carriers. Most commissioners recognized, however, that subjecting intrastate common carriers to local tangible personal property taxes would yield little additional revenues. The consultants estimated that the localities would collect an additional \$300,000 annually if the rolling stock of intrastate common carriers of property were subject to local personal property taxation.

Because of the problems and inequities that have been found to exist in the procedures currently used to levy motor carriers, the commission proposes that the state government be given the assessment responsibility. The state would assess all vehicular rolling stock in the Commonwealth with the exception of any vehicle defined in the *Code of Virginia* as a pick-up truck not used for-hire. This would exempt all privately used trucks weighing less than 2 ³/₄ tons from state assessment.

The commission proposes that the Division of Motor Vehicles (DMV) make the assessments. Using a depreciation schedule that approximates those used by most localities, DMV would determine the assessment of every truck in the Commonwealth, except privately used vehicles defined as pick-up trucks. Using data supplied by the applicant on his registration card, DMV would notify each local commissioner of revenue of every such vehicle domiciled in his locality and its assessed value. Each commissioner of revenue then would apply his locality's tangible personal property tax rate to the assessment and bill his constituent. Each taxpayer would remit payment to his local commissioner of revenue. All funds collected would remain in the locality.²

¹ C. J. Gallagher and G. E. Hoffer. "A Comparative Analysis of the Rolling Stock Tax and the Personal Property Tax: Virginia, 1972." Revenue Resources and Economic Study Commission.

² One problem might arise in some Virginia localities that have a relatively high nominal rate of personal property taxation and a relatively high rate of depreciation. A high nominal rate levied by the locality combined with the proposed rate of depreciation might result in a burden for trucks that is out of line with their burden in other localities. Alternative solutions would be a lower depreciation schedule or a reduction in the nominal rate at the local level.

This system would be more efficient and more equitable than the current one. It would redress the dual, discriminatory system that the Commonwealth presently uses. All rolling stock, except smaller, privately used vehicles, would be assessed in a consistent manner and would be subject to local taxation. Any firms or individuals who presently escape local *ad valorem* taxation by playing one locality against the other would be unable to continue this practice. Any vehicle with a current Virginia registration would pay local property taxes to some political subdivision of the Commonwealth.

As noted earlier, many commissioners of revenue presently encounter difficulties in assessing larger and more specialized vehicles. They often resort to unprofessional methods in assessment. One state-wide depreciation schedule and method of assessment would eliminate this problem. Furthermore, state assumption of assessments would free local commissioners of revenue for other duties.

The logistics of assessing the large number of subject motor vehicles might be so simplified that the proposed system would require less effort than is presently expended by the SCC in assessing the sixteen firms. The SCC currently assesses using a fixed depreciation schedule based on the age of the equipment. The present registration application of the DMV contains all data necessary for assessment computation except original cost. These data could be obtained by DMV through one of the several sources — from the title application, by changing the license registration application or from publications such as the "Blue Book." Given these data, together with the mechanical nature of the assessment formula, DMV could machine tabulate each assessment. These assessments would be forwarded to the commissioner of revenue in the locality of registration.

The proposed system, which is similar to that presently used in North Carolina, would subject all trucks to personal property taxation. With intrastate common carriers subject to local personal property taxation, it is estimated that localities will receive approximately \$300,000 in additional revenues annually. However, whereas 279 localities receive distributions under the rolling stock tax, at present only 29 localities would receive property taxes from these carriers. They would be the 29 localities in which those carriers with intrastate common carrier certificates domicile rolling stock. Although elimination of the present rolling stock tax would deprive over 100 localities of some revenues, the amounts lost would be small (in 1972 total distributions to all localities were under \$90,000). Almost 50 percent of the localities losing revenue would lose under \$200 annually, while no locality would lose over \$1900 annually.

To facilitate determining a situs for every Virginia registered vehicle, the commission further recommends that DMV should be enjoined from issuing Virginia registrations without the applicant specifying a domicile for his vehicle. Such is presently required of all applicants with in-state addresses; no less should be expected of out-of-state applicants. By requiring the situs, Virginia localities will be able to levy more efficiently the personal property taxes. (See the proposed legislation in Appendix A.)

Wetlands Control Act

Virginia has responded to the economic and environmental concern over the wetlands through a concerted effort to preserve this natural resource for present and future generations, since this is its constitutional goal. The implementation and pursuit of this goal has, however, raised arguments from parties concerned with future social and economic development of the affected localities. The issue is whether the amenities of environmental stewardship equate or exceed the costs to society in lost development. Presumably, future development may be prohibited because of protective legislation and may mean

a reduction in potential tax revenue for certain localities. In an effort to estimate the potential fiscal impact of the Wetlands Control Act on Virginia localities, the Revenue Resources and Economic Study Commission was charged by the 1973 session of the General Assembly in House Joint Resolution No. 218 to study the effects of this legislation on the tax bases and expenditure requirements of affected localities. On the basis of this evaluation, the possibility of localities being compensated by the Commonwealth was also to be examined.

The task of identifying and evaluating the actual wetland locations was assigned to the Virginia Institute of Marine Sciences (VIMS). As of October, 1973, VIMS had completed actual wetlands inventories for only two counties. An optimistic estimate for completion of a locality-by-locality inventory of wetlands in Virginia is 1980. This inventory is necessary to determine exactly how much land is affected and could serve as the lower limit of assessment on this property for comparison with the assessment following some future development.

A significant limitation of the Wetlands Control Act is the "grandfather" clause in the original legislation that exempts from regulation any alteration or commercial development of wetlands that exists, is in progress, or is planned prior to July 1, 1972. Thus, with respect to the use of wetlands a status quo was established as of July 1, 1972. However, in terms of tax base, this status quo cannot be delineated and remains unknown, especially since the full impact of certain "grandfathered" projects on the taxable value of the land will not be known until the projects are completed.

The question raised by the House Joint Resolution is the difference between the tax base of a locality at some time in the future under wetlands regulation and that of the same locality at the same future time if no such regulation were enacted. Apparently, if this could be known and, if the difference were considered severe or adverse for a particular locality, that locality could be considered eligible for compensation by the state. The compensation would represent the present value of the potential future difference in the localities tax base resulting from wetlands regulation that was in excess of the present value of the benefits enjoyed by the locality from wetlands preservation. Unfortunately, it is impossible to perform the above calculations since no one can know what development there would have been on any particular marsh in the future or what will be the value of having preserved the wetlands.

Assigning the complete blame for lost development on the Virginia Wetlands Control Act would be an exaggeration. Presently, there exist regulations for activities conducted from mean high water to the waterway bottoms. The only area solely regulated by the Wetlands Control Act is that area equal to one-half the tidal range above and contiguous to mean high water. At the federal level, the Army Corps of Engineers issues permits which regulate any activity in navigable waterways from mean high water seaward. The application process for a Corps permit includes environmental impact consultation with the Department of Interior (Bureau of Sport Fisheries and Wildlife) and the Environmental Protection Agency (EPA). The policies of the Environmental Protection Agency give particular cognizance and consideration to any proposal that has the potential to damage wetlands. Because this federal wetlands protection policy was already in effect, the Virginia Wetlands Control Act can only be attributed partial impact. At the state level, the Virginia Marine Resources Commission (VMRC) issues permits on activities from mean low water to the waterway bottoms. Most activities that plan to alter the area in the mean tidal range are likely to affect that area below but contiguous to mean low water and thus, would require a VMRC sub-aqueous permit. To the degree that alterations of tidal wetlands impairs

water quality, such alterations are subject to the authority of the Virginia Water Control Board.

Anyone who plans to alter wetlands faces this barrage of application, permit, and regulatory procedures. To ascribe the loss of development to the decision of a local wetlands board is overestimating their power significantly.

At the present time, the denial of a wetlands permit by a local wetlands board or VMRC has not prohibited any major development project. First, most of the major projects in Virginia were in preliminary planning stages at the time the Wetland Control Act went into effect and are exempt from the act's regulation due to the "grandfather" clause. Other major projects have been able to proceed with only minor modifications of their original plans. Since wetlands will compose only a portion of the total land area to be developed, alterations in the proposed projects have enabled the developments to proceed with minor adjustments that allow for wetlands conservation. It should be noted that the act with the "grandfather" clause has not been in effect very long. Because the law's regulations have not been in effect for a significant time period, only partial impacts of the act can be identified.

Since the affect of the Wetlands Control Act on the future tax base of localities, whether adverse or otherwise, cannot be adequately determined, the question of the Commonwealth compensating the "adversely" affected localities is somewhat moot. If it were possible to formulate an adequate measure, the impact on the locality's tax base would still be insufficient to account for or justify compensation by the state. The basis for compensation would have to be a broader determinant of impact, such as the effect of wetlands regulation on the total fiscal position of the locality. A measure of net fiscal impact, the difference between revenue gained from an enlarged (or developed) tax base and greater expenditure requirements for additional public services, is a more appropriate gauge of the real impact on the locality.

The additional public services, such as, road, water, and sewer systems, will certainly be more costly when provided in naturally uninhabitable land, than in a traditional upland development. It has also been shown that the additions to a locality's tax base from a new full-time residential development can be more than offset by the increase in education expenditures required. Although regulation of Virginia wetlands may have a marginal effect on the future growth in the tax base of certain Tidewater localities, the net impact of "lost" development on those localities' fiscal position remains uncertain.

Because no major projects have been prohibited, there exists no real basis upon which the state should compensate any locality. Moreover, the Wetlands Control Act was passed to protect the welfare of the "public" consistent with the environmental priorities established in the 1971 Constitution. A corresponding example would be the restrictions on dumping affluents and waste into waterways, which would have a similar impact on localities as the Wetlands Control Act. Areas located along waterways had enjoyed the relative advantage of inexpensive disposal services. Such an attraction, when exploited, was considered severely detrimental to the public good, so it was prohibited in the public interest. This regulation of dumping reduced the relative advantage of localities situated along waterways. This situation is analogous to the regulation of Virginia wetlands. Since localities have not been compensated for regulation of activities that threaten water or air, there does not appear to be a case for compensation to protect wetlands. This finding is reinforced by the maze of state and local controls in which the Wetlands Control Act must operate

Alternative Revenue Sources

The commission has studied the fiscal problems of Virginia localities. The

local governments as an aggregate have a mildly favorable outlook for the period of the 1970's. This outlook, however, may not be the case for every locality. Because of this, the Revenue Resources and Economic Study Commission has felt it necessary to examine some alternative revenue sources for the localities of the Commonwealth.

The examination of additional revenue sources should be considered in perspective. A locality's need for revenue depends on the many components that determine a locality's fiscal outlook. For example, the needs of localities depend on the changes in state aid to localities, the growth of existing revenue sources and the demands for future expenditures. Alternative revenue sources are also tied to the discussion of attempting to slow down the growth of property taxation. If revenue needs continue to increase and there is a desire to slow down the increase in the property tax burden, then clearly the localities will have to find alternative revenue sources.

With the preceding discussion as background, the Revenue Resources and Economic Study Commission decided to present three alternative revenue sources for local governments. The commission has considered many alternatives and provides these sources on an informational basis and in no order of preference for the consideration of the General Assembly.

Local Income Tax

The commission studied the possibility of allowing localities to impose a local option tax on the tax base used for computation of the state tax on individuals and fiduciaries. Such a tax, which is often referred to as a "piggyback" income tax, would be collected by the state and distributed to the locality of filing. Although the commission does not recommend this alternative as a revenue source, it does wish to list the advantages, disadvantages, and revenue impact of such a tax.

Advantages:

1. Provides the opportunity for local governments to raise added revenue when in their judgment and area of responsibility such is deemed to be most needed. This can be done without imposing an added income tax burden in jurisdictions not badly in need of added revenue.
2. Makes it possible to have more flexibility as to rates, as one locality may require a rate of 25 percent, another 10 percent, and another none at all, whereas such distinctions as between localities would not be possible with a state imposed tax. Moreover, the rates could be more easily varied from year to year, as is now customary with respect to property taxes.
3. Simple and economical to administer if collected as a part of the state tax, and such portion is returned directly to the locality of filing, thus avoiding the need for any intervening complex distribution formulas.
4. Would tend to make governing bodies more economical and efficient as the sole responsibility for imposing the tax rests squarely upon them.
5. Would tend to be more palatable to those taxed as every dollar of tax paid could be more visibly tied in with local needs than would be the case with a state imposed tax.

Disadvantages:

1. For all practical purposes it divests the state government of its ability to utilize the full potential of its chief revenue source either by way of raising revenue or as an economic instrument.

2. Shortchanges the state with respect to its borrowing powers since locally imposed taxes would not be counted in the state's borrowing base.
3. To the extent local circumstances and pressures prevent the enactment of the tax in some localities, a lack of uniformity will exist within the state in respect to its predominant tax base with possible adverse effects on the state's economy and image.
4. Some possible administrative drawbacks:
 - a. Unless all localities adopt the tax and at the same rate, a large employer, with employees living in several surrounding jurisdictions may find it difficult to apply a number of varying withholding rates; or, if he used one rate, many employees would be inconvenienced due to overwithholding or underwithholding.
 - b. If the federal government ever decided to utilize a tax credit device, some complications would arise if the credits were made applicable to state taxes only.
 - c. A taxpayer moving from piggyback locality A to non-piggyback locality B between January 1 and May 1, following an entire year of residence in locality A, is required under present rules to file his return in locality B. Does he, or does he not, pay the piggyback tax; and, if so, which locality gets the money? Also, will fractional years of residence as between localities within the state cause any allocation problems?
5. If the state should decide that it is necessary to increase the take from the individual income tax by a certain percentage, such as 20 percent, it would probably not do it by a rough "across-the-board" increase, but would make some selective revisions in income and deductions definitions as well as in rate changes as between income brackets — all of which would be designed to add up to an overall 20 percent increase in taxes. If the piggyback approach were taken, and all localities imposed a 20 percent tax, it would be the equivalent of a rough "across-the-board" increase without any opportunity for making any of the needed refinements in the tax structure.
6. The piggyback tax, being based on a percentage of the tax reported on the returns for any given locality, is necessarily limited by the type of returns for that area. Thus, a low income area will produce a relatively small piggyback tax, while such an area may be precisely the area that needs the greatest amount of help. Another consideration is that areas such as central cities that have large expenditure burdens are not experiencing a high relative growth of income. Under a piggyback income tax much of the future growth in revenue would go to affluent suburbs.

Table 5 presents the revenue impact of various local option (piggyback) income tax rates for a selected sample of seventeen localities in the Commonwealth. It examines 5 different piggyback rates that are based on income taxes paid for the 1971 calendar year. If the tax were uniformly adopted, Virginia localities could have collected revenues ranging from \$31,980,960 at a 10 percent rate to \$159,904,802 at a 50 percent rate. The exact revenue for each locality depends, of course, on the amount of Virginia income tax that residents pay.

TABLE 5--REVENUE IMPACT OF VARIOUS LOCAL OPTION INCOME TAX RATES FOR SELECTED LOCALITIES, TAX YEAR 1971

<u>County</u>	<u>State Income Tax Collections</u>	<u>10 Percent of State Tax</u>	<u>20 Percent of State Tax</u>	<u>30 Percent of State Tax</u>	<u>40 Percent of State Tax</u>	<u>50 Percent of State Tax</u>
Augusta	\$ 2,168,049	\$ 216,805	\$ 433,610	\$ 650,415	\$ 867,220	\$ 1,084,025
Buckingham	282,118	28,212	56,424	84,635	112,847	141,059
Chesterfield	6,777,224	677,722	1,355,445	2,033,167	2,710,890	3,388,612
Fairfax	59,567,881	5,956,788	11,913,576	17,870,364	23,827,152	29,783,941
Floyd	304,442	30,444	60,888	91,333	121,777	152,221
Lunenburg	334,326	33,433	66,865	100,298	133,730	167,163
Northumberland	388,288	38,829	77,658	116,486	155,315	194,144
Rappahannock	224,779	22,478	44,956	67,434	89,912	112,389
Wise	1,452,623	145,262	290,525	435,787	581,049	726,311
<u>City</u>						
Alexandria	12,904,450	1,290,445	2,580,890	3,871,335	5,161,780	6,452,225
Chesapeake	4,778,892	477,889	955,778	1,433,668	1,911,557	2,389,446
Nansemond	1,403,162	140,316	280,632	420,949	561,265	701,581
Norfolk	13,311,349	1,331,135	2,662,270	3,993,405	5,324,540	6,655,675
Norton	240,718	24,072	48,144	72,215	96,287	120,359
Richmond	16,997,731	1,699,773	3,399,546	5,099,319	6,799,092	8,498,865
Roanoke	5,576,301	557,630	1,115,260	1,672,890	2,230,520	2,788,150
Waynesboro	1,168,544	116,854	233,709	350,563	467,418	584,272
Commonwealth Total	\$319,809,604	\$31,980,960	\$63,961,921	\$95,942,881	\$127,923,842	\$159,904,802

Source: Virginia Department of Taxation, a special computer printout entitled Incomes of Resident and Non-resident Individuals and Fiduciaries for the Taxable Year 1971, (Richmond, February, 1973).

Local Sales Tax

The commission has also studied the possibility of increasing the amount of sales tax that localities are allowed to impose. At the present time, cities and counties are permitted to impose a 1 percent sales tax in conjunction with the states mandatory 3 percent tax. All cities and counties have exercised this option. In order to enlarge this tax source localities could be permitted to raise the local option sales tax rate to, say, 2 percent. In lieu of making a decision for or against such a tax, the commission wishes to list the apparent advantages, disadvantages, and revenue impact of such a proposal.

Advantages:

1. Provides the opportunity for local governments to raise added revenue when in their judgment and area of responsibility such is deemed to be most needed. This could be accomplished without an added tax burden in jurisdictions not badly in need of added revenue.
2. Makes available an important new source of revenue to localities and would relieve pressure for increases in other local taxes and charges.
3. Additional administrative costs would be zero since the state already collects and distributes the 1 percent local option tax.
4. Would tend to make governing bodies economical and efficient as the sole responsibility for imposing the tax rests squarely upon them.
5. Would tend to be more palatable to those taxed as every dollar of tax paid could be more visibly tied in with local needs than would be the case with a state imposed tax.

Disadvantages:

1. Divests the state government of a future tax source if it is assumed that the combined state-local rate should not exceed 5 percent.
2. Short changes the state in respect to its borrowing power as such locally imposed taxes cannot be counted in the state's borrowing base.
3. To the extent local circumstances and pressures prevent the enactment of the tax in some localities, a lack of uniformity will exist within the state. If locality A imposes the tax, a business located there will be at a disadvantage relative to his competitors in adjoining locality B which does not impose the tax.
4. Localities without retail centers would benefit more from an additional 1 percent levy shared on the basis of school age population. Also, they would probably benefit more if the state tax were increased to 4 percent and the additional funds were used for state categorical aid.
5. The greatest relative growth in retail trade is occurring in suburban areas with the result that they will be prime beneficiaries of a local option tax. On the other hand, fiscal burdens are concentrated in the slower-growing central cities.

If localities uniformly adopted the 2 percent local option sales tax, Virginia localities would have received \$98,678,142 in additional revenue in the 1972-73 fiscal year. Table 6 shows the impact of the 2 percent rate for the seventeen locality sample. Of course, this tax would be optional, and therefore each locality would decide separately if it wished to utilize this revenue source.

**TABLE 6--REVENUE IMPACT OF A 2 PERCENT
LOCAL OPTION SALES TAX ON SELECTED
LOCALITIES BASED ON FISCAL YEAR 1972-73**

<u>County</u>	Actual 1972-73 1 Percent Local Option Revenue	Estimated 1972-73 2 Percent Local Option Revenue
Augusta	\$ 602,986	\$ 1,205,972
Buckingham	82,254	164,508
Chesterfield	1,073,342	2,146,684
Fairfax	10,026,278	20,052,556
Floyd	74,827	149,654
Lunenburg	120,304	240,608
Northumberland	87,620	175,240
Rappahannock	35,668	71,336
Wise	617,702	1,235,404
<u>City</u>		
Alexandria	3,285,061	6,570,122
Chesapeake	1,109,352	2,218,704
Nansemond	388,327	776,654
Norfolk	7,155,186	14,310,372
Norton	186,140	372,280
Richmond	8,466,191	16,932,382
Roanoke	3,596,848	7,193,696
Waynesboro	476,786	953,572
Commonwealth Total	\$98,678,142	\$197,356,284

Source: Virginia Department of Taxation, Annual Report, for the period ending June 30, 1973, (Richmond, December, 1973).

Crown Tax on Soft Drinks

A proposed crown tax on soft drinks has been examined as a new revenue source for localities. At the present time there are seven states with special taxes on soft drinks—Arkansas, Louisiana, Missouri, North Carolina, South Carolina, Tennessee and West Virginia. The amount of revenues collected in fiscal 1970-71 varied from a low of \$183,000 for Missouri to a high of \$18,551,000 for North Carolina. The revenues were dependent upon the rates imposed on the various forms of soft drinks and the treatment of intrastate and interstate business.

If all localities in Virginia taxed soft drinks at a similar amount per capita as any one of the seven states, they could realize between approximately \$0.2

million (at the Missouri rate) and \$17 million (at the North Carolina rate) in revenue, with a tax at the average per capita amount generating about \$8 million in revenue.

Elementary-Secondary Education

The fiscal outlook for localities depends upon many variables, but one of the most important is local elementary — secondary education outlays, generally the largest single budgetary item for local governments. A locality's expenditures for education depends upon three factors — the number of students enrolled, the scope and quality of educational programs, and the amount of state aid to education. The Task Force on Financing the Standards of Quality for Virginia Public Schools has thoroughly studied the future of elementary — secondary education, and the commission has been kept informed of their work. The task force has recommended that the standards of quality be adopted by the 1974 General Assembly in order to equalize educational opportunities throughout the Commonwealth. The standards of quality include an increase in the quality of the basic school program, an increase in vocational education programs, and institution of special education programs. The task force's recommendations also call for increased state aid to help localities cover the cost and for a change in the basis for distributing aid to an index measure of need. Thus, even though average daily membership is expected to decline, total state and local expenditures for elementary — secondary education will increase. The increased outlays for special and vocational training will largely be financed by increases in state aid while local expenditures will increase largely because of increasing costs for existing programs. Overall, though, these developments will slow down the rate of growth of local expenditures for education.

The Property Tax

The Revenue Resources and Economic Study Commission has been studying the property tax in Virginia along with the Governor's Advisory Committee for Property Tax Reform. Because of the joint nature of the inquiry, both groups will issue their reports at approximately the same time. The commission does, nevertheless, have preliminary proposals in two areas — (1) a service charge on tax exempt property and (2) property tax relief for the elderly.

The commission has examined the concept of localities levying a service charge on all tax exempt property (except federal property) in lieu of imposing the property tax. Its preliminary recommendation is that localities should be permitted to adopt this levy. Imposing such a service charge would more equitably distribute the tax burden because all property (except federal property) would then contribute some revenues toward meeting local needs.

The commission has also studied the issue of property tax relief to senior citizens. At present in Virginia, localities have the option of providing property tax relief to elderly homeowners, and about 20 localities do so. The commission's preliminary recommendation is that any system of property tax relief for the elderly should be financed by the state government with the hope that state funding would bring uniformity to the relief plan. The alternative forms of property tax relief provided in other states are given in Appendix C.

Issues for Further Study and Continuation of the Revenue Resources and Economic Study Commission

The commission feels that a continuing review of the fiscal outlook at the state and local level, alternative sources of additional revenue, and new

programs is essential. Moreover, it has recommended in the section on state fiscal issues the following specific issues for further study:

1. The bank stock tax
2. Public service corporation taxes
3. The taxation of trucks and railroads
4. State and local license taxation

The commission has no doubts that its work must continue beyond the 1974-76 biennium and therefore strongly recommends that the next General Assembly make it a permanent study group (see the proposed legislation in Appendix A.)

Formation, Organization, and Work of the Commission

Commission Membership

In accordance with Senate Joint Resolution No. 8, approved at the 1972 session of the General Assembly, the following individuals were appointed members of the commission:

From the Senate:

Senator George S. Aldhizer, II	Rockingham
Senator Leroy S. Bendheim	Alexandria
Senator Adelard L. Brault	Fairfax
Senator J. Harry Michael, Jr.	Charlottesville

From the House of Delegates:

Honorable Robert E. Gibson	Chesapeake
Honorable Willard L. Lemmon	Marion
Honorable Herbert N. Morgan	Arlington
Honorable Lester E. Schlitz	Portsmouth

By the Governor:

Mr. Sam T. Barfield, commissioner of revenue, Norfolk
Dr. Harmon H. Haymes, professor, department of economics, Virginia Commonwealth University, Richmond
Mr. Wiley F. Mitchell, Jr., vice-mayor, Alexandria
Mr. Winfred Mundle, registered representative, Wheat, First Securities, Richmond
Mr. Raymond Munsch, senior vice-president and general manager, Miller and Rhoads, Richmond

The commission elected Senator Bendheim to serve as chairman and Mr. Schlitz to serve as vice-chairman. Mr. Robert Black, President of the Federal Reserve Bank of Richmond, resigned from the commission for personal reasons.

Senate Joint Resolution No. 8

Continuing the Revenue Resources and Economic Study Commission; and to appropriate funds therefor.

Agreed to by the Senate, March 9, 1972

Agreed to by the House of Delegates, March 10, 1972

Whereas, the Revenue Resources and Economic Study Commission, created by the nineteen hundred sixty-eight General Assembly by Senate Joint Resolution No. 15, and as continued in nineteen hundred seventy by Senate Joint Resolution No. 17, has initiated and partially completed a broad and comprehensive survey of the present revenue and tax structure of the Commonwealth, but has been unable to complete its work because of the time necessarily devoted to the nineteen hundred sixty-nine and nineteen hundred seventy-one Special Sessions of the General Assembly by many of its members and therefore lost to the Commission as a whole; and

Whereas, in order to effectuate the mission assigned to it, with particular attention to the equities involved in the imposition of various taxes and their respective burdens upon the taxpayer, it is necessary that the outcome of action by the next General Assembly and the people with respect to the proposed amendments be known and that the revenue and tax structure of the State achieve relative stability, particularly in view of the expenditure projections involved as evidenced by the recent budget requests of the several State agencies; now, therefore be it

Resolved by the Senate, the House of Delegates concurring, That the Revenue Resources and Economic Study Commission be continued for the purpose of completing the work assigned to it by Senate Joint Resolutions No. 15 and 17 of the nineteen hundred sixty-eight and nineteen hundred seventy Sessions of the General Assembly, respectively, and of evaluating the Commonwealth's tax structure with particular emphasis on the equities of that structure as it affects the taxpayer.

Resolved further, That the Revenue Resources and Economic Study Commission continue its study and report the sources of revenue of the local governments, the problems facing cities and urban areas relative to finance, the proper division of services of revenue between state and local governments and the proper division of responsibility of overlapping services.

The Commission is directed to continue, as a part of its study, to investigate, consider and study the overall tax structure of the Commonwealth in relation to the magnitude and distribution of the wealth of its people and their need for public services and to continue to appraise the current status of the real property tax in State and local policies, fiscal policy and land settlement policy. The Commission shall continue to consider, study and report on the ways and means best designed to adjust State and local taxation to facilitate a more adequate and equitable financing of local public services and to encourage and achieve desired land use goals. Changes in relevant State laws and in the operation of local governmental structures and services shall also be pertinent to the work of the Commission. The Commission may study such other matters as may be relevant to its study.

The Commission shall consist of fifteen members, of whom four shall be appointed by the Committee on Privileges and Elections of the Senate, four shall be appointed by the Speaker of the House of Delegates and seven shall be appointed by the Governor, provided that insofar as may be practicable, those members of the Commission who served thereon for the nineteen hundred seventy-seventy-two biennium shall be appointed.

Members of the Commission shall receive no compensation for their services, except the compensation for legislative members as provided in § 14.1-18 of the Code of Virginia, but shall be paid their necessary expenses incurred in the performance of their duties. The Commission may employ such secretarial, technical, clerical, professional and other assistance as may be required. All interested State agencies are directed to assist the Commission in its study.

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

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

Subcommittee Assignments

In order to cover all the areas for study specified in the resolution creating the commission, the membership was divided into the three subcommittees shown below:

- I. State Tax Sources and Expenditures
 - Senator Brault-Chairman
 - Senator Aldhizer
 - Mr. Morgan
 - Mr. Munsch

- II. State Aid to Local Governments
 - Mr. Barfield-Chairman
 - Mr. Gibson
 - Dr. Haymes
 - Mr. Mitchell

- III. Local Property Tax
 - Senator Michael-Chairman
 - Mr. Lemmon
 - Mr. Mundle
 - Mr. Schlitz

Senator Bendheim and Mr. Schlitz served as ex officio members of each subcommittee.

Staff and Staff Report

Serving as general consultants to the commission and the subcommittees were:

Dr. Thomas C. Atkeson, chancellor professor of taxation, College of William and Mary, Williamsburg

Dr. John L. Knapp, research director, Tayloe Murphy Institute, Graduate School of Business Administration, University of Virginia, Charlottesville

The commission also retained the services of two special consultants to study the ad valorem taxation of motor vehicular rolling stock. These special consultants were:

Dr. Charles J. Gallagher, assistant professor of economics, Virginia Commonwealth University, Richmond

Dr. George E. Hoffer, assistant professor of economics, Virginia Commonwealth University, Richmond

In addition, Barry E. Lipman and John A. Garka from the Research Division of the Department of Taxation, Ben A. Vorhies, Richard D. Brown, James C. McKean, and Gail V. Tatum from the Finance Section of the Division of State Planning and Community Affairs, and Richard H. Marshall of the Office of Special Programs served as staff. From the Division of Legislative Services, Mr. E. M. Miller and Mr. G. William White served as staff attorneys, and Ms. Jill M. Pope served as the legislative research associate. At this point the commission wishes to express its deep appreciation to the members of the staff who performed in such a dedicated and competent manner.

The staff prepared one comprehensive staff report for the commission. The report, entitled *Fiscal Prospects and Alternatives: 1974*, was presented in July, 1973. This was an in-depth study of the state and local fiscal outlook through 1980 and the many fiscal issues critical to the state and local governments. In addition, a background report was prepared on the effects of the Wetlands Control Act on the tax base of localities. The commission was directed to prepare this study by House Joint Resolution No. 218, approved at the 1973 session of the General Assembly.

House Joint Resolution No. 218

Directing the Revenue Resources and Economic Study Commission to study the effect of the Wetlands Control Act on the tax base of counties, cities, and towns.

Agreed to by the House of Delegates, February 23, 1973

Agreed to by the Senate, February 24, 1973

Whereas, the Wetlands Control Act, adopted by the General Assembly of nineteen hundred seventy-two, regulates and restricts the usage of future development of certain wetlands; and

Whereas, in certain counties, cities and towns of the Commonwealth, a substantial portion of the land therein is comprised of wetlands, as defined in the act; and

Whereas, the future tax base of these counties, cities and towns may be substantially and adversely affected in future growth and development, and a study should be made of the problems; now, therefore, be it

Resolved by the House of Delegates, the Senate concurring, That the Revenue Resources and Economic Study Commission shall study all aspects of the effect of the Wetlands Control Act on the tax base of counties, cities and towns, including the possibility of compensation by the Commonwealth to any county, city or town which is adversely affected and report its findings in the regular report which it is charged to make in nineteen hundred seventy-three.

Persons Testifying to the Commission
at the Public Hearing

On April 27, 1973, the commission held a public hearing to examine the equity and fairness of taxation as it applies to senior citizens and retirees in the Commonwealth. The public hearing was to provide a forum for those taxpayers to comment on the present tax system and to discuss possible inequities with the commission. The following individuals presented testimony at that time:

Col. (ret.) James W. Chapman, USAF, Senior Legislative Counsel of the Retired Officers Association

Col. (ret.) Howard C. Junkermann, USAF, member of the National Association for Uniform Services

Mr. Hiram Zigler, Coordinator for Local Affairs and Natural Resources, represented the Farm Bureau organizations in Virginia

Mr. Cecil Jones, spoke for civilian and federal retirees

The following individuals sent written statements to the commission:

Mr. Rae A. Edmonson, retired fireman from the city of Alexandria

Mr. Pat H. Butler, taxpayer from Northern Virginia

Mr. Alex T. Langston, army reserve retiree

Respectfully submitted,

Leroy S. Bendheim, *Chairman*

Lester E. Schlitz, *Vice-Chairman*

George S. Aldhizer, II

Sam T. Barfield

Adelard L. Brault

Robert E. Gibson

Harmon H. Haymes

Willard L. Lemmon

J. Harry Michael, Jr.

Wiley F. Mitchell*

Herbert N. Morgan

Winfred Mundle

Raymond Munsch

* For the supplemental statement of Wiley F. Mitchell concerning the report of the Revenue Resources and Economic Study Commission, see page 36.

SUPPLEMENTAL STATEMENT OF WILEY F. MITCHELL, JR.

January 12, 1974

I am in general accord with the report of the Commission and have no hesitancy in signing it. However, there are three specific areas in which I am not in total agreement with the report and with respect to which I think supplemental comments are appropriate. These areas relate to the fiscal outlook for local governments, the Commission's decision to study further the distribution of revenues generated by the bank stock tax, and the Commission's conclusion concerning tax relief for elderly homeowners. For purposes of clarity, each of these areas will be treated separately.

Fiscal Outlook for Local Governments

The Commission report forecasts that revenue resources available to local governments in Virginia will generate substantial and steadily rising surpluses in each of the fiscal years from 1973-74 through 1979-80. However, as the report itself notes, the projections encompass *all* local governments and reflect *average* trends. Based on many years of experience in local government, I seriously question the accuracy of these projections and I am confident that they do not accurately reflect the fiscal plight of central cities. The cost of public education is much higher in urban areas than in the remainder of the state and the proportion of the cost of public education which is borne by the state is normally much smaller in central cities than in other portions of the state. This factor is compounded in Northern Virginia by the substantial and ever increasing costs of funding public transportation. For example, all local bus lines in the Northern Virginia area were recently acquired by the Washington Metropolitan Area Transit Authority. The operation of these busses has generated a deficit for fiscal 73-74 of more than \$15,000,000, of which Northern Virginia's share is more than \$4,000,000. The projected deficit for fiscal 74-75 is some \$34,000,000. The City of Alexandria, to use one jurisdiction as an example, will see its share of the bus operating deficit rise from zero in 72-73 to approximately \$1,000,000 in 73-74 and to well over \$2,000,000 in fiscal 74-75.

In short, it appears to me to be beyond dispute that the fiscal plight of at least some of the local governments in the State of Virginia is severe, and that the General Assembly can ill-afford to use "average" projections as the basis of its decisions on local government financing.

Distribution of Bank Stock Tax

Under present law, cities may receive up to 40% of the revenues generated by the bank stock tax. Counties and incorporated towns may receive up to 80%. If there is any reason whatever for this obvious discrepancy, it has not been made available to the Commission. I think the distinction should be eliminated, and that both cities and counties should receive equal treatment with regard to the distribution of bank stock tax revenues. To the extent that the Commission recommends further study of this issue, I disagree with its recommendation.

Tax Relief for Elderly Homeowners

I am in complete agreement with the Commission's preliminary recommendation that any system of property tax relief for the elderly should be financed by the state government. However, it is my firm opinion that the program should be broadened so as to include not only elderly homeowners, but also elderly renters.

APPENDICES

APPENDIX A

A BILL to amend the Code of Virginia by adding in Title 9 a chapter numbered 23, consisting of sections numbered 9-146 through 9-148, establishing the Revenue Resources and Economic Commission; appropriation of funds.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 9 a chapter numbered 23, consisting of sections numbered 9-146 through 9-148, as follows:

§ 9-146. Commission created; duties. — There is hereby established as a permanent agency of the Commonwealth, the Revenue Resources and Economic Commission, hereafter referred to in this chapter as "Commission". The Commission shall study and evaluate the Commonwealth's tax structure with emphasis on the equities of that structure as it affects the taxpayers. It shall also evaluate the sources of revenue of the local governments, the problems facing cities and urban areas relative to finance, the proper division of sources of revenue between State and local governments and the proper division of responsibility of services. It shall study the overall tax structure of the Commonwealth in relation to the magnitude and distribution of the wealth of its people and their need for public services and the ways and means best designed to adjust State and local taxation to facilitate a more adequate and equitable financing of local public services and to encourage and achieve desired land use goals and shall appraise the current status of the real property tax in the State.

§ 9-147. Appointment, terms, compensation, etc. of members. — The Commission shall consist of fifteen members, of whom four shall be appointed by the Committee on Privileges and Elections of the Senate from the membership of the Senate, four shall be appointed by the Speaker of the House of Delegates from the membership thereof and seven shall be appointed from the State at large by the Governor and confirmed by the General Assembly. The members appointed to the Commission under Senate Joint Resolution No. 15 of nineteen hundred sixty-eight and continued by Senate Joint Resolution No. 17 of nineteen hundred seventy and Senate Joint Resolution No. 8 of nineteen hundred seventy-two shall be appointed to serve on the Commission as practicable. The terms of office of the legislative members shall be coincident with their service in the house from which appointed; the appointees of the Governor shall serve for terms of four years and their successors shall be appointed for like term but vacancies occurring other than by expiration of term shall be filled for the unexpired term. Any member may be reappointed for successive terms. The members of the Commission shall elect its own chairman annually. All members shall receive as compensation for their services such per diem as is provided in § 14.1-18 of the Code of Virginia for legislative members and shall be paid their necessary expenses incurred in the performance of their duties.

§ 9-148. Cooperation of other agencies; staff; reports to Governor and General Assembly. — All agencies of the State shall assist the Commission upon request and shall furnish such staff and consultant services as may be required and to this end may expend their appropriations for such purpose. The Commission may employ such staff, professional assistance and consultant services as it deems necessary for the discharge of its functions.

The Commission shall annually make a report containing its findings and recommendations to the Governor and the General Assembly prior to the convening of each session of the General Assembly.

2. That in order to carry out the purposes of this act there is hereby appropriated from the general fund of the State treasury the sum of fifty thousand dollars for the fiscal year commencing July one, nineteen hundred seventy-four and ending June thirty, nineteen hundred seventy-five.

A B I L L

To amend and reenact § 58-151.013, of the Code of Virginia, relating to Virginia taxable income.

Be it enacted by the General Assembly of Virginia:

1. That § 58-151.013, of the Code of Virginia is amended and reenacted as follows:

§ 58-151.013. **Virginia taxable income.** — (a) *General.* — The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, with the modifications specified in this section.

(b) *Additions.* — To the extent excluded from federal adjusted gross income, there shall be added:

(1) Interest, less related expenses to the extent not deducted in determining federal taxable income, on obligations of any state other than this State, or of a political subdivision of any such other state unless created by compact or agreement to which this State is a party; and

(2) Interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes.

(c) *Subtractions.* — To the extent included in federal adjusted gross income, there shall be subtracted:

(1) Interest or dividends on obligations of the United States (other than on refunds of federal taxes) and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States; and

(2) Interest on obligations of this State or of any political subdivision or instrumentality of this State.

(3) The following items of pension or retirement income and benefits:

(A) Pensions or retirement income to officers and employees of this State, its subdivisions and agencies exempt from State income taxation under the laws of this State, and pensions or retirement income to officers and employees who are retired under the provisions of chapter 2 of Title 51;

(B) Pensions received from the United States or this State on account of military or naval service in armed forces, whether such service was rendered by the recipient of the pension, or by a relative by blood or marriage;

(C) The first two thousand dollars of retirement benefits derived in each taxable year by a retiree and the first one thousand dollars by the surviving spouse of such retiree from civilian service for the federal government or any agency thereof;

(D) The first two thousand dollars of retirement benefits derived from service as a member of the armed forces of the United States and the first one thousand dollars by the surviving spouse of such member received by taxpayers who have attained the age of sixty before the close of their taxable year; and

(E) That portion of the first two thousand dollars of retirement benefits derived from any source, other than those mentioned in (C) and (D) above, by taxpayers who have attained the age of sixty-five before the close of the taxable year which exceeds the total Social Security retirement benefits received by them during the taxable year.

(4) Dividends to the extent includible in gross income for federal income tax purposes and in excess of any dividend exclusion provided in the laws of the United States relating to federal income taxes, upon stock in:

(A) National banks and banks and trust companies organized under the laws of this State;

~~(B) Any corporation, fifty percent or more of the income of which was assessable for the preceding year under the provisions of the income tax laws of this State.~~

(5) The amount of any refund or credit for overpayment of income taxes imposed by this State or any other taxing jurisdiction.

(d) *Deductions.* — There shall be deducted:

(1) The amount allowable for itemized deductions for federal income tax purposes where the taxpayer has elected for the taxable year to itemize deductions on his federal return, but reduced by the amount of income taxes imposed by this State or any other taxing jurisdiction and deducted on such federal return; or

(2) The amount allowable as the standard deduction or low income allowance for federal income tax purposes where the taxpayer has elected for the taxable year to take such standard deduction or low income allowance on his federal return; and

(3) A deduction in the amount of six hundred dollars for each personal exemption allowable to the taxpayer for federal income tax purposes, and an additional deduction of four hundred dollars for each exemption allowable to the taxpayer under paragraph (c) of § 151 of the Internal Revenue Code.

(e) *Other modifications and adjustments.* — (1) There shall be added to or subtracted from federal adjusted gross income (as the case may be) the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58-151.023.

(2) Where husband and wife have not separately reported and claimed items of income, exemptions and deductions for federal income tax purposes, and have not elected to file a joint Virginia income tax return, such items allowable for Virginia income tax purposes shall be allocated and adjusted as follows:

(A) Income shall be allocated to the spouse who earned the income or with respect to whose property the income is attributable.

(B) Allowable deductions with respect to trade, business, production of income, or employment shall be allocated to the spouse to whom attributable.

(C) Nonbusiness deductions, where properly taken for federal income tax purposes, shall be allowable for Virginia income tax purposes, but shall be allocable between husband and wife as they may mutually agree. For this purpose, "nonbusiness deductions" consist of allowable deductions not described in subparagraph (B) above.

(D) Where the standard deduction or low income allowance is properly taken for federal income tax purposes such deduction or allowance shall be allowable for Virginia income tax purposes and shall be allocable between husband and wife as they may mutually agree.

(E) Personal exemptions properly allowable for federal income tax purposes shall be allocated for Virginia income tax purposes as husband and wife may mutually agree; provided, however, that exemptions for taxpayer and spouse together with exemptions for old age and blindness must be allocated respectively to the spouse to which they relate.

(3) Where allocations are permitted to be made under subparagraph (2) above pursuant to agreement between husband and wife, and husband and wife have failed to agree as to such allocations, such allocations shall be made between husband and wife in a manner corresponding to the treatment for federal income tax purposes of the items involved, under regulations prescribed by the Department of Taxation.

(f) *Nonresidents.* — (1) Nonresident individuals, partners and beneficiaries. — The Virginia taxable income of a nonresident individual, partner or beneficiary shall be an amount bearing the same proportion to his Virginia taxable income, computed as though he were a resident, as the net amount of his income, gain, loss and deductions from Virginia sources bears to the net amount of his income, gain, loss and deductions from all sources.

(2) Certain nonresident shareholders. — For a nonresident individual who is a shareholder in an electing small business corporation, there shall be included in his Virginia taxable income his share of the taxable income of such corporation, and his share of any net operating loss of such corporation shall be deductible from his Virginia taxable income.

(g) *Transitional modifications.* — There shall be added or subtracted, as the case may be, the amounts provided in § 58-151.0111 as transitional modifications.

(h) *Partner's modifications.* — Virginia taxable income shall, as to partners, be adjusted to reflect the modifications provided in § 58-151.014.

2. That the provisions of this Act shall be effective for the taxable years beginning on and after January one, nineteen hundred seventy-four.

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A BILL to amend and reenact § 58-151.013, as amended, of the Code of Virginia, relating to Virginia taxable income.

Be it enacted by the General Assembly of Virginia:

1. That § 58-151.013, as amended, of the Code of Virginia is amended and reenacted as follows:

§ 58-151.013. Virginia taxable income. — (a) General. — The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, with the modifications specified in this section.

(b) Additions. — To the extent excluded from federal adjusted gross income, there shall be added:

(1) Interest, less related expenses to the extent not deducted in determining federal taxable income, on obligations of any state other than this State, or of a political subdivision of any such other state unless created by compact or agreement to which this State is a party; and

(2) Interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes.

(c) Subtractions. — To the extent included in federal adjusted gross income, there shall be subtracted:

(1) Interest or dividends on obligations of the United States (other than on refunds of federal taxes) and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States; and

(2) Interest on obligations of this State or of any political subdivision or instrumentality of this State.

(3) The following items of pension or retirement income and benefits:

(A) Pensions or retirement income to officers and employees of this State, its subdivisions and agencies exempt from State income taxation under the laws of this State, and pensions or retirement income to officers and employees who are retired under the provisions of chapter 2 of Title 51;

(B) Pensions received from the United States or this State on account of military or naval service in armed forces, whether such service was rendered by the recipient of the pension, or by a relative by blood or marriage; *and*

~~(C) The first two thousand dollars of retirement benefits derived in each taxable year by a retiree and the first one thousand dollars by the surviving spouse of such retiree from civilian service for the federal government or any agency thereof;~~

~~(D) The first two thousand dollars of retirement benefits derived from service as a member of the armed forces of the United States and the first one thousand dollars by the surviving spouse of such member received by taxpayers who have attained the age of sixty before the close of their taxable year; and~~

~~(E) That portion of the first two thousand dollars of retirement benefits derived from any source, other than those mentioned in (C) and (D) above, by taxpayers who have attained the age of sixty five before the close of the taxable year which exceeds the total Social Security retirement benefits received by them during the taxable year.~~

(F) The first two thousand dollars of retirement benefits derived in each taxable year by a retiree and the first one thousand dollars received by the surviving spouse of such retiree from civilian service for the federal government or any agency thereof, from the armed forces of the United States or from private industry having a retirement plan meeting the qualification requirements of § 401 of the Internal Revenue Code of 1954; provided, however, that such two thousand dollar subtraction for the retiree or one thousand dollar subtraction for the surviving spouse shall be reduced by any adjusted gross income exceeding twelve thousand dollars, exclusive of any Social Security retirement benefits, received by such retiree or spouse during the taxable year.

(4) Dividends to the extent includible in gross income for federal income tax purposes and in excess of any dividend exclusion provided in the laws of the United States relating to federal income taxes, upon stock in:

(A) National banks and banks and trust companies organized under the laws of this State;

(B) Any corporation, fifty percent or more of the income of which was assessable for the preceding year under the provisions of the income tax laws of this State.

(5) The amount of any refund or credit for overpayment of income taxes imposed by this State or any other taxing jurisdiction.

(d) Deductions. — There shall be deducted:

(1) The amount allowable for itemized deductions for federal income tax purposes where the taxpayer has elected for the taxable year to itemize deductions on his federal return, but reduced by the amount of income taxes imposed by this State or any other taxing jurisdiction and deducted on such federal return; or

(2) The amount allowable as the standard deduction or low income allowance for federal income tax purposes where the taxpayer has elected for the taxable year to take such standard deduction or low income allowance on his federal return; and

(3) A deduction in the amount of six hundred dollars for each personal exemption allowable to the taxpayer for federal income tax purposes, and an additional deduction of four hundred dollars for each exemption allowable to the taxpayer under paragraph (c) of § 151 of the Internal Revenue Code.

(e) Other modifications and adjustments. — (1) There shall be added to or subtracted from federal adjusted gross income (as the case may be) the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58-151.023.

(2) Where husband and wife have not separately reported and claimed items of income, exemptions and deductions for federal income tax purposes, and have not elected to file a joint Virginia income tax return, such items allowable for Virginia income tax purposes shall be allocated and adjusted as follows:

(A) Income shall be allocated to the spouse who earned the income or with respect to whose property the income is attributable.

(B) Allowable deductions with respect to trade, business, production of income, or employment shall be allocated to the spouse to whom attributable.

(C) Nonbusiness deductions, where properly taken for federal income tax purposes, shall be allowable for Virginia income tax purposes, but shall be allocable between husband and wife as they may mutually agree. For this

purpose, "nonbusiness deductions" consist of allowable deductions not described in subparagraph (B) above.

(D) Where the standard deduction or low income allowance is properly taken for federal income tax purposes such deduction or allowance shall be allowable for Virginia income tax purposes and shall be allocable between husband and wife as they may mutually agree.

(E) Personal exemptions properly allowable for federal income tax purposes shall be allocated for Virginia income tax purposes as husband and wife may mutually agree; provided, however, that exemptions for taxpayer and spouse together with exemptions for old age and blindness must be allocated respectively to the spouse to which they relate.

(3) Where allocations are permitted to be made under subparagraph (2) above pursuant to agreement between husband and wife, and husband and wife have failed to agree as to such allocations, such allocations shall be made between husband and wife in a manner corresponding to the treatment for federal income tax purposes of the items involved, under regulations prescribed by the Department of Taxation.

(f) Nonresidents. (1) Nonresident individuals, partners and beneficiaries. — The Virginia taxable income of a nonresident individual, partner or beneficiary shall be an amount bearing the same proportion to his Virginia taxable income, computed as though he were a resident, as the net amount of his income, gain, loss and deductions from Virginia sources bears to the net amount of his income, gain, loss and deductions from all sources.

(2) Certain nonresident shareholders. — For a nonresident individual who is a shareholder in an electing small business corporation, there shall be included in his Virginia taxable income his share of the taxable income of such corporation, and his share of any net operating loss of such corporation shall be deductible from his Virginia taxable income.

(g) Transitional modifications. — There shall be added or subtracted, as the case may be, the amounts provided in § 58-151.0111 as transitional modifications.

(h) Partner's modifications. — Virginia taxable income shall, as to partners, be adjusted to reflect the modifications provided in § 58-151.014.

2. That the provisions of this act shall be effective for the tax year nineteen hundred seventy-four and subsequent years.

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A BILL to amend and reenact §§ 58-153, 58-166, 58-167 and 58-219, as severally amended, of the Code of Virginia, relating to classification of beneficiaries; exemptions and rates of inheritance and gift tax; and reports by personal representatives and beneficiaries.

Be it enacted by the General Assembly of Virginia:

1. That §§ 58-153, 58-166, 58-167 and 58-219, as severally amended, of the Code of Virginia are amended and reenacted as follows:

§ 58-153. Classification of beneficiaries; exemptions and rates of tax. — For the purposes of this chapter, the classification of beneficiaries, their exemptions and the rates of taxation shall be as follows:

Class A. The father, mother, grandfathers, grandmothers, husband, wife, children by blood or by legal adoption, stepchildren, grandchildren and all other lineal ancestors and lineal descendants of the decedent shall constitute Class A.

So much of such property as has the actual value of ~~five ten~~ thousand dollars and so passes to or for the use of any Class A beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class A beneficiary shall be subject: To a tax of one per centum of the actual value of so much thereof as is in excess of ~~five ten~~ thousand dollars and is not in excess of ~~fifty twenty-five~~ thousand dollars; to a tax of two per centum upon so much thereof as is in excess of ~~fifty twenty-five~~ thousand dollars and is not in excess of ~~one hundred fifty~~ thousand dollars; to a tax of three per centum upon so much thereof as is in excess of ~~one hundred fifty~~ thousand dollars and is not in excess of ~~five one~~ hundred thousand dollars; to a tax of four per centum upon so much thereof as is in excess of ~~five one~~ hundred thousand dollars and is not in excess of ~~one million two hundred thousand~~ dollars; ~~and to a tax of five per centum upon all in excess of one million dollars~~ so much thereof as is in excess of ~~two hundred thousand~~ dollars and is not in excess of ~~five hundred thousand~~ dollars; to a tax of six per centum upon so much thereof as is in excess of ~~five hundred thousand~~ dollars and is not in excess of ~~one million~~ dollars; to a tax of seven per centum upon so much thereof as is in excess of ~~one million~~ dollars and is not in excess of ~~two million~~ dollars; and to a tax of eight per centum upon all in excess of ~~two million~~ dollars.

Class B. The brothers, sisters, nephews and nieces of the whole or half blood of the decedent shall constitute Class B.

So much of such property as has the actual value of ~~two four~~ thousand dollars and so passes to or for the use of any Class B beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class B beneficiary shall be subject to a tax of two per centum of the actual value of so much thereof as is in excess of ~~two four~~ thousand dollars and is not in excess of twenty-five thousand dollars; to a tax of four per centum upon so much thereof as is in excess of twenty-five thousand dollars and is not in excess of fifty thousand dollars; to a tax of six per centum upon so much thereof as is in excess of fifty thousand dollars and is not in excess of one hundred thousand dollars; to a tax of eight per centum upon so much thereof as is in excess of one hundred thousand dollars and is not in excess of ~~five two~~ hundred thousand dollars; ~~and to a tax of ten per centum upon all in excess of five hundred thousand dollars~~ so much thereof as is in excess of ~~two hundred thousand~~ dollars and is not in excess of ~~five hundred thousand~~ dollars; to a tax of twelve per centum upon so much thereof as is in excess of ~~five hundred thousand~~ dollars and is not in excess of ~~one million~~ dollars; to a tax of fourteen per centum upon so much thereof as in excess of ~~one million~~ dollars and is not in

excess of two million dollars; to a tax of sixteen per centum upon all in excess of two million dollars.

Class C. Grandnephews and grandnieces of the decedent and all persons other than members of Classes A and B and all firms, institutions, associations and corporations shall constitute Class C.

So much of such property as has the actual value of ~~one~~ two thousand dollars and so passes to or for the use of any Class C beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class C beneficiary shall be subject to a tax of five per centum of the actual value of so much thereof as is in excess of ~~one~~ two thousand dollars and is not in excess of twenty-five thousand dollars; to a tax of seven per centum upon so much thereof as is in excess of twenty-five thousand dollars and is not in excess of fifty thousand dollars; to a tax of nine per centum upon so much thereof as is in excess of fifty thousand dollars and is not in excess of one hundred thousand dollars; to a tax of ~~twelve~~ eleven per centum upon so much thereof as is in excess of one hundred thousand dollars and is not in excess of ~~five~~ two hundred thousand dollars; ~~and to a tax of fifteen~~ thirteen per centum upon ~~all in excess of five hundred thousand dollars so much thereof as is in excess of two hundred thousand dollars and is not in excess of five hundred thousand dollars; to a tax of fifteen per centum upon so much thereof as is in excess of five hundred thousand dollars and is not in excess of one million dollars; to a tax of seventeen per centum upon so much thereof as is in excess of one million dollars and is not in excess of two million dollars; and to a tax of nineteen per centum upon all in excess of two million dollars.~~

In the computation of the property passing to a beneficiary there shall be excluded from such computation the value of any annuity or survivors benefit payable under the Railroad Retirement Act of 1937 (45 U.S.C.A. § 228a et seq.) to such beneficiary, or the value of any annuity payable to such beneficiary under § 2259 (g) of chapter 30, Title 5 of the United States Code, as now or hereafter amended.

Where a parcel of real property is owned by husband and wife as tenants by the entireties or joint tenants, with the right of survivorship, and such parcel is a single-family residential property occupied by such husband and wife as their home place at the time of the decedent's death, one half of the full value of such property shall be included in the surviving tenant's share, unless a lesser portion of the full value is found to be so includible in such share under clause (5) of § 58-152, as amended; but the amount of any deed of trust or other lien outstanding upon such property at the time of the decedent's death shall be first deducted from the full value of such property prior to the computation of such one half, or such lesser portion, as the case may be, and the amount of any such deed of trust or other lien shall not be otherwise deductible. The term "single-family residential property," as herein used, means the dwelling house, limited in design to the accommodation of a single family, and the land it actually occupies, together with only such additional adjacent land as may be necessary for the convenient use of the dwelling house as a dwelling house.

In the computation of the property passing to a beneficiary designated by the deceased there shall be excluded from such computation the value of any pension, annuity, retirement allowance, benefit or payment receivable by any beneficiary, other than the estate of the decedent, designated by the decedent, or designated in accordance with the terms of the plan or contract, under any plan or contract established by decedent's employer, the payment of which qualifies for exemption from federal estate tax under section 2039(c) of the Internal Revenue Code of 1954, as amended. This exemption shall apply regardless of whether or not there is a requirement for filing a federal estate tax return.

§ 58-166. Reports by personal representatives. — The personal representative of every decedent whose gross estate is in excess of ~~one~~ *four* thousand dollars shall, within nine months after the death of the decedent, report to the Department of Taxation, on forms provided for that purpose, an itemized schedule of all the property, real, personal and mixed, of the decedent; the actual value thereof at the time provided in § 58-155; the name or names of the persons to receive the same and the actual value of the property that each will receive; the relationship of such persons to the decedent; the age of any persons who receive a life interest in the property; and any other information which the Department may require.

Every personal representative required to file a return for federal estate tax under § 6018 of the Internal Revenue Code shall report to the Department the results of the final audit of such return within ninety days of receipt of notice of same.

§ 58-167. Reports of estates on which no qualification is had. — Every beneficiary of an estate of over ~~one~~ *two* thousand dollars gross value on which no qualification is had shall, within nine months after the death of the decedent, report to the Department of Taxation, on forms provided for that purpose, an itemized schedule of all property, real, personal and mixed, received or to be received by such beneficiary, the actual value of the same at the time provided in § 58-155, the relationship of such beneficiary to the decedent and any other information which the Department may require.

§ 58-219. Classification of beneficiaries; exemptions and rates of tax. — For the purposes of this chapter, the classification of beneficiaries, their exemptions and the rates of taxation shall be as follows:

Class A. The father, mother, grandfathers, grandmothers, husband, wife, children by blood or by legal adoption, stepchildren, grandchildren and all other lineal ancestors and lineal descendants of the donor shall constitute Class

So much of such property as has the actual value of ~~five~~ *ten* thousand dollars and so passes to or for the use of any Class A beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class A beneficiary shall be subject to a tax of one per centum of the actual value of so much thereof as is in excess of ~~five~~ *ten* thousand dollars and is not in excess of ~~fifty~~ *twenty-five* thousand dollars; to a tax of two per centum upon so much thereof as is in excess of ~~fifty~~ *twenty-five* thousand dollars and is not in excess of ~~one hundred~~ *fifty* thousand dollars; to a tax of three per centum upon so much thereof as is in excess of ~~one hundred~~ *fifty* thousand dollars and is not in excess of ~~five~~ *one* hundred thousand dollars; to a tax of four per centum upon so much thereof as is in excess of ~~five~~ *one* hundred thousand dollars and is not in excess of ~~one million~~ *two hundred thousand* dollars; ~~and~~ to a tax of five per centum upon ~~all in excess of one million dollars~~ *so much thereof as is in excess of two hundred thousand dollars and is not in excess of five hundred thousand dollars; to a tax of six per centum upon so much thereof as is in excess of five hundred thousand dollars and is not in excess of one million dollars; to a tax of seven per centum upon so much thereof as is in excess of one million dollars and is not in excess of two million dollars; and to a tax of eight per centum upon all in excess of two million dollars.*

Class B. The brothers, sisters, nephews and nieces of the whole or half blood of the donor shall constitute Class B.

So much of such property as has the actual value of ~~two~~ *four* thousand dollars and so passes to or for the use of any Class B beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class B beneficiary shall be subject to a tax of two per centum of the actual value of so much thereof as is in excess of ~~two~~ *four* thousand dollars and is not in excess of twenty-five thousand dollars; to a tax of four per centum upon so much thereof as is in excess of twenty-five thousand dollars and is not in excess of fifty thousand dollars; to a tax of six per centum upon so much thereof as is in excess of fifty thousand dollars and is not in excess of one hundred thousand dollars; to a tax of eight per centum upon so much thereof as is in excess of one hundred thousand dollars and is not in excess of ~~five~~ *two* hundred thousand dollars; ~~and to a tax of ten per centum upon all in excess of five hundred thousand dollars~~ *so much thereof as is in excess of two hundred thousand dollars and is not in excess of five hundred thousand dollars; to a tax of twelve per centum upon so much thereof as is in excess of five hundred thousand dollars and is not in excess of one million dollars; to a tax of fourteen per centum upon so much thereof as is in excess of one million dollars and is not in excess of two million dollars; and to a tax of sixteen per centum upon all in excess of two million dollars.*

Class C. Grandnephews and grandnieces of the donor and all persons other than members of Classes A and B and all firms, institutions, associations and corporations shall constitute Class C.

So much of such property as has the actual value of ~~one~~ *two* thousand dollars and so passes to or for the use of any Class C beneficiary shall be exempt from taxation hereunder.

So much of such property as shall so pass to or for the use of a Class C beneficiary shall be subject to a tax of five per centum of the actual value of so much thereof as is in excess of ~~one~~ *two* thousand dollars and is not in excess of twenty-five thousand dollars; to a tax of seven per centum upon so much thereof as is in excess of twenty-five thousand dollars and is not in excess of fifty thousand dollars; to a tax of nine per centum upon so much thereof as is in excess of fifty thousand dollars and is not in excess of one hundred thousand dollars; to a tax of ~~twelve~~ *eleven* per centum upon so much thereof as is in excess of one hundred thousand dollars and is not in excess of ~~five~~ *two* hundred thousand dollars; ~~and to a tax of fifteen~~ *thirteen* per centum upon ~~all in excess of five hundred thousand dollars~~ *so much thereof as is in excess of two hundred thousand dollars and is not in excess of five hundred thousand dollars; to a tax of fifteen per centum upon so much thereof as is in excess of five hundred thousand dollars and is not in excess of one million dollars; to a tax of seventeen per centum upon so much thereof as is in excess of one million dollars and is not in excess of two million dollars; and to a tax of nineteen per centum upon all in excess of two hundred million dollars.*

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A B I L L

To amend the Code of Virginia by adding a section numbered 58-219.1 relating to the gift tax.

Be it enacted by the General Assembly of

Virginia:

1. That the Code of Virginia be amended by adding a section numbered 58-219.1 as follows:

§ 58-219.1. Lifetime exemption. — In computing taxable gifts for a calendar year, there shall be allowed as a deduction in the case of a resident an exemption of thirty thousand dollars, less the aggregate of the amounts claimed and allowed as a specific exemption in the computation of gift taxes, pursuant to the provisions of § 58-219, for the calendar year nineteen hundred seventy-four and all calendar years intervening between that calendar year and the calendar year for which the tax is being computed.

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A BILL

To amend the Code of Virginia by adding sections numbered 58-626.2 through 58-626.6 and to repeal sections 58-618 through 58-626.1, as severally amended, of the Code of Virginia, the added and repealed sections relating to rolling stock of motor vehicle carriers.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding sections numbered 58-626.2 through 58-626.6 as follows:

Article 11.1

Personal Property Taxation of Motor Vehicle Carriers and Trailers

§ 58-626.2. Definitions. — The following words and phrases when used in this article shall, for the purpose of this title have the meanings respectively ascribed to them in this section except in those instances where the context clearly indicates a different meaning:

(a) “Commissioner.” — The Commissioner of the Division of Motor Vehicles.

(b) “Cost.” — Price paid at the time of purchase including any assessorly or option attached to the motor vehicle carrier or trailer by the manufacturer, dealer, prior purchaser or owner thereof subsequent to purchase and excluding any sum charged for titling by the State or preparation by the dealer.

(c) “Fair Market Value.” — The value of a motor vehicle carrier or trailer after a determination of depreciation, computed by multiplying the “cost” with the “per centum of cost for determination of fair market value” pursuant to the provisions of § 58-626.4.

(d) “Motor Vehicle Carrier.” — Every motor vehicle designed for the transportation of property except a pick-up or panel truck not used or operated for hire.

(e) “Pick-up or panel truck.” — Shall be defined pursuant to the provisions of § 46.1-1(20a).

(f) “Pick-up or panel truck not used or operated for hire.” — A pick-up or panel truck used or operated by the owner thereof for the transportation of property for which no direct compensation will be received.

(g) “Situs.” — Domiciliary for purposes of taxation pursuant to the provisions of § 58-834.

(h) “Trailer.” — Every vehicle without motive power having a gross weight greater than one thousand five hundred pounds, designed for carrying property or passengers wholly on its own structure and for being drawn by a motor vehicle.

§ 58-626.3. Exclusions. — The provisions of this article shall not apply to a pick-up or panel truck not used or operated for hire and trailers having a gross weight less than one thousand five hundred pounds. Such vehicles shall be assessed by the commissioner of revenue in the manner prescribed by law for tangible personal property.

§ 58-626.4. Depreciation schedule for motor vehicle carriers and trailers. — The following rates of depreciation shall be applied by the Commissioner to

the cost of a motor vehicle carrier or trailer to determine the fair market value of such carrier or trailer for assessment purposes.

<i>Number of Years Motor Vehicle Carrier or Trailer has been Registered by Taxpayer</i>	<i>Per centum of Cost for Determination of Fair Market Value</i>
1 year	70%
2 years	60%
3 years	50%
4 years	40%
5 years	30%
6 years	20%

Any motor vehicle carrier or trailer six years of age or older shall be assessed at the rate of twenty percentum of the cost.

§ 58-626.5. Duties of the Commissioner; assessment of motor vehicle carriers and trailers. — The Commissioner shall, before issuance of any registration or certificate of title for any motor vehicle carrier or trailer, except a pick-up or panel truck not used or operated for hire, obtain the cost of such motor vehicle carrier or trailer and its situs. The Commissioner shall determine the fair market value of such motor vehicle carrier or trailer pursuant to the provisions of § 58-626.2(c) and transmit such value to the commissioner of the revenue of the respective locality of such carrier's or trailer's situs.

Upon receiving such fair market value from the Commissioner, the commissioner of revenue shall determine the amount of tax due thereon by using the appropriate tax rate of his respective county or city and shall notify the owners of such carrier or trailer of the amount of such tax. Revenues received by the commissioner of revenue from the taxation of motor vehicle carriers or trailers shall be deposited in the treasury of his respective county or city.

§ 58-626.6. Procedure for judicial review. — Any person aggrieved by the assessment under the provisions of this article shall be entitled to review thereof in the manner prescribed by law for local levies (§§ 58-1141 et seq.).

2. That §§ 58-618 through 58-626.1, as severally amended, of the Code of Virginia is repealed.

3. That the provisions of this Act shall be effective on and after January one, nineteen hundred seventy-six.

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APPENDIX B

AN ANALYSIS OF THE ADMINISTRATIVE PROBLEMS OF EXEMPTING FOOD PRODUCTS FROM THE SALES TAX BASE

Most of the debate on the issue of exempting food and nonprescription drugs has dealt with questions of equity, revenue losses, and the burden of the tax. This paper will, however, concern itself with the administration of such an exemption. Although the administrative side of taxation does not concern most people, it is an important consideration for policy-makers and the officials of the Department of Taxation who administer the state's taxes. Most economists agree that one of the characteristics of an efficient tax is efficient administration. More technically an efficient tax is defined as one that is able to capture a high proportion of potential revenues while at the same time requiring only a small proportion of collected revenues for its administration.

To examine the administrative problems that might possibly be associated with exempting food products from the sales tax base, we shall rely on a review of the literature and a survey of the experience of the District of Columbia, Indiana, Kentucky, Louisiana, North Dakota, and Vermont, all of which recently exempted food from the sales tax base.

At the present time there is little agreement about the burden or ease of administering the exemption. Opponents of exemption argue that it would create an administrative nightmare. Those who favor exemption argue that it can be easily handled. The true administrative burden of the tax is surely somewhere between these two positions.

John Due, a widely acclaimed expert on the sales tax, points out in his book, *Sales Taxation*, the administrative problems that would likely result from an exemption policy. In summary, the major ones appear to be defining food and nonfood products, distinguishing between food and taxable nonfood products at the checkout counter, increase in administrative costs to both the Department of Taxation and the stores because more detailed records would have to be kept, requiring different procedures for the reporting of taxable and nontaxable sales, and the problems of smaller stores keeping accurate records.

The administrative problems encountered by the six states in our survey were essentially the same as those discussed by John Due. The general consensus of the six states, though, is that the sales tax with an exemption of food and nonprescription drugs is an administratively feasible tax. Most of the six indicated that the transition from the broad based sales tax to a tax with this exemption proceeded smoothly. In most cases the states felt that their taxation departments would experience problems of major proportions in implementing and administering the exemption, but in fact, the resulting problems were minor. One parenthetical comment concerns the growing number of states exempting food products. If the problems of exemption were as large as some believe, there would almost certainly be a number of states discontinuing their exemption of food products. There has been no trend in that direction.

The main problems that arose in the majority of the states concerned the distinction between nontaxable food products and all other taxable products at the checkout counter, the reporting of nontaxable and taxable components of total sales, especially by smaller stores with smaller facilities, the failure of smaller stores to complete the information required on the monthly sales and use tax return, and the treatment of quick service type restaurants.

The first problem cannot be solved but can only be minimized, for it is almost impossible to compile an all inclusive list by brand name of all taxable and nontaxable items sold by grocery stores. There are many products in the so-

called grey area of being either food or nonfood products. Most states have attempted to minimize the problem by providing stores a detailed list informing the store's management and cashiers of the differentiation. Our survey shows that the grey areas involve products such as soft drinks, fruit punches, and candy. There is no easy solution to the dilemma. Administrators must make some arbitrary decisions in defining food products. The decisions are made easier because most states have adopted the practice of modeling programs after other states. Thus, the list of nontaxable food products among the states is remarkably similar. To provide the reader with an idea of the components of taxable and nontaxable products, a sample list is provided in the appendix.

The second major problem area concerns the actual reporting of the sales figures, the accuracy of these figures and the proper completion of necessary records. In order to make certain that the correct amount of tax is paid, most states require that stores report their total sales in its component parts, taxable and nontaxable. Problems arise because some smaller stores appear to have difficulty in correctly complying with this procedure. Larger stores have little difficulty in complying because sales are differentiated at the cash register using nontaxable and taxable keys on the cash register. This problem appears to stem from a lack of experience by smaller stores and an apparent misunderstanding of what is required from them. The experience of the states that have exempted food products indicates that most of the problems that appear to arise can, to a large degree, be overcome by a well thought out planning procedure that anticipates the problems and then corrects them at the source.

The final problem concerns the arbitrary decision that must be made on the treatment of food by quick service restaurants, prepared food sold by grocery stores, etc. Five states in our survey taxed food sold in this manner. The District of Columbia ruled, however, that the rate of tax depends on whether the customer walks out the door or consumes the food on the premises.

Up to this point the administrative problems discussed have been those at the state level. There are, however, costs that must be borne by the stores in the administration of the tax. The largest single expenditure would probably be for converting present cash registers to handle both taxable and nontaxable items. Accurately estimating costs for this modification is difficult because of the wide variety of cash registers in use. Other costs would result from training store personnel in differentiating between taxable and nontaxable products and more detailed accounting.

DIFFERENTIATION OF TAXABLE AND NONTAXABLE PRODUCTS
FOR THE COMMONWEALTH OF KENTUCKY

Nontaxable Items

Baby Foods	Mayonnaise
Bakery Products	Meat & Meat Products
Baking Soda	Milk & Milk Products
Bouillon Cubes	Mustard
Cereal & Cereal Products	Nuts, including salted but not chocolate or candy coated
Chocolate (for cooking purposes only)	
Cocoa	Oleomargarine
Coconut	Olive Oil
Coffee & Coffee Substitutes	Olives
Condiments	Peanut Butter
	Pepper
Cookies	Pickles
Crackers	Popcorn
Dehydrated Fruit & Vegetables	Potato Chips
Diet Food	Powdered Drink Mixes (Pre-sweetened or Natural)
Eggs & Egg Products	Relishes
Extracts, Flavoring as an Ingredient of Food Products	Salad Dressings and Dressing Mixes
Fish & Fish Products	Salt
Flour	Sauces
Food Coloring	Sherbets
Fruit & Fruit Products	Shortenings
Fruit Juices	
Gelatin	Soups
Health Foods	Spices
Honey	Sandwich Spreads
Ice Cream, Toppings and Novelties if sold by Grocery	Sugar, Sugar Products and Sugar Substitute
	Syrups
Jams	Tea
Jellies	Vegetables & Vegetable Products
Ketchup	Vegetable Juices
Lard	Vegetable Oils
Marshmallows	Yeast

Taxable Items

Alcoholic Beverages	Lozenges
Candy & Confectionery	Nonprescription Medicines
Candied Apples	Paper Products
Caramel Coated Popcorn	Pet Foods and Supplies
Chewing Gum	Seed Potatoes for Personal Garden
	Soap & Soap Products
Chocolate Covered Nuts	Soft Drinks, Sodas & Similar Beverages
Cocktail (dry or liquid) Mixes	
Dietary Supplements in any form	Tobacco Products
Garden Seed for Personal Garden	Tomato Plants for Personal Garden
Glazed or Crystallized Fruit unless sold for cooking purposes	Tonics, Vitamins and other Dietary Supplements
Household Supplies (Brooms, Mops, etc.)	Toothpaste
Ice	Water, including mineral, bottled carbonated & soda
Liver Oils, such as Cod and Halibut	

APPENDIX C

STATE PROPERTY TAX RELIEF POLICIES FOR HOMEOWNERS AND RENTERS
 DETAILED PROGRAM FEATURES
 (As of July 1, 1975)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form. of Relief (estimated per capita cost)
Alabama	State (exemption applies to state taxes only)	1971	Homeowners 65 and over (N.A.)	None	The \$2,000 general exemption of assessed value is increased to \$5,000 for homeowners, 65 and over for State ad valorem taxes only.	Reduction in tax bill (N.A.)
Alaska	State	1972 1973 rev.	Homeowners 65 and over (1,000)	None	Total exemption.	No tax liability (\$1.54)
Arizona	State (circuit-breaker)	1973	Homeowners and renters 65 and over	\$3,500 single \$5,000 married (value of property not to exceed \$5,000)	A percentage of tax is given back as a credit, percentage declines as income rises. Only taxes on first \$2,000 of assessed value are considered. (25% of rent = tax equivalent, not to exceed \$225)	State income tax credit or rebate
Arkansas	State (circuit-breaker)	1973	Homeowners 65 and over (90,000)	\$5,000	Relief ranges from maximum of \$400 for income below \$1,500 to \$175 for income to \$5,500 on graduated scale.	State income tax credit or rebate (\$1.39)
California	State (circuit-breaker)	1967 1972 rev.	Homeowners 62 and over (292,999)	\$10,000 net \$20,000 gross	Relief ranges from 96% of tax payment on first \$7,500 of value if net household income is less than \$1,400 to 4% of tax payment if net household income is \$10,000 (in addition to homestead exemption of \$1750).	State rebate only (\$2.93)
	State	1972	All renters (N.A.)	None	Relief ranges from \$25 if adjusted gross income is less than \$5,000 to \$45 on income of \$8,000 and over.	State income tax credit or rebate (N.A.)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Colorado	State (circuit-breaker)	1971 1972 rev.	Homeowners and renters over 65 and over (11,000)	\$2,400 single \$3,700 married (Net worth less than \$20,000)	Relief limited to 50% of the tax payment and cannot exceed \$250. The credit or refund is reduced by 10% of income over \$500 individuals and 10% of income over \$1,800 for husband and wife. (10% or rent=tax equivalent)	State income tax credit or rebate (\$.32)
Connecticut	State (circuit-breaker) [replaces 1965 state-financed program.]	1973	Homeowners and renters 65 & over	\$7,500	Taxes exceeding 5% of income. Maximum refund ranges up to \$500 for incomes below \$3,000. (20% of rent = tax equivalent)	Reduction in tax bill.
Delaware	Localities (mandated)	1965 1967 rev.	Homeowners 65 & over (N.A.)	\$3,000	Exemption of \$5,000 assessed value from State or County property taxes.	Reduction in tax bill (N.A.)
	Localities (optional)	1969 1970 rev.		(Same Provisions As Above, For Municipal Taxes)		
Florida	State	1971	Homeowners 65 & over (362,000)	None	The general homestead exemption of \$5,000 for all homeowners is increased to \$10,000 for homeowners 65 and over for taxes levied by district school boards for current operating purposes.	Reduction in tax bill (\$1.47)
Georgia	Localities (mandated)	1964 1972 rev.	Homeowners 65 & over (100,000)	\$4,000	Exemption of \$4,000 assessed value from State and County property taxes.	Reduction in tax bill (\$1.48)
	Localities (mandated)	1972	Homeowners 62 & over (N.A.)	\$6,000	Exemption of ad valorem taxes for educational purposes levied on behalf of school districts.	Reduction in tax bill (N.A.)
Hawaii	Localities (mandated)	1969 1972 rev.	Homeowners 60 & over (180,000)	None	Exemption of \$16,000 of assessed value for homeowners of age 60 to 69. Exemption of \$20,000 of assessed value for homeowners age 70 or more	Reduction in tax bill (\$4.40)
Idaho	Localities (mandated)	1969 1973 rev.	Homeowners 65 & over (N.A.)	\$4,800 (value of property not to exceed \$15,000)	Elderly homeowners are exempt from property tax up to \$75.	Reduction in tax bill (\$.72)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Illinois	State (circuit-breaker)	1972	Homeowners and renters age 65 and older or disabled (290,000)	\$10,000 Implicit	Relief based on amount by which property tax (or rent constituting property tax) exceeds 6 percent of household income for that year on the amount of such income between zero and \$3,000 plus 7% on that amount in excess of \$3,000. Relief limit is \$500 less 5% of household income. (25% of rent = tax equivalent)	Direct rebate (\$2.58)
	Localities (mandated)	1971	Homeowners 65 & over (N.A.)	None	Maximum reduction of \$1,500 from assessed value.	Reduction in tax bill (N.A.)
Indiana	Localities (mandated)	1957 1971 rev.	Homeowners 65 & over (80,000)	\$6,000 (realty value not in excess of \$6,500)	Exemption of \$1,000 assessed value.	Reduction in tax bill (\$1.59)
	State (circuit-breaker)	1973	Homeowners and renters, 65 and over	\$5,000	Relief ranges from 75% of property tax for incomes below \$500 to 10% for incomes above \$4,000. Limitation on amount of property tax liability considered for relief is \$500. (20% of rent = tax equivalent, [15% if furnished or utilities provided]). [In addition, all homeowners, regardless of age or income, receive a general credit financed by the State.]	
Iowa	State	1967 1971 rev.	Homeowners 65 & over or totally disabled (N.A.)	\$4,000	Deduction from tax bill of \$125 or amount of tax liability whichever is less. [In addition, all homeowners, regardless of age or income, receive a general credit financed by the State.]	Reduction in tax bill (\$2.71)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Kansas	State (circuit-breaker)	1970 1973 rev.	Homeowners 60 & over (N.A.)	\$8,192	Similar to Wisconsin but with different percentages. Limitation on amount of property tax liability considered for relief is \$400.	State rebate (\$2.88)
Kentucky	Localities (mandated)	1971	Homeowners 65 & over (125,000)	None	Exemption of \$6,500 assessed value, except for assessment of special benefits.	Reduction in tax bill (\$3.12)
Louisiana	A general homestead exemption of \$2,000 for all homeowners.					
Maine	State (circuit-breaker)	1971	Homeowners and renters age 65 and older for males, 62 and older for females (16,000)	\$4,000 (in addition net assets must not exceed \$30,000)	Relief equal to 7% of the difference between household income and \$4,000. Limited to the total property tax levied. (20% of rent = tax equivalent) (at least 35% of household income must be attributable to claimant)	State Rebate only (\$1.60)
Maryland	Localities (mandated)	1967 1969 rev.	Homeowners 65 & over (61,000)	\$5,000	Credit of 50% of assessed value or \$4,000, whichever is less, multiplied by the local property tax rate.	Reduction in tax bill (\$1.81)
	Localities (mandated)	1968 1972 rev.	Homeowners 65 & over (Females 62 & over in Cecil Co.)	Varies by County	Relief varies from an increase in the credit provided by the State mandated law to a lessening or modification of conditions of eligibility for such credit.	Reduction in tax bill (\$5.18)
Massachusetts	Localities (mandated)	1963	Homeowners 70 & over (74,000)	\$6,000 single \$7,000 married (Maximum estate: \$40,000 single \$45,000 married)	Exemption of \$4,000 assessed value or the sum of \$350 whichever would result in an abatement of the greater amount of taxes due.	Reduction in tax bill (\$5.18)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Michigan	State (circuit-breaker) [replaces 1965 state-financed program.]	1973	All homeowners and renters	None	Excess taxes are taxes above 3.5% of income [various lower percentages for elderly with incomes below \$6,000]. Credit = 60% of excess taxes [100% for all elderly] Maximum relief is \$500. [17% of rent = property tax equivalent].	State income tax credit or rebate. (\$27.53)
Minnesota	State (circuit-breaker)	1967 1973 rev.	Homeowners and renters 65 & over (95,000)	\$6,000	A percentage of tax is given back as a credit, percentage declines as income increases. Not more than \$800 tax considered. (20% of rent = tax equivalent.) [In addition, all homeowners, regardless of age or income, receive a general credit financed by the State.]	State income tax credit or rebate (\$2.38)
Missouri	State (circuit-breaker)	1973	Homeowners and renters 65 & over	\$7,000	Taxes exceeding various percentages of income is remitted; percentages range from 3% for incomes above \$5,000. Not more than \$400 tax considered for relief. (18% of rent = tax equivalent)	Reduction in tax bill.
Mississippi	State finances a partial homestead exemption of \$5,000 for all homeowners with a reimbursement to local governments.					
Montana	Localities (mandated)	1969 1971 rev.	Retired homeowners (N.A.)	\$4,000 single \$5,200 married	50% reduction	Reduction of tax bill (\$1.39)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Nebraska	State	1972	Homeowners 65 & over (60,000)	\$2,800 single \$3,550 married \$4,300 married and spouse over 65	Reduction of tax by 25% (max. \$125) in 1973 and by 50% (max. \$250) in 1974.	Reduction of tax bill (\$4.41)
Nevada	State (circuit-breaker)	1973	Homeowners and renters, 62 & over (13,000)	\$5,000	Property tax in excess of 7% is refunded. (15% of rent = property tax equivalent) Maximum relief is \$350.	State rebate (\$1.42)
New Hampshire	Localities (optional)	1969	Homeowners 70 & over (9,300)	\$4,000 single	Equalized valuation reduced by \$5,000 times the local assessment ratio.	Reduction of tax bill (1.99)
New Jersey	State Localities 50% (mandated)	1953 1972 rev.	Homeowners 65 & over (163,000)	\$5,000 (excluding social security)	Reduction of tax bill by \$160, but not more than amount of tax.	Reduction of tax bill (One-half reimbursed by State) (\$3.50)
New Mexico	State (circuit-breaker)	1972 1973 rev.	All persons (70,000)	\$6,000	Person receives credit based on all State-local taxes which he is presumed to have paid. Credit varies depending on income and number of personal exemptions, ranges up to \$133.	State income tax credit or rebate (\$1.88)
New York	Localities (optional)	1972	Renters in rent controlled housing, 62 & over (N.A.)	\$3,000 (can be raised to \$5,000 by locality)	Not to exceed amount by which maximum rent exceeds one-third of combined household income.	Reduction of maximum rent (N.A.)
	Localities (optional)	1966 1972 rev.	Homeowners 65 & over (82,000)	\$3,000 (can be raised to \$6,000 by locality)	Assessed valuation reduced by 50%.	Reduction of tax bill (\$1.14)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
North Carolina	Localities (mandated)	1971	Homeowners 65 & over (retired) (19,000)	\$3,500	Assessed valuation reduced by \$5,000.	Reduction of tax bill (\$1.16)
North Dakota	Localities (mandated)	1969 1973	Homeowners 65 & over (5,000)	\$3,500	Assessed valuation reduced by \$1,000.	Reduction in tax bill (\$1.47)
	State (circuit-breaker)	1973	Renters 65 & over	\$3,500	Property tax in excess of 5% of income is refunded. (20% of rent = tax equivalent) Maximum relief is \$350	State rebate
Ohio	State (circuit-breaker)	1971 1972 rev.	Homeowners 65 & over (N.A.)	\$8,000	Benefits range from reduction of 70% of \$5,000 assessed value (whichever is less) for incomes below \$2,000 to 40% or \$2,000 for incomes above \$6,000.	Reduction of tax bill (\$2.78)
Oklahoma	Homestead exemption of \$1,000 of assessed value for all homeowners is mandated by State. No reimbursement to local government.					
Oregon	State (circuit-breaker)	1971	All homeowners (100,000)	None	Relief based on amount by which property taxes exceed percentage of income ranging from 3% on income below \$1,500 (max. relief \$400) to 7% for income above \$8,000 (max. \$100),	Reduction of tax bill (reimbursed) or tax credit (7.80)
Pennsylvania	State (circuit-breaker)	1971	Homeowners 65 & over widows 50 & over totally disabled (264,000)	\$7,500	100% of tax for income less than \$1,000 (max. rebate \$200). 10% of tax for income greater than \$6,000.	State rebate (\$2.30)
Rhode Island	Localities (optional)	1960 1973 rev.	Homeowners 65 & over (19,000)	\$4,000 (\$5,000 in one locality)	Various formulas; most reduce assessed valuation by \$1,000. [Also a tax freeze.]	Reduction in tax bill (\$1.02)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Washington	Localities (mandated)	1971	Homeowners 62 & over or disabled (72,000)	\$6,000	Income Percentage of excess levies abated	Reduction in tax bill (\$1.81)
					\$0 - \$4,000 100%	
					\$4,000 - \$6,000 50%	
					(minimum relief of \$50 for income below \$4,000)	
West Virginia	State (circuit-breaker)	1972	Homeowners and renters 65 & over (N.A.)	\$5,000	Relief based on ratio of property tax to household income. Taxes exceeding a given percent of income is remitted. These percents range from .5% to 4.5% not more than \$125 tax considered for relief. (12% of rent = tax equivalent.)	Direct State payment (\$1.84)
Wisconsin	State (circuit-breaker)	1964 1971 rev.	Homeowners and renters 62 & over (79,000)	\$5,000	Income Tax burden excessive when exceeding following percents of household income (cumulative rates)	% of Excessive tax burden relieved
					\$0 - \$1,000 0	75
					\$1,000 - \$1,500 5%	60
					\$1,500 - \$2,000 10%	60
					\$2,000 - \$5,000 14%	60
					Not more than \$500 tax considered for relief. (25% of rent = tax equivalent)	
					[In addition, all homeowners, regardless of age or income, receive a general credit financed by the State.]	
Wyoming	State	1973	Homeowners 65 & over (8,000)	\$2,000 single \$2,500 married	Exemption of \$1,000 assessed value.	Reduction in tax bill (\$1.16)

STATE PROPERTY TAX RELIEF POLICIES DETAILED PROGRAM FEATURES
(As of July 1, 1973) -- (Cont'd)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
District of Columbia		Plan under active congressional consideration.				

N.A. -- Data not available

Circuit-breaker--A State financed program of property tax relief in which the amount of tax relief in which the amount of tax relief phases out as household income rises. "Rev." indicates the year of the most recent liberalization of the above property tax relief program.

Source: ACIR Staff compilation based on Commerce Clearing House, State Tax Reporter; State of Washington, Department of Revenue, Property Tax Relief in Washington, October, 1972; and telephone and letter survey of the various States.

