REPORT OF THE

SPECIAL GOVERNOR'S COMMITTEE TO STUDY

STATE FRANCHISE AND LICENSE TAXES

APPLICABLE TO PUBLIC SERVICE CORPORATIONS IN VIRGINIA

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY

House Document No. 23

COMMONWEALTH OF VIRGINIA

Department of Purchases and Supply

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I. INTRODUCTION

The Governor's Special Committee to Study State Franchise and License Taxes Applicable to Public Service Corporations in Virginia was established by House Joint Resolution 285. As stated in the resolution, public service corporations in Virginia pay a state franchise or license tax measured by each public service corporation's gross receipts. In recent years receipts from the tax have increased significantly as a result of the general inflation and the mushrooming of energy costs. In that the burden of these taxes falls to a large extent on the final user, the Special Committee was established for the expressed purpose of studying the present tax structure of the State's taxation of public service corporations as measured by their gross receipts.

COMMITTEE COMPOSITION AND WORK

The Committee consisted of:

Mr. James T. Mathews, Chairman; retired merchandising executive,

Dr. John L. Knapp, Vice-Chairman, Research Director, Economic Studies Center, Tayloe-Murphy Institute, Colgate Darden Graduate School of Business Administration, University of Virginia,

Dr. Huey J. Battle, Director, Bureau of Economic Research and Development, Virginia State College,

Ms. Barbara M. Hanson, Past-State Chairman, Consumer Affairs Federation of Women's Clubs (Resigned September 26, 1975, to accept full-time employment),

Mr. B. D. Johnson, Executive Manager, Accounting and Control, Virginia Electric and Power Company,

Mr. Lee B. Younger, Director, Public Service Taxation Division, State Corporation Commission,

Dr. Paul M. Zeis, Director of Research, Norfolk and Western Railway Company.

The Committee staff included:

Miss Jill M. Pope, Legislative Research Associate, and

Mr. E. M. Miller, Jr., Staff Attorney, both of the Division of Legislative Services,

Dr. Charles J. Gallagher and Dr. George E. Hoffer, both of the Economics Department, Virginia Commonwealth University.

Reports reviewed by this Committee are available for examination at the State Library and the Division of Legislative

Services. Appendix A lists the material reviewed by the Committee. Appendix B includes all tables referred to in this report. For further analysis the reader is referred to the documents listed in Appendix A. Because of the importance that the Committee attaches to the concept of the final incidence of the state franchise and local consumer utility taxes, the consultant's report on this subject is included in Appendix C.

AREAS OF RESEARCH

Areas of research were to include the appropriateness of the tax structure in terms of (1) existing and future economic conditions; (2) the state taxation of other Virginia corporations; and (3) the extent to which the burden of the tax is shifted to the consumer. The Committee solicited testimony from representatives of the consumer sector, the public utilities and the various modes of transportation.

In order to understand and recommend changes in the method of taxing public service corporations based on gross receipts, the total tax structure had to be researched. An interstate comparison of public service corporation taxation requires more than information on state gross receipts tax rates. Such a comparison might show that a state may have a high gross receipts tax rate compared to Virginia's rate; however, further investigation might show that Virginia levies higher taxes on the particular firm and the services it sells at the local level. Thus, the information gathered must reflect the total tax structure. The same reasoning applies to comparisons of public service corporations and other firms in Virginia; the total taxes paid on the goods and services produced and sold by each firm must be reviewed. Because of the need to understand the total tax structure, the Special Committee has given broad interpretation to the legislative mandate.

GUIDELINES

In fulfilling the mandate, the Special Committee established several guidelines. These guidelines are:

(1) that the total taxes levied on the services of public service corporations should compare equitably with the taxes levied on the goods and services produced and sold in other sectors of the economy,

(2) that the tax levies on the services of different public service corporations should compare equitably with each other,

(3) that the Virginia tax levies on the services of public service corporations should compare equitably with those levied in comparable states,

(4) that Virginia state and local tax revenues sould not be impaired significantly by any recommendations of the Special Committee, and

(5) that taxes should be visible, wherever possible. That is, to

the fullest extent possible, consumers should be aware of the taxes that they are paying.

PUBLIC SERVICE CORPORATIONS

Public service corporations in this report are divided into two categories: public utilities and railroads. Public utilities include electric companies, gas distribution firms, telephone and telegraph companies, and water companies. While all public service corporations pay State franchise taxes, division of the study is warranted on the grounds of tax incidence, which is a result of differences in the competitive environment in which the firms operate. Unlike the public utilities which face limited competition for their services, railroads face competition from motor trucks over a broad range of their business.

REPORT OUTLINE

Public Utilities

In studying state franchise taxation of public utilities, the report concentrates on tax incidence, that is, who finally pays the tax. It is noted that while state franchise (gross receipts) taxes are levied on the public utility, these taxes are passed forward to the consumer via a higher rate structure than what would exist in their absence. The public utilities examined are those which are subject to state franchise taxation and include electric companies, gas distribution firms, telephone companies, telegraph companies, and water companies. Telegraph and water companies, because of their relatively small size, are treated only in summary fashion.

The tax structure and taxes imposed on public utility services at the local level are detailed. Particular attention is given to the local consumer utility taxes which have become prevalent throughout the Commonwealth. The burdens borne by sector are measured by comparing each utility sector in the Commonwealth with the burdens borne by ordinary enterprises in Virginia, with other public utilities, and with similar public utilities in neighboring states.

Transportation

Railroads are treated separately in this study because the Committee feels that the incidence of the franchise tax on railroads is different from that of other public service corporations. While public utilities are able to shift the franchise tax forward to the consumer, railroads have more difficulty in doing so because of the competition that they face from motor trucks.

Otherwise, the report examines the taxation of railroads in a manner similar to public utilities. In addition to state franchise taxation and rolling stock taxation, the report reviews local property taxation. The tax burdens borne by railroads operating in the Commonwealth are compared over an extended period of time using three measures with the burdens borne by the same carriers in ten other states in which they operate.

State and local tax burdens borne by railroads are compared with those borne by for-hire motor carriers. For-hire[1] motor carrier tax contributions are divided into (1) user charges and (2) general taxes. The motor carrier user taxes per mile are compared with their estimated allocated cost per mile. Private motor truck user tax payments and estimated cost allocations were not considered because of data unavailability.

II. FINDINGS

PUBLIC UTILITIES

1. THE TREMENDOUS PRICE INCREASES FOR ELECTRICITY AND GAS HAVE RESULTED IN SIGNIFICANTLY HIGHER STATE FRANCHISE TAX COLLECTIONS THAN THOSE PROJECTED.

The large price increases primarily stem from the tremendous increases in fossil fuel prices over the last several years.[2] Between January 1971 and January 1975, the per barrel price paid for heavy oil by VEPCO increased from $2.31 to $11.20.[3] The resultant increases in the cost of production has led to sizable increases in prices and gross receipts. Most corporations in Virginia are subject to the State corporation income tax; however public utilities are subject instead to a gross receipts (franchise) tax. Consequently, State revenues from the franchise tax have increased with the increased price of electricity and gas.

During the calendar years 1972 through 1974, revenues accruing to the five major electric utilities in Virginia from their fuel adjustment clauses increased by $244.6 million. State franchise tax collections from these increased sales totaled $8.6 million during the same interval (See Table B-1). Approximately 5 percent of state generated General Fund Revenues are derived from the State franchise tax on public utilities.

2. THE FINAL INCIDENCE OF THE STATE FRANCHISE TAX AND THE LOCAL FRANCHISE AND CONSUMER UTILITY TAXES ARE ON THE CONSUMER.

The Committee found that there were two major sectors that bear the burden of the state franchise tax on public utilities: consumers and utlity stockholders.FN4 Since the tax is incorporated into the rate structure, the Committee found consumers to be clearly affected. Assuming that demand is sufficiently strong and fairly unresponsive to price changes, as a franchise tax is imposed, the price of the utility service in question is increased via the regulatory process, and most of the tax burden is transferred eventually to the consumer. The Committee also found that the incidence of the local franchise and consumer utility taxes presently levied in over 100 Virginia localities is also on the consumer.

3. THE STATE FRANCHISE AND LOCAL CONSUMER UTILITY TAXES ARE REGRESSIVE.

The Committee found that as one's income increases, the percentage of one's income spent on state franchise and local consumer utility taxes declined. For instance, as shown in Table B-2, whereas a typical lower income family spends .185 percent of its annual income on state franchise taxes on electricity and gas, a typical upper income family spends only .073 percent of its income on these taxes. The regressivity of the local consumer utility tax is even worse. Not only is the local consumer utility tax burden on the consumer, but since in most localities there is a dollar ceiling on the consumer tax liability, this local levy is highly regressive. For example, Richmond City imposes a residential tax of 25 percent on the first $20 of the monthly telephone, electric and gas bills. Customers with utility bills exceeding $20 pay the same amount ($5) of tax as those with utility bills of $20 per month (See Table B-3).

4. TO THE EXTENT THAT FIRMS WHICH PRODUCE PRODUCTS IN VIRGINIA FOR SALE IN NATIONAL MARKETS HAVE TO COMPETE WITH FIRMS IN STATES WITH LOWER OR NON-EXISTENT FRANCHISE AND CONSUMER UTILITY TAXES, THE VIRGINIA MANUFACTURER WILL BE AT A DISADVANTAGE.

The Committee found that franchise and local utility taxes imposed on commercial and industrial firms who sold their goods and services in Virginia and competed with firms who did likewise were passed forward to the final consumer. However, to the extent that Virginia industrial firms compete with firms that are not subject to a comparable level of taxation, the Virginia firms are at a competitive disadvantage. A slower rate of economic growth might be expected. Thus, under these circumstances, the entire economy of Virginia suffers.

5. VIRGINIA STATE AND LOCAL TAXES ON PUBLIC UTILITY SERVICES ARE HIGHER THAN ON MOST OTHER GOODS AND SERVICES.

In 1974 principal Virginia state and local taxes amounted to 11.5 percent of electricity sales; 9.3 percent of telephone sales; and 14.4 percent of gas sales. (See Table B-11). State and local taxes on other goods and services were less than 7 percent of sales.

The principal taxes on other goods and services are composed of taxes paid by manufacturers, wholesalers, retailers, and final consumers. Information from the Divison of Industrial Development shows that a typical manufacturer in Virginia with sales of $14.3 million pays $111.8 thousand in state and local taxes.FN#5 National data for wholesalers indicate an average mark-up of 22 percent and state and local taxes amounting to 1.2 percent of sales.[6] For retailers, the national data shows an average mark-up of 39 percent and state and local taxes amounting to 1.7 percent of sales.[7] Using these figures and applying the state-local 4 percent sales tax to total sales we find that other goods and services are taxed at a rate equivalent to 7 percent of sales. This figure is probably high because it incorporates national data for retailers and wholesalers and because it assumes all taxes are shifted forward to the final consumer. It should be noted that comparisons of taxes on public utility and other types of sales are affected by the structure of the two sectors. Since public utilities are capital intensive, their burden of property taxes is probably more than for most other goods and services.

Even allowing for the crude nature of these figures it appears that utility services in Virginia are taxed at effective rates 35 to 100 percent more than other goods and services.

6. EACH NEIGHBORING STATE TAXES PUBLIC UTILITY SERVICES IN A DIFFERENT MANNER.

Virginia has a relatively simple tax structure consisting of a fairly high state gross receipts (franchise) tax, local property taxes, and high local consumer taxes. Kentucky uses a state income tax, a state property tax, a state sales tax, local property taxes, and local consumer sales taxes. Maryland uses a state corporate income tax, a state gross receipts tax, a state property tax, a state sales tax, local property taxes, and local consumer taxes. North Carolina uses a state corporate income tax, a state gross receipts tax, a state property tax, and local property taxes. South Carolina has a state corporate income tax, a state gross receipts tax, a state sales tax, a state property tax, and local property taxes. Tennessee has a state corporate income tax, a state gross receipts tax, a state sales tax, a state property tax, local property taxes, and local consumer sales taxes. In analyzing Tennessee's structure, the reader should keep in mind that most of the electric utility services in that state are publicly provided through TVA and, therefore, are not subject to all of the taxes applicable to the private sector. West Virginia uses a state corporate income tax, a state gross receipts tax, a state property tax, local property taxes and a local sales tax. See Table B-4 for more detail.

7. TOTAL STATE AND LOCAL TAXES ON PUBLIC UTILITY SERVICES ARE HIGHER IN VIRGINIA THAN IN NEIGHBORING STATES.

Because of the varied tax structure among states, comparisons based on one tax or taxes levied by one level of government provide an incomplete picture of relative burdens among states. The best way to compare burdens is to use total state and local taxes per dollar of sales. Our information is limited to five companies and VEPCO. As shown in Table B-5, state and local taxes, including collections from consumers, measured in relation to sales were consistently higher for VEPCO customers than for customers of five utilities located in bordering states.

8. PUBLIC UTILITIES IN VIRGINIA PAY SIGNIFICANTLY HIGHER TAXES UNDER THE PRESENT FRANCHISE TAX THAN THEY WOULD PAY IF THEY WERE SUBJECT TO THE CORPORATION INCOME TAX.

The Committee found that all electric, telephone and gas utilities paid $ 51.8 million in state franchise taxes in 1974. Had the same utilities been subject to the Virginia corporation income tax in 1974, they would have paid only $6.0 million, less than one-eighth their actual payments. As shown in Table B-6, if manufacturers in

Virginia had their corporate income taxes (column 2) replaced by the franchise tax (column 5), their state tax liability would increase by over 750 per cent; the increases range from a low of 410 percent to a high 1040 percent for the four industries for which detail was developed.

The Committee recognizes, however, that the products of non-regulated firms are subject to the 3 percent Virginia sales and use tax. If public utilities were subject to the corporation income tax and their services subject to the sales and use tax, the taxes levied at the state level on public utility services would be generally somewhat less than under the present tax structure (Table B-6 and Table B-7).

9. BECAUSE AT THE STATE LEVEL VIRGINIA IMPOSES NO SALES TAX AND/OR CORPORATE INCOME TAX ON UTILITIES AND UTILITY SERVICES, THE OVERALL STATE LEVEL OF TAXATION ON PRIVATELY-OWNED UTILITIES IS LOWER THAN IN MOST ADJOINING STATES; HOWEVER, THE FRANCHISE TAX RATE IS HIGHER IN VIRGINIA THAN IN MOST ADJOINING STATES.

Virginia compares favorably with neighboring states because most of them impose a general sales tax on public utility services and/or subject the public utility to the state corporate income tax. The tax liabilities of a hypothetical electric, telephone and gas utility were compared among seven states as shown in Table B-8.

If we consider general sales and specific gross receipts taxes together, Virginia ranks either sixth or seventh among the seven states studied on state public utility taxes on a per capita and per $1,000 personal income basis (Table B-9). At the state level, Virginia's public utility taxes tend to be imposed on the firm, while other states tend to levy taxes on public utility services which are paid directly by the consumers of the service. However, as emphasized earlier in the report, the Virginia franchise tax, while nominally levied on the firm, is passed forward to the consumer via a higher rate structure.

10. OF THE 45 STATES PLUS THE DISTRICT OF COLUMBIA THAT LEVY A GENERAL SALES TAX, 31 STATES PLUS THE DISTRICT INCLUDE PUBLIC UTILITY SERVICES IN THEIR SALES TAX BASE.

The Committee also found that four of the seven neighboring states studied apply their general state sales tax to public utility services. These states include Kentucky, Maryland, South Carolina, and Tennessee. Each of these states, with the exception of Kentucky, in adition levies a specific gross receipts (franchise) tax on the firm.

11. THE SPECIAL COMMITTEE WAS CREATED BECAUSE OF THE GENERAL ASSEMBLY'S CONCERN ABOUT THE IMPLICATIONS OF SENATE BILL 820, AS INTRODUCED DURING THE 1974 SESSION, WHICH PROVIDED FOR THE GRADUAL REDUCTION OF GROSS RECEIPTS TAX RATES

UNTIL THEY WERE ONE PERCENTAGE POINT BELOW PRESENT RATES FOR PUBLIC UTILITIES. IF SENATE BILL 820 WERE ENACTED, IT IS ESTIMATED THAT REVENUES ACCRUING TO THE STATE FROM NONTRANSPORTATION PUBLIC UTILITIES WOULD CONTINUE TO GROW IN EVERY FISCAL YEAR BUT NOT AS FAST AS UNDER THE PRESENT TAX STRUCTURE. ESTIMATED CHANGES IN REVENUE ARE GIVEN IN TABLE B-10.

12. VIRGINIA IMPOSES A HEAVY TAX BURDEN ON ITS PUBLIC UTILITIES AND THE SERVICES THAT THEY SELL, WITH A MAJOR PORTION LEVIED ON THE CONSUMER AT THE LOCAL LEVEL.

The Committee found that only Virginia of the states examined relies so heavily on local utility taxation. In 1974, whereas at the State level, electric utilities were taxed at a rate of 3.6 percent of operating revenues, at the local level the effective rate was 8.3 percent. (Table B-11). Almost 60 percent of local revenues derived from electric public utility taxation were derived from the local consumer utility taxes which 98 Virginia localities presently levy. The corresponding percentages for telephone and gas are 52 percent and 73 percent respectively.

Statewide in 1975, approximately 6 percent of all revenues derived from local sources were generated by the local consumer utility taxes. However, it should be realized that this tax is levied in only 98 Virginia localities. Consequently, in many localities, especially the more populous ones, the local consumer utility tax represents a significantly larger source of local revenues. For instance, in fiscal year 1972-73, Roanoke City derived 15.2 percent of its local source revenues from the consumer utility tax.[8]

Most populous Virginia communities impose very high consumer utility taxes. As shown in Table B-3, the effective rate on a $30 monthly residential electric bill is 20 percent in Roanoke City, 16.7 percent in Richmond City, 14.6 percent in Fairfax County, and 12.5 percent in Norfolk. These rates compare with no local consumer taxes in the Carolinas and local option rates of 1.75 percent in Tennessee, 3 percent in Kentucky, and 2 percent in West Virginia. In Maryland five populous localities levy this type of tax; their nominal (not effective) rates range from 7.5 percent to 12 percent (See Table B-4).

13. THE STATE RECORDATION TAX ON DEEDS OF TRUST OR MORTGAGES PLACES AN UNDUE BURDEN ON CERTAIN PUBLIC UTILITIES.

Like other firms and individuals, public utilities pay a state recordation tax on deeds of trust or mortgages. The present state rate is $.15 per $100 recordation with localities having the option to levy an additional $.05 per $100. Virginia is one of eight states that still levies this tax.

Section 58-55 of the <u>Code</u> was enacted in 1903 when financing transactions were relatively minor in amount. The flat tax rate does not recognize the magnitude of present financing transactions, particularly in the utility industry where construction programs and financing requirements have resulted in the issuance of vast sums of first mortgage bonds.

Most major corporations operating in Virginia obtain their funds from parent firms outside of the State. The same is true of the major utilities in Virginia with the exception of VEPCO. Of the major utilities, only VEPCO pays a substantial recordation tax, as over 85 percent of its property is in Virginia. Table B-12 shows that in fiscal year 1975, VEPCO paid $556 thousand in state and local recordation taxes, or 3.0 percent of the $19.9 million collected. As with the state franchise tax, these costs are passed forward to their customers.

14. THE POLE-LINE TAX IS AN ANACHRONISM.

Sections 58-579 and 58-580 of the Code levy an annual tax of $2.25 per pole-line mile or its equivalent on telephone and telegraph companies operating in the State. It is estimated that in 1975, $220 thousand will be paid by telephone companies and an additional $11 thousand by telegraph companies. The tax is an anachronism as microwave transmission has replaced the pole-line as a primary means of transmission, especially on interstate transmissions. The Committee found, however, that the pole-line tax is the only state tax presently paid by the American Telephone and Telegraph Company. Table B-13 shows state franchise and pole-line tax collections over the last four years by type of public utility.

RAILROADS

15. THE FINAL INCIDENCE OF THE STATE FRANCHISE TAX ON RAILROADS IS LESS LIKELY TO BE BORNE BY THE CONSUMER THAN THE SAME TAX ON PUBLIC UTILITIES.

The Committee found that because of the competition that the railroads have from motor trucks and carriers, that for the most part they are unable to pass the state franchise tax forward to their customers, and thus, unlike the public utilities, must bear most of it themselves. Only on commodities where there is little intermodal competition in Virginia can rates be adjusted to reflect the state franchise tax.

16. EXCLUSIVE OF HIGHWAY USER TAXES, IN 1973 VIRGINIA AND ITS LOCALITIES TAXED RAILROADS MEASURED ON A GROSS TRANSPORTATION RECEIPTS BASIS FIVE TIMES HEAVIER THAN IT DID VIRGINIA DOMICILED INTERSTATE COMMON MOTOR CARRIERS AND FORTY TIMES HEAVIER THAN NON-VIRGINIA DOMICILED MOTOR CARRIERS.

The Committee found that in 1973, railroads paid an effective tax rate of 4.2 percent on gross transportation receipts to the State and its localities (Table B-14). In comparison, Virginia domiciled interstate common motor carriers paid an effective rate of .8 percent of gross transportation receipts in general taxes (Table B-

15). Foreign domiciled interstate common motor carriers paid an effective rate of .1 percent of gross transportation receipts. The importance of foreign domiciled carriers in Virginia is evidenced when we see that in fiscal year 1974, foreign domiciled for-hire motor carriers did 63.5 percent of all for-hire Virginia mileage for larger trucks.[9] Thus railroads paid general taxes at a rate between five and forty times more than these two classes of for-hire motor trucks (See Tables B-14 and B-15).

It should be noted that much of this differential is inherent in the differences in the property intensiveness of the two modes. In 1973, $11.8 million of the $17.3 million in taxes paid by railroads in Virginia were property taxes on rolling stock and on real estate. Thus, if all other state and local general levies except property taxes were removed, railroad tax burdens as a percentage of gross transporation receipts would be reduced but would still exceed motor carrier tax liabilities.

At the state level there are two major general fund taxes on railroads: The state franchise tax of 1.5 percent on Virginia gross transportation receipts and a rolling stock tax of $1 per $100 assessed value. In 1973, Virginia railroads paid $5.7 million in state franchise taxes and $3.9 million in rolling stock taxes.

17. COMPARED WITH 10 OTHER STATES IN WHICH VIRGINIA RAILROADS OPERATE, VIRGINIA IMPOSES AN UNUSUALLY HIGH STATE TAX BURDEN.

Virginia's tax burden in 1973 of approximately 4.2 percent of gross transportation receipts ranked it second highest in a sample of eleven states, Ohio being first. On a percentage of gross transportation receipts basis, state and local taxes in Virginia declined from 5.6 percent in 1960 to 4.2 percent in 1973. But the 1973 railroad tax burdens in Alabama, Florida, Georgia, Kentucky, North Carolina, and South Carolina were still approximately one-half those in Virginia (Table B-14).

The Committee studied interstate railroad tax burdens as a percentage of gross receipts, after tax net income, and freight-car miles for 1960, 1966, 1970, and 1973. State and local burdens are compared in Table B-14. The Committee found that in Virginia, as in most states, the trend of total taxes per dollar of gross transportation receipts has been downward. Table B-16 gives a tabular synopsis of the structure of railroad taxation in the states compared. The Committee's findings are consistent with railroad industry computations of interstate railroad tax burdens per road mile operated.

18. REVENUES ACCRUING TO THE STATE FROM THE FRANCHISE TAX ON RAILROADS WOULD NOT BE SIGNIFICANTLY IMPAIRED BY SENATE BILL 820, WHICH PROVIDED FOR THE GRADUAL REDUCTION OF GROSS RECEIPTS TAX RATES UNTIL THEY REACHED 1.0 PERCENT. ESTIMATED CHANGES IN REVENUE ARE GIVEN IN TABLE B-17.

19. WHILE VIRGINIA DOMICILED MOTOR CARRIERS WITH INTRASTATE AND INTERSTATE COMMON CARRIER CERTIFICATES PAY USER CHARGES WHICH COME CLOSE TO COVERING THEIR ALLOCATED PER MILE COSTS, FOREIGN DOMICILED INTERSTATE COMMON CARRIER USER PAYMENTS DO NOT COVER THEIR ALLOCATED COSTS.

The Committee found that Virginia domiciled interstate common and intrastate common motor carriers paid in 1973 7.8 cents and 7.0 cents per mile in user charges to the Virginia and Federal highway trust funds (See Table B-18). Their estimated allocated costs per mile on an incremental or marginal cost basis were 8.7 and 7.3 cents per mile respectively.[10] (See Table B-19). Thus, these carriers were found to roughly cover their estimated allocated costs.[11] It should be noted that recent changes in maximum gross weight and axle weight limits tend to make the allocated cost estimates used by the Committee conservative.

However, it was found that foreign domiciled interstate common motor carriers paid 4.7 cents per mile in total user fees, while their estimated allocated costs on an incremental basis were 9.7 cents per mile.FN # 12 The higher allocated cost reflects the greater mix of larger vehicles used by foreign domiciled carrier through Virginia. User fee payments per mile for 1960, 1966, 1970, and 1973 are shown in Table B-18.

The Committee recognizes that private motor carriage represents a substantial portion of motor truck mileage in the Commonwealth and represents competition to both for-hire motor carriers, and to a lesser extent, the railroads. However, the Committee was unable to collect data on private motor truck user payments.

III. RECOMMENDATIONS

Based on analysis of all information examined, the Committee makes the following recommendations:

PUBLIC UTILITIES

The first three recommendations are proposed as a package:

1. THE ANNUAL STATE FRANCHISE TAX SHOULD BE REDUCED IN EQUAL ANNUAL PERCENTAGES OVER A FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1977, FROM THE PRESENT MAXIMUM RATES OF 3.0 PERCENT ON TELEPHONE COMPANIES, 3.5 PERCENT ON ELECTRIC, GAS AND WATER FIRMS AND 3 5/8 PER CENT ON TELEGRAPH FIRMS TO A UNIFORM MAXIMUM RATE OF 2.0 PERCENT ON VIRGINIA INTRASTATE GROSS RECEIPTS.

2. AT THE END OF THE FIVE-YEAR PERIOD, CONSIDERATION SHOULD BE GIVEN TO FURTHER REDUCING THE STATE FRANCHISE TAX AND THE ENACTING OF

LEGISLATION PLACING PUBLIC UTILITIES UNDER THE STATE CORPORATION INCOME TAX WITH STATE FRANCHISE TAX PAYMENTS CREDITED AGAINST STATE INCOME TAX LIABILITIES.

3. IT IS FURTHER RECOMMENDED THAT FINAL SALES OF ELECTRICITY, TELEPHONE, TELEGRAPH, GAS, AND WATER SHOULD BE SUBJECT TO THE STATE AND LOCAL SALES AND USE TAX AND THAT CERTAIN SELECTED SERVICES NOW EXEMPT BE INCLUDED IN THE TAX BASE.

The above package of recommendations would reduce the inequitable manner of the present structure, and yet preserve State revenues. The Public Service Taxation Division of the State Corporation Commission would continue to be the central State agency to assess public utility property as provided in the Constitution. It would also continue to afford public utilities the same treatment under the law as manufacturers receive in their sales and use tax exemption on purchases used in the direct rendition of their public utility service responsibilities.

It is the Committee's view that there is no basis for the differing state franchise rates that presently exist between the various types of nontransportation public utilities. Accordingly, the Committee recommends a uniform maximum tax rate. As was noted earlier in Finding 5, Virginia and its localities presently tax public utility services at effective rates of between 35 percent to 100 percent higher than they tax other goods and services. It was also shown that the State and local taxes levied on public utilities are shifted forward to the final user in the form of higher charges. Accordingly, the recommendation of a 2 percent rate will address the equity problem and at the same time achieve some rate relief for the final user.FN # 13

Because of the Commonwealth's present fiscal position, the Committee was reluctant to recommend a lower franchise tax and the extension of the state corporate income tax to public utilities at this time. Hence, the recommendation that the feasibility of such a change be considered five years from now. As can be seen in Table B-8, six of the seven states studied by the Committee subject their public utilities to the state corporate income tax. Only Virginia does not. Therefore consideration should be given to subjecting public utilities to the Virginia corporation income tax, with the state franchise tax allowed as a credit against the state corporation income tax. West Virginia presently has a similar credit mechanism. This structure would insure that in any year the minimum income tax and franchise tax liability of a public utility would be its franchise tax.

The economic rationale for extending the Sales and Use Tax to public utility services will be detailed in Recommendation 4. Among the advantages of this extension is the tax deductibility of the Sales and Use Tax against state and Federal income taxes. In order to qualify as a tax deduction, the levy must be a general one. The present consumer utility taxes, since they are specific excise taxes, are not deductible on state and Federal income taxes. A phased-in sales tax on public utility services would not be deductible. Consequently, to preserve the deductibility of the tax, the Committee did not recommend a phase-in.

The Committee established as one of its guidelines that to the greatest extent possible taxes should be visible. That is, the people who ultimately pay a tax should be aware of their tax burdens. We have noted throughout the study that the franchise tax was ultimately paid by the consumer. Thus, a reduction in the franchise tax rate and the inclusion of public utility services in the Sales and Use Tax base should not be viewed as a tax relief for the utilities, but rather as an effort to rationalize the tax system. While state revenues would increase under the proposed package, it should be noted that one-third of any increased revenues would go to public education. The net result of these changes would be to bring the taxes on public utilities and the services that they sell more in line with the taxes on the goods and services sold by nonregulated industry in Virginia.

4. THE AUTHORITY GRANTED TO LOCALITIES TO LEVY LOCAL LICENSE TAXES AND LOCAL CONSUMER UTILITY TAXES UNDER SECTIONS 58-617.2 AND 58-851.4 OF THE CODE OF VIRGINIA SHOULD BE REPEALED. AT THE SAME DATE IT IS RECOMMENDED THAT THE STATE LEVY AN ADDITIONAL 0.5 PERCENT SALES TAX ON THOSE ITEMS PRESENTLY SUBJECT TO THE STATE SALES AND USE TAX. REVENUES FROM THE 0.5 PERCENT INCREASE WOULD BE RETURNED TO THE LOCALITIES ON THE BASIS OF COLLECTION. IT IS FURTHER RECOMMENDED THAT THE NUMEROUS EXEMPTIONS OF SERVICES UNDER THE PRESENT STATUTE BE REDUCED.

With the exception of nontransportation public services, the exemptions that would be eliminated are spelled out in Fiscal Prospects and Alternatives: 1976, A Staff Report to the Revenue Resources and Economic Commission and include among other services auto parking, auto repair and services, barbers and beauticians, laundry, amusement, household repair services and shoe repair.FN # 14

Thus the Sales and Use Tax package recommendation includes:

1. an additional 0.5 percent sales tax.

2. elimination of the present exemption on selected services, and

3. elimination of the present exemption on nontransportation public utility sales.

Localities, for giving up the right to levy the local license tax and the consumer utility tax, would be given the revenues from the additional 0.5 percent sales tax on an expanded base that would include selected services and public utility services. It is estimated that in 1975 localities would have collected $99.6 million in revenues if the proposed structure had been in effect, as opposed to an estimated $105 million in revenues that they collected under the local utility license and consumer utility taxes. Tables B-20 and B-21 show the effect of the proposed structure on State and local revenues over the next six fiscal years.

Table B-22 presents estimated calendar year 1975 collections of local franchise and consumer utility taxes for 19 localities. Fairfax County, Norfolk and Richmond City, in absolute dollars, collect over 50 percent of local utility tax receipts for the State. As can also be seen from Table B-22 few localities would lose significant revenues in making the transition.

It should be pointed out that in the long run, localities will benefit from this change for several reasons. First, and most importantly, those localities that rely on the local consumer utility tax most heavily are constrained by the maximum ceilings established by the General Assembly when it enacted Section 58-512.1 of the *Code*. In essence there are two ceilings established by this statute. The first ceiling applies to those localities whose rates were below the statutorily defined ceiling at the time of the Act's passage. The second applies to those localities whose rates were above the maximum prescribed in the statute. These localities cannot increase their rates from those in effect at the time. Consequently, the potential growth in revenues from this tax source for most localities is limited. For most localities levying this tax, the percentage growth in revenues during the last year has been less than the percentage growth in sales. In time the only revenue growth from this source will be from the addition of new customers.

Also, the consumer utility tax is a regressive tax. Low income families pay a higher fraction of their income for electricity and gas than higher income families. The Committee studied data which showed that annual expenditures on electricity and gas as a percentage of income falls from 7.85 percent for the income class $1,875 to $3,399 to 2.08 percent for the higher income class $15,000 to $19,474. Therefore, the burden of the consumer utility tax is disproportionately greater for the lower income families. The regressivity, however, is compounded in the case of the local consumer utility tax since there are upper limits placed on the total tax liability of the consumer in the vast majority of localities.

The regressivity of the sales and use tax is less than the local consumer utility taxes in most localities since the sales and use tax has no ceiling. Thus, although the burden of the tax cannot be eliminated, some improvement is possible by reducing the regressivity. In addition, the sales and use tax would be a deductible item for state and federal income tax purposes, whereas the consumer utility tax is not deductible. Such a situation would be beneficial to those taxpayers itemizing their tax returns.

An increase of the sales and use tax to 4.5 percent would not put Virginia out of line compared to other states. Of the 45 states plus the District of Columbia which levy a general state sales tax, 24 states have state-local rates of 4.5 percent or greater.[15] Tennessee and the District of Columbia have 5 percent rates. Presently eight states impose sales and use taxes at a fractional rate.[16] Since merchants use schedules in calculating the sales tax on each purchase, the proposed fractional rate would not present a problem.

Elimination of the present consumer utility tax would end the "hodge podge," and inconsistent taxation of public utility services that presently exist in the Commonwealth. The discrimination among localities is obvious. Some localities through the 'grandfather clause' are permitted to charge higher rates on higher bases than those localities not under the clause. At the same time other localities do not even levy the tax.

This high degree of variation within the State has had a negative effect on industrial location and consequently economic development. Whereas most localities have ceilings on residential utility tax collections, the ceilings on commercial and industrial bills are significantly higher or nonexistent. The ceilings on the total bill enacted by the General Assembly are not applicable to commercial and industrial billings. As was noted in the consultant's report (Appendix C), to the extent that Virginia firms compete in national markets with firms that operate in states that have lower effective tax rates, the Virginia firms will be at a competitive disadvantage. In the long run, disinvestment would be expected. Presently the Commonwealth is at a competitive disadvantage in attracting new industry and thus to some degree is experiencing a slower rate of economic growth. The tax itself is not conducive to a favorable business climate.

Another point of interest here is the tax deductibility of the Sales tax against state and federal income taxes. The Committee studied data supplied by the Department of Taxation which showed that approximately 37 percent of those who filed Virginia Individual State Income Tax returns in 1974 itemized their deductions on the Federal income tax return. If the Sales and Use Tax were extended to public utility services these increased tax payments would be deductible against state and Federal income taxes for those itemizing. The present franchise tax is not deductible. The Committee estimated that this would save taxpayers who itemize approximately $5.4 million annually.[17]

In conclusion, for all of the enumerated reasons: (1) the fact that it discriminates among Virginia localities, (2) the fact that it is not conducive to economic development and a favorable business climate as no other state relies on it so heavily, (3) the fact that it is regressive, (4) the fact that revenue growth from this source is severely limited, the Committee has concluded that the local consumer utility tax should be eliminated and the replacement should be a 0.5 percent sales tax together with the elimination of some present exemptions to the tax.

5. THE PRESENT STATE POLE-LINE TAX ON TELEPHONE AND TELEGRAPH COMPANIES OF $2.25 PER POLE-LINE MILE OR ITS EQUIVALENT SHOULD BE REPEALED AND THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY SHOULD BE MADE SUBJECT TO THE VIRGINIA CORPORATION INCOME TAX.

The pole-line tax in 1975 is expected to yield $200 thousand from Virginia telephone companies and $11 thousand from telegraph companies. The pole-line tax is an anachronism as technology has bypassed the pole-line as a primary means of transmission. In light of the relatively small sums raised by the tax and its limited growth potential, the Committee recommends its repeal.

The Committee recognizes that the pole-line tax is the only tax paid at the State level by the American Telephone and Telegraph Company. Accordingly, the Committee recommends that the firm be made subject to the state corporation income tax. In 1974, such a levy would have yielded approximately $1.4 million in revenue. The suggested change would subject AT & T to a similar manner of state taxation as gas transmission companies.

6. THE STATE RECORDATION TAX OF $.15 PER $100 RECORDATION SHOULD BE AMENDED SO AS TO HAVE THE FOLLOWING RATE SCHEDULE: 15 cents per $100 on the first ten million dollars; 12 cents per $100 on the second ten million dollars; 9 cents per $100 on the third million dollars; 6 cents per $100 on the fourth ten million dollars; 3 cents per $100 over forty million dollars.

As was noted in section II, no firm operating in Virginia pays a recordation tax approaching that paid by VEPCO. In 1974, this firm paid $556 thousand in recordation taxes. These tax payments are passed forward to the consumer via higher electricity charges. It is estimated that the proposed schedule would have reduced 1975 state and local recordation tax collections by $288 thousand. The Committee estimates that in the fiscal years ending June 30, 1976 and June 30, 1977 that state and local collections will decline by $175 thousand and $245 thousand, respectively.

TRANSPORTATION

With respect to the transportation sector the Committee makes the following recommendations as a package:

1. THE STATE FRANCHISE TAX ON RAILROADS SHOULD BE REDUCED IN EQUAL ANNUAL PERCENTAGES OVER A FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1977, TO 1.0 PERCENT PER DOLLAR OF GROSS TRANSPORTATION RECEIPTS.

2. AT THE END OF THE FIVE-YEAR PERIOD CONSIDERATION SHOULD BE GIVEN TO FURTHER REDUCING THE STATE FRANCHISE TAX AND THE ENACTMENT OF LEGISLATION PLACING RAILROADS UNDER THE STATE CORPORATION INCOME TAX WITH STATE FRANCHISE TAX PAYMENTS CREDITED AGAINST STATE INCOME TAX LIABILITIES.

These recommendations would reduce the unusually high state tax burden on Virginia railroads. This state tax burden in 1973 of approximately 4.2 cents per dollar of gross transportation receipts ranked Virginia second highest in a sample of eleven states. It is estimated that in 1973, the reduction in the gross receipts tax would have cost approximately $1.9 million in State revenue. In fiscal year 1977, if the proposed rate were in effect, estimated State revenue losses would be $2.3 million. Had the proposed rate been in effect in 1973, the effective state and local rate would have been 3.7 cents per dollar of gross receipts, placing Virginia fourth highest in the sample of eleven states.

This tax rate of 3.7 cents per dollar of gross transportation receipts compares with state and local general taxes on Virginia domiciled interstate common motor carriers of .8 percent of gross receipts in 1973. And the railroad tax figure compares to .1 percent of 1973 gross receipts for foreign domiciled interstate motor carriers. The recommendations would reduce but not eliminate the discrepancy. Part of the difference in taxes between the modes is a result of differences in the structure of the industry and not the manner in which the State taxes. Since the railroads own their rights-of-way, the railroads are subject to local property taxes not applicable to motor carriers which use publicly provided facilities.

The Committee does not recommend that railroad services be made subject to the State sales and use tax. Railroad services are almost exlusively used as an input in the manufacturing process and thus would be exempt for the most part under any circumstance. Only three states subject even selected transportation services to a state sales and use tax.

DISSENTING VIEWS OF COMMITTEE MEMBER PAUL M. ZEIS

While I am in agreement with most of the "findings" of the Committee and with most of the recommendations which are made, I dissent vigorously from the "findings" in the report which imply that either Virginia-domiciled motor carriers or foreign-based motor carriers come close to paying in user charges their fair share of the cost of constructing and maintaining Virginia highways.

While I agree that in theory Virginia railroads like other corporations should be subject to the State Income Tax, I cannot endorse such a recommendation even for the future unless it is coupled with recommendations for effective Third Structure Taxes on the heavy trucks using the highways and coupled with effective enforcement of the income tax provisions against foreign-domiciled carriers on that portion of the business which they perform in Virginia. Simple equity between two vigorously competing forms of transport requires that I take this position.

The Committee "findings" on the allocation of highway costs are based on the outmoded and thoroughly erroneous allocation formula developed by the Bureau of Public Roads in 1964 and issued to the public as House Document #124 of the 89th Congress in March 1965. This allocation formula assigned only 6 percent of the pavement expense of the Interstate System against the heavy trucks and only about 10 percent of the bridge expense. These were comparatively small items in the total cost of our Interstate System and the balance of the cost of the system or 96 percent of the total was assigned against automobiles and light trucks. In fact, over 80 percent of the total cost was allocated among vehicles on a straight vehicle-mile or axle-mile basis. I do not regard this as a proper allocation, and I dissent from any report which assumes without investigation that it is proper.

My independent studies on highway user costs convince me that, at a minimum, highway user taxes should be allocated on a gross ton-mile basis and that a Third Structure Tax of this sort should be imposed by Virginia. The result would be a charge against the heavy trucks of from 18 to 20 cents per truck-mile. My studies indicate, and the Committee report agrees, that most trucks operating through Virginia are currently paying taxes at the rate of 4 or 5 cents per truck-mile. In short, most heavy trucks are enjoying a huge subsidy paid by the motorists of Virginia. Until this situation is corrected by the imposition of Third Structure Taxes such as a ton-mile tax, I cannot endorse a proposal to subject the railroads of Virginia to the State Income Tax, even five years hence. I do endorse the recommended reduction in the franchise tax which goes a small way towards correcting the tax disparity that now exists between the railroads and the trucks.

FOOTNOTES

1. In this report, for-hire motor carriers include ICC-certificated common and contract firms only.

2. The costs of telephone, telegraph, and water services have not increased at the rate of electric and gas services primarily because the price increases have been the result of changes in fossil fuel prices.

3. Supplied by VEPCO, September 1975.

4. In the long run, the Committee recognizes that suppliers of goods and services to the utilities may bear a portion of the tax.

5. Mark R. Kilduff, "Comparative Analysis of Taxes on Manufacturers: Virginia and Selected States" (Richmond: Division of Industrial Development, 1975) pp. 16-17. The estimate does not include local utility taxes since many localities do not impose them and for those that do, rates and ceilings vary greatly. A recent study for Charlottesville-Albemarle, an area with fairly high utility taxes, showed that utility taxes represented 23 percent of local taxes on manufacturers. [See John L. Knapp, The Economic Impact of Manufacturing on the Charlottesville-Albemarle Community (Charlottesville: Charlottesville and Albemarle County Chamber of Commerce, 1974) p. 13.] According to the Division of Industrial Development study, local taxes account for less than half of the typical manufacturer's state and local tax bill.

6. U.S. Internal Revenue Service, Statistics of Income 1970: Business Income Tax Returns (Washington, D. C.: Government Printing Office, 1973), p. 9.

7. Ibid. , p. 11.

8. B. E. Lipman and R. D. Brown, Fiscal Prospects and Alternatives: 1976 A Staff Report to the Revenue Resources and Economic Commission , p. 407. The 6 percent statewide estimate was calculated based on estimated 1975-76 total local source revenues (from Ibid , p. 368) and estimated 1975 statewide local consumer utility tax collections by C. J. Gallagher and G. E. Hoffer.

9. Motor Carrier Taxation Division, State Corporation Commission.

10. Dr. Zeis believes this estimate of allocated cost per mile is entirely too low. See his accompanying dissent.

11. See footnote no. 9.

12. See footnote no. 9.

13. The Committee is aware that there would be a temporary

change in the public utility's rate of return, as a result of the recommendation. However, any change would be corrected by the State Corporation Commission during the utility's annual review.

14. For a complete list see Fiscal Prospects and Alternatives: 1976. A Staff Report to the Revenue Resources and Economic Commission , B. E. Lipman and R. Brown *et al* (Commonwealth of Virginia, 1975), p. 221.

15. Thirteen states have a 5 percent rate, 5 states have a 6 percent rate and 3 states have a 7 percent rate. See Fiscal Prospects and Alternatives: 1976. A Staff Report to the Revenue Resources and Economic Commission , p. 206.

16. Ibid.

17. It was assumed that the average annual public utility bill of those itemizing was $550 and that the average combined state and Federal marginal tax bracket was 33 percent. Under these assumptions, the 665,461 Virginians who itemized their deductions would have saved $5.4 million from the suggested change. Of this amount, state income tax revenues decline by $825 thousand.

APPENDIX A

Material Reviewed by the Committee

S. H. Baker and M. A. Garrett, The Consumer's Utility Tax Imposed by Localities in Virginia , College of William and Mary, June 2, 1975.

S. H. Baker, The Incidence of State Franchise Taxes on Electric, Gas, and Telephone Services , Special Committee to Study State Franchise and License Taxes. Commonwealth of Virginia, August 29, 1975.

Bruce Beam, "Statement of Appalachian Power Company Before the Special Committee to Study State Franchise and License Taxes Applicable to Public Service Corporations", September 24, 1975.

D. E. Berry, "Statement of Chesapeake and Potomac Telephone Company of Virginia Before the Special Committee", September 24, 1975.

J. B. Boatwright Jr., "Statement On Behalf of the Virginia Railway Association to the Franchise Tax Study Commission" September 24, 1975.

W. Crump, "Statement of VEPCO Before the Special Committee to Study State Franchise and License Taxes Applicable to Public Service Corportions." September 24, 1975.

C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: An Interstate and Intermodal Analysis , Revenue Resources and Economic Commission, Commonwealth of Virginia, 1975.

C. J. Gallagher and G. E. Hoffer, "Estimates of Revenue from Alternative Proposals," September 24, October 1, October 10, November 5, 1975.

W. F. Hellmuth, G. W. Jennings, L. G. Beall, A Comparative Analysis of Public Utility Taxation in Virginia , Revenue Resources and Economic Commission, Commonwealth of Virginia, 1975.

Governor's Electricity Cost Commission, Final Report of the Electricity Cost Commission , Commonwealth of Virginia, July 1, 1975.

C. C. Jones, Jr., "Statement on Behalf of the Virginia Association of Electric Cooperatives Before the Special Committee", September 24, 1975.

C. R. Jung, Jr., VEPCO's Tax Structure: A Utility vs. A Non-Utility, Year 1971 , Virginia Electric and Power Co., Richmond.

B. E. Lipman, R. D. Brown, et al, Fiscal Prospects and Alternatives: 1976, A Staff Report to the Revenue Resources and Economic Commission, Commonwealth of Virginia, June 1975.

Memoranda on Questions Raised by the Special Committee submitted by Virginia Commonwealth University Consultants, September 22, 1975:

A. "The Fuel Adjustment Clause and Possible Effects on Gross Receipts Tax Revenues," (Gallagher and Hoffer)

B. "Change in Revenue from Gross Receipts Taxes Adjusted for Price Level Changes, 1960-1975," (Hellmuth)

C. "Projected Revenues from Gross Receipts Taxes on Public Service Corporations, Fiscal Years 1975-76 through 1981-82," (Hellmuth)

D. "Comparison of Actual with Allowable Rates of Return," (Beall and Jennings)

E. "Alternative Approaches to Taxation of Public Service Corporations," (Hellmuth and Jennings)

"Public Service Company Taxes Based on Gross Receipts State of Virginia" Submitted by B. D. Johnson, VEPCO, 1975.

Public Service Taxation Division, State Corporation Commission, Statements Showing Assessed Values and Taxes on Public Service Corporations for Selected Years.

Department of Taxation, Annual Report 1973-74, Commonwealth of Virginia, 1974.

Department of Taxation, Taxable Sales 1974, Commonwealth of Virginia, 1975.

G. E. Tuck, "Statement on Behalf of the Commonwealth Natural Gas Corporation Before the Special Committee", September 24, 1975.

L. B. Younger, "Statement Showing Comparison of State Taxes on Public Service Corporations for Years 1966-1975," Public Service Taxation Division, State Corporation Commission, 1975.

APPENDIX B - Tables

TABLE B - 1

REVENUES RECEIVED FROM APPLICATION OF THE FUEL ADJUSTMENT CLAUSE AND THE RESULTING STATE FRANCHISE AND LOCAL FRANCHISE TAX RECEIPTS FOR FIVE MAJOR ELECTRIC UTILITIES IN VIRGINIA, 1972-1974[1]
(in millions of dollars)

Year	Increase in Revenues from Application of Fuel Adjustment Clause	State Franchise Tax Applicable to Fuel Adjustment Clause Revenue	Local Franchise Tax Applicable to Fuel Adjustment Clause Revenue
1972	$14.2	$0.5	$0
1973	30.1	1.1	.1
1974	200.3	7.0	.6
TOTAL	$244.6	$8.6	$0.7

[1]Utilities include VEPCO, APCO, PEPCO, Potomac Edison Company, Delmarva Power and Light Company.

Source: Accounting Division, State Corporation Commission, 1975; Compiled by C. J. Gallagher and G. E. Hoffer, Staff Economists.

TABLE B-2

RELATIVE INCIDENCE OF STATE FRANCHISE TAXES ON SELECTED FAMILY INCOME CLASSES

Expenditure	Income Class[1]	Annual State Franchise Tax or State Sales Tax Paid	Percent of Income Paid in State Taxes	Measure of Regressivity[2]
Electric and Gas	Low	$7.78	.185%	2.53
	High	$12.60	.073%	
Telephone	Low	$3.34	.084%	2.47
	High	$5.96	.034%	
Food	Low	$41.07	1.027%	1.98
	High	$89.79	.518%	

[1] Low income classes for electric and gas range from $3,400 to $5,000 per family annually. The low income class for telephone and food range from $3,000 to $4,999 per family annually. The high income class for electric, gas and food ranges from $15,200 to $19,474 annually, whereas the high income classes for telephone ranges from $15,000 to $19,999 annually.

[2] The measure of regressivity is the ratio of the percent of income paid in state taxes by families in the low income class to the percent of income paid in state taxes by families in the high income class.

Source: Adapted from S. H. Baker, The Incidence of State Franchise Taxes on Electric, Gas and Telephone Services, p. 10 (Reprinted in this Report, Appendix C).

TABLE B-3

LOCAL CONSUMER UTILITY TAX SCHEDULES AND TAX LIABILITIES ON A HYPOTHETICAL RESIDENTIAL AND INDUSTRIAL SERVICE BILL FOR SELECTED VIRGINIA LOCALITIES

LOCALITY	RESIDENTIAL SERVICE			INDUSTRIAL SERVICE		
	Tax Schedule	Tax on $30 Monthly Bill	Effective Tax Rate[a]	Tax Schedule	Tax on $2,000 Monthly Bill	Effective Tax Rate[a]
Alexandria	16%; first $15	$2.40	8.0%	16%; first $150	$24	1.2%
Fairfax County	14.6%; first $50	$4.38	14.6%	8%; first $1,600	$128	6.4%
Norfolk	25%; first $15	$3.75	12.5%	25%; first $50; 15% thereafter	$305	15.3%
Richmond	25%; first $20	$5.00	16.7%	25%; first $625; 5% thereafter	$225	11.3%
Roanoke	20%	$6.00	20.0%	20%	$400	20.0%
Virginia Beach	20%; first $12	$2.40	8.0%	12%; first $400	$48	2.4%

[a]Effective rate was derived by dividing the tax by the utility bill and multiplying the quotion by 100.

SOURCE: "B. E. Lipman and R. D. Brown, Fiscal Prospects and Alternatives; 1976: A Staff Report to the Revenue Resources and Economic Commission, p. 534.

TABLE B-4

A COMPARISON OF THE MAJOR TAXES IMPOSED ON PUBLIC UTILITIES AND THEIR SERVICES BY SELECTED STATES, 1974[a]

Tax	Tennessee	Maryland	N.Carolina	Kentucky	S.Carolina	W. Virginia	Virginia
Corporation Income Tax	6%	7%	6%	5.8% (4% on first $25,000)	6%	6%(no tax due if gross income tax liability exceeds 6% net income.)	none
Gross Receipts or Gross Income Tax:							
Electric	3.3%	2%	6% (3% returned to municipalities)	none	.3 of 1%	5.72% commercial and domestic; 4.29% other uses[d]	1.125% on first $100,000; 3.5% on remainder
Gas	3.3%	2%	4% first $25,000 GR; 6% thereafter(see above)	none	.3 of 1%	4.29%[d]	(Same as electric)
Water	3%	2%	4% (see above)	none	.3 of 1%	4.40%	(Same as electric)
Telephone	3%	2%	6% (see above)	none	.3 of 1%	3.74%	1-9/16% of first $65,000 3% on remainder plus $2.25 per pole-mile
Telegraph	3%	2-1/2%	6% (see above)	none	.3 of 1%	3.3%	3-5/8% plus $2.25 per pole-mile
State Property Tax	Franchise Tax measured by tax of 15 cents per $100 of property (book value)	21 cents per $100 value	Intangibles: money 10 cents per $100 value; other 25 cents per $100 value	Realty 1.5 cents per $100 value Tangibles & machinery 15 cents per $100 value. Assessments are fraction of true value	.3 of 1% of intangibles,receivables, an supplies	2.61 per $100 value based on fractional assessm't	none
Sales Tax on Public Utility Sales	3-1/2%	4%(gas & elec. only)	none	3%[c]	4%	none	none
Local consumer sales	1.75%	0 to 12%[b]	none	3%	none	2% (optional)	0 to 25%[d]
local gross receipts taxes							
Local Property Taxes[f]	unit valuation	combination unit and situs	system valuation	unit	combination unit and situs	situs	situs

(more)

To varying degrees, all states exempt from sales and use taxation purchases made by public utilities that are used in the rendering of their public service responsibilities.

[b]Only five of the 24 localities in Maryland have the authority to levy a local consumer sales tax on utility services. In 1975 the applied rates in these 5 populous localities ranged from 7.5 percent to 12 percent.

[c]Sales of municipally-owned public service corporations are taxed at a rate less than 3 percent.

[d]In Virginia, localities have the authority to levy both a consumer utility tax and a gross receipts tax. In September, 1975, 98 localities levied a local consumer utility tax with nominal rates ranging up to 25 percent. However, as discussed in the text (see Finding 3 and Table B-3) statutorily set ceilings result in a lower effective rate for most localities. In addition most localities levy a local gross receipts (franchise) tax of 0.5 percent.

[e]West Virginia taxes electricity generated in-state and transmitted outside at rate of $ 0.88 per $100. In addition to tax on sales of electricity and gas, a rate of 1.15% applies to income from service, rent, royalties, and other non-utility business.

[f]Localities in each state researched have the authority to levy local property taxes on the property of public service corporations. The table indicates the method of valuation used.

Sources: Kentucky Revenue Code; State of Maryland, Thirty-First Report of the State Department of Assessments and Taxation (January, 1975); North Carolina Statutes; South Carolina Tax Code and Income Tax Act; Code of Tennessee; Code of Virginia and State Corporation Commission; Tax Foundation, Facts and Figures on Government Finance (18th Edition, 1975), p. 196; Communications to Mr. Lee Younger, SCC, from officials in other states; Reforming the Virginia Property Tax, vol. II, Governor's Property Tax Reform Study, 1974.

TABLE B-5

COMPARISON OF KILOWATT-HOUR SALES, TOTAL REVENUE, TOTAL STATE AND LOCAL TAXES AND NET INCOME, FOR SIX REGIONAL ELECTRIC COMPANIES, 1970-1974.
(in thousands)

	Company 1	Company 2	Company 3	Company 4	Company 5	VEPCO
KWHR Sales:						
1974	10,092,501	6,857,354	24,076,000	35,032,000	13,291,986	29,873,000
1973	10,492,078	6,625,579	24,082,000	34,128,000	14,400,391	20,044,000
1972	9,845,207	5,962,343	22,101,000	30,087,000	13,262,105	26,911,000
1971	8,112,797	5,708,917	19,657,000	27,664,000	12,738,578	24,686,000
1970	7,780,201	5,552,688	17,548,000	27,898,000	12,122,025	23,506,000
Total Revenue:						
1974	$ 279,630	$ 130,458	$ 460,977	$ 528,369	$ 441,855	$ 764,012
1973	204,241	102,992	341,206	381,937	320,356	550,963
1972	180,383	89,971	307,136	329,080	272,717	470,853
1971	150,656	83,968	255,643	289,887	251,845	413,672
1970	131,090	72,679	204,846	263,773	222,389	374,880
State and Local Taxes - Including Collections From Consumers:						
1974	$ 23,208	$ 10,515	$ 34,898	$ 27,697	$ 39,180	$ 91,079
1973	20,432	10,077	30,808	24,619	36,115	79,812
1972	19,391	9,617	25,897	22,834	32,456	70,533
1971	13,193	8,314	22,687	21,590	25,748	61,471
1970	14,118	7,264	18,882	19,508	23,079	51,615

TABLE B-5, continued

	Company 1	Company 2	Company 3	Company 4	Company 5	VEPCO
Net Income:						
1974	$ 25,888	$ 19,408	$ 72,271	$ 91,680	$ 61,236	$ 127,162
1973	26,716	20,359	65,999	87,804	55,988	124,072
1972	26,783	19,646	60,529	71,855	44,860	103,737
1971	21,476	17,006	37,474	57,579	36,863	82,048
1970	20,737	13,042	24,825	48,642	32,634	72,154
% State and Local Taxes of Total Revenue:						
1974	8.3	8.1	7.6	5.2	8.9	11.9
1973	10.0	9.8	9.0	6.4	11.3	14.5
1972	10.7	10.7	8.4	6.9	11.9	15.0
1971	8.8	9.9	8.9	7.4	10.2	14.9
1970	10.8	10.0	9.2	7.3	10.3	13.8

Company No. 1 - South Carolina Electric & Gas
Company No. 2 - Monogahela Power
Company No. 3 - Carolina Power & Light
Company No. 4 - Request that they not be identified. Serves the State of Ohio.
Company No. 5 Potomac Electric and Power

Source: Adapted from, W. F. Hellmuth, G. W. Jennings, L. G. Beall, *A Comparative Analysis of Public Utility Taxation in Virginia*, pp.27-28.

COMPARATIVE STATE TAX BURDENS ON GOODS & SERVICES OF SEVERAL HYPOTHETICAL MANUFACTURING FIRMS, TAXED AS PRIVATE CORPORATIONS AND AS PUBLIC UTILITIES UNDER THE STATE FRANCHISE TAX, 1974

	(1) Gross Sales	(2) Corporate Tax [(a)]	(3) Sales Tax [(b)]	(4) Principal State Taxes on goods and services of ordinary Firms	(5) Gross Receipts [(c)] Tax if An Electric or Gas Co.	(6) Gross Receipts [(c)] Tax if A Telephone Company
Ordinary Manufacturer	$14,300,000	$60,000	$429,000	$489,000	$512,550	$442,365
Tobacco	8,460,000	60,000	253,900	313,800	305,810	261,325
Electrical Machinery	12,418,000	60,000	372,540	432,540	444,798	384,023
Textiles	19,090,000	60,000	572,540	632,700	684,090	590,855
Chemicals	9,264,000	60,000	277,920	337,920	331,254	286,249

[a] Each firm has a 1 million dollar taxable income.

[b] It is assumed that all of the sales are taxed in Virginia at the 3 percent rate.

[c] The gross receipts tax includes the special tax to the SCC at the 1974 rate of 1/10 of 1 percent. It is assumed that all sales are taxed at the appropriate franchise tax rate.

Source: Adapted from W. F. Hellmuth, G. W. Jennings, and L. G. Beall, A Comparative Analysis of Public Taxation in Virginia, p. 37.

TABLE B-7

COMPARISON OF REVENUE YIELD OF THE STATE FRANCHISE TAX ON NONTRANSPORTATION PUBLIC UTILITIES WITH REVENUE YIELD OF THE STATE CORPORATION INCOME TAX AND THE STATE SALES AND USE TAX APPLIED TO PUBLIC UTILITY SERVICES, ESTIMATED 1974[1]
(in millions of dollars)

Tax	Present Structure of Taxation	Public Utility Taxed As An Ordinary Corporation
State Franchise	$51.7	
State Corporation Income[2]	---	$6.0
State Sales and Use[3]	---	39.8
TOTAL	$51.7	$45.8

[1]Includes all electric, telephone and gas utilities

[2]The following assumptions are made in deriving Sales and Use Tax estimates:

(1) 9 percent of electric and gas sales are tax exempt sales because of direct use in manufacturing and agriculture.

(2) No telephone sales qualify for this exemption.

(3) 8 percent of all sales are to governmental units and authorities and thus tax exempt.

Sources: Research Section, Department of Taxation; Committee Staff.

TABLE B-8

COMPARISON OF ESTIMATED STATE FRANCHISE AND SALES TAX COLLECTIONS ON HYPOTHETICAL IDENTICAL ELECTRIC, TELEPHONE, AND GAS COMPANIES, 1974, FOR SELECTED STATES*

State	Tax	Electric	Telephone	Gas
Virginia	Gross Receipts (3.5%) & Pole Line	$4,158,953	$442,741	$1,968,993
	Franchise	---	---	---
	Total	4,158,953	442,741	1,968,993
Kentucky	Gross Receipts	Nt	Nt	Nt
	License	85,016	38,009	29,814
	Sales (5%)	4,380,040	727,338	2,346,700
	Total	4,465,056	765,347	2,420,514
Maryland	Gross Receipts (2%)	2,377,903	290,935	1,067,891
	License	Nt	Nt	Nt
	Sales (4%)	3,504,032	Nt	1,877,360
	Total	5,881,934	290,935	2,945,251
North Carolina	Gross Receipts (6%)	7,133,705	872,806	3,221,934
	Other	---	---	TVU License Tax
	Total	7,133,705	872,806	3,221,934
South Carolina	Gross Receipts (.3%)	358,174	44,006	168,974
	Other (License)	364,355	162,895	127,778
	Sales (4%)	3,504,032	581,870	1,877,360
	Total	4,226,652	788,238	2,174,112
Tennessee	Gross Receipts (3.3%)	3,941,011	440,058	1,858,718
	License	182,178	80,054	65,389
	Sales (3.5%)	3,066,028	509,137	1,642,690
	Total	7,189,217	1,029,249	3,566,797
West Virginia	Gross Receipts[1] (5.72%)	5,810,685	548,604	2,335,813
	Total	5,810,685	548,604	2,335,813

*Because of interstate variations in the definition of taxable income, income taxes are excluded in this table for those states that impose them. They are Kentucky, Maryland, North Carolina, South Carolina, Tennesse and West Virginia.

[1]Business and Occupation Tax levied on gross receipts.

Source: Adapted from W. F. Hellmuth, G. W. Jennings, L. G. Beall, A Comparative Analysis of Public Utility Taxation in Virginia, p. 51.

TABLE B-9

STATE PUBLIC UTILITY GROSS RECEIPTS AND GENERAL SALES TAXES FOR SELECTED STATES PER CAPITA & PER $1,000, PERSONAL INCOME, 1974[1]

State	Dollars Per Capita: Specific Public Utility Gross Receipts Taxes	General Sales Tax on Public Utility Services	Total	Per $1,000 Personal Income: Specific Public Utility Gross Receipts Taxes	General Sales Tax on Public Utility Services	Total
Virginia	$10.27	none	$10.27	$2.14	none	$2.14
Kentucky	none	$13.00	13.00	none	$3.24	3.24
Maryland	6.68	9.29	15.97	1.22	1.70	2.92
North Carolina	16.84	none	16.84	4.00	none	4.00
South Carolina	4.72	7.50	12.22	1.24	1.97	3.21
Tennessee	1.39	7.85	9.24	.34	1.92	2.26
West Virginia	14.63	none	14.63	3.69	none	3.69

[1] All data below are estimated fiscal 1974 with the following exceptions: West Virginia is actual 1974 calendar year; South Carolina general public utility taxes are actual fiscal 1973; fiscal 1974 estimates were not available for South Carolina.

Sources: West Virginia Dept. of Revenue; State Tax Collections in 1974, U. S. Dept. of Commerce, Bureau of the Census (GF74 No. 1); Facts and Figures on Government Finance, 1975, Tax Foundation, Inc., New York, N. Y., 1975.

TABLE B-10

ESTIMATED CHANGES IN STATE NONTRANSPORTATION PUBLIC UTILITY FRANCHISE TAX RECEIPTS, PRESENT RATE STRUCTURE COMPARED WITH SENATE BILL 820, FISCAL YEARS 1975-76 THROUGH 1981-82
(in millions of dollars)

Electric, Gas, Water, and Telephone State Franchise Taxes

Fiscal Year	Estimated Revenue Under Under Present Rate Structure	Estimated Revenue Under S.B. 820 Rates	Estimated Change In State Receipts From Previous Year Under S.B. 820	Estimated Difference in State Receipts From Present Rate Schedule Under S. B. 820
1975-76	$ 71.0	$ 71.0	$ —	$
1976-77	78.8	76.5	+5.5	-2.3
1977-78	90.7	82.7	+6.2	-8.0
1978-79	103.0	87.7	+5.0	-15.3
1979-80	119.6	94.8	+7.1	-24.8
1980-81	136.6	100.2	+5.4	-36.4
1981-82	159.6	112.5	+12.3	-47.1

Sources: Public Service Taxation Division, State Corporation Commission; State Comptroller; Research Section, State Department of Taxation; VEPCO; APCO; C & P Telephone Company; C.J. Gallagher and G.E. Hoffer, Staff economists.

TABLE B - 11

STATE AND LOCAL TAXES PAID IN VIRGINIA
ON ELECTRIC, TELEPHONE AND GAS SERVICES,
AS A PERCENT OF OPERATING REVENUE

TYPE OF TAX

Industry	State Franchise	Local Consumer	Local Property	Total
Electric	3.5[a]	5.0	3.0[b]	11.5
Telephone	3.0	3.3	3.0	9.3
Gas	3.5	7.9	3.0	14.4

[a] If State recordation and special taxes are included the rate is 3.6 percent.

[b] If local franchise taxes are included the rate is 3.3 percent.

Sources: C. J. Gallagher and G. E. Hoffer, Staff Economists; adapted from W. F. Hellmuth, G. W. Jennings, and L. G. Beall, A Comparative Analysis of Public Utility Taxation in Virginia, p. 25.

TABLE B-12
STATE AND LOCAL RECORDATION TAX COLLECTIONS
AND PERCENT OF TOTAL RECORDATION TAX PAID
BY VEPCO, 1971-72 through 1974-75
(in millions of dollars)

Year	State Tax Collections	Local Tax Collections	Total Tax Collections	Total Vepco Recordation Tax Payments	Percent of Total Paid By Vepco
1971-72	$14.3	$4.7	$19.0	$.3	1.6
1972-73	17.7	5.8	23.5	0	0[1]
1973-74	17.1	5.6	22.7	0	0[1]
1974-75	15.0	4.9	19.9	.6	3.0

[1]There were no mortgage bonds issued during the fiscal years 1972-73 and 1973-74.

Sources: Department of Taxation, Annual Report, 1973-74; VEPCO.

TABLE B-13
STATE FRANCHISE AND POLE-LINE TAX RECEIPTS FROM NONTRANSPORTATION PUBLIC SERVICE CORPORATIONS, ON A CALENDAR YEAR BASIS, 1972 THROUGH 1975
(in thousands of dollars)

	Calendar Year			
Utility	1972	1973	1974	1975
Electric	$18,732	$21,229	$24,616	$33,505
Gas	3,177	3,624	3,450	4,158
Water	165	178	195	200
Telephone				
Gross Receipts	9,123	11,110	12,272	13,849
Pole-line	189	203	209	220
Telegraph				
Gross Receipts	47	52	55	28
Pole-line	6	6	8	11
Total	$31,439	$36,402	$40,805	$51,971

Source: Public Service Taxation Division, State Corporation Commission.

TABLE B-14

TOTAL STATE AND LOCAL RAILROAD TAX LIABILITY PER DOLLAR OF GROSS RECEIPTS, PER DOLLAR OF AFTER-TAX INCOME, AND PER FREIGHT-CAR MILE FOR SELECTED STATES AND YEARS

State	State & Local Tax Liability Per $ of Gross Receipts				State & Local Tax Liability Per $ of After-Tax Income				State & Local Tax Liability Per Frei ht-Car Mile			
	1960	1966	1970	1973	1960	1966	1970	1973	1960	1966	1970	1973
Virginia	.0563	.0361	.0487	.0418	.3949	.2138	.4369	.3871	.0177	.0104	.0189	.0196
Alabama	.0381	.0316	.0272	.0249	.3829	.2058	.2480	.2490	.0123	.0082	.0104	.0110
Florida	.0298	.0230	.0293	.0190	.3720	.1401	.3183	.2363	.0093	.0058	.0109	.0081
Georgia	.0290	.0214	.0299	.0193	.2908	.1394	.2726	.1936	.0093	.0055	.0114	.0085
Illinois	.0263	.0142	.0345	.0325	.2101	.1086	.2900	.2836	.0083	.0045	.0134	.0154
Kentucky	.0270	.0288	.0151	.0199	.1650	.1519	.1501	.1750	.0084	.0066	.0059	.0094
Maryland	-----	-----	.0318	.0293	-----	-----	.2859	.2472	-----	-----	.0126	.0140
N. Carolina	.0292	.0242	.0265	.0254	.1812	.1415	.1977	.2099	.0092	.0050	.0104	.0116
Ohio	.0410	.0557	.0537	.0451	.2040	.3115	.5004	.4069	.0122	.0172	.0211	.0223
S. Carolina	.0258	.0299	.0225	.0227	.2235	.1190	.1928	.2151	.0085	.0050	.0088	.0102
W. Virginia	.1386	.0467	.0376	.0394	.6904	.2612	.3502	.3553	.0411	.0145	.0148	.0195

Source: C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: An Interstate-Intermodal Analysis, p. 117.

TABLE B-15
STATE AND LOCAL GENERAL TAXES PER DOLLAR OF GROSS RECEIPTS
BY SELECTED TYPE OF MOTOR CARRIERS FOR SELECTED YEARS

Carrier	Federal General Taxes	All State General Taxes	Virginia General Taxes	Federal and State General Taxes	Federal and Va. General Taxes
1973					
Interstate Common--Va.	.0394	.0116	.0083	.0510	.0477
Interstate Common--Foreign	.0077	.0043	.0011	.0120	.0088
Intrastate Common--Va.	.0512	.0133	.0077	.0645	.0589
Intercity Buses	.0384	.0173	.0154	.0557	.0538
1970					
Interstate Common--Va.	.0351	.0090	.0048	.0041	.0399
Interstate Common--Foreign	.0138	.0049	.0011	.0187	.0149
Intrastate Common--Va.	.0243	.0102	.0091	.0345	.0334
Intercity Buses	.0513	.0159	.0123	.0672	.0646
1966					
Interstate Common--Va.	.0146	.0040	.0043	.0186	.0189
Interstate Common--Foreign	.0126	.0029	.0009	.0155	.0135
Intrastate Common--Va.	.0068	.0037	.0010	.0105	.0078
1960					
Interstate Common--Va.	.0294	.0024	.0043	.0318	.0037
Interstate Common--Foreign	.0076	.0054	.0000	.0130	.0076
Intrastate Common--Va.	.0311	.0024	.0037	.0335	.0348

Source: C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: an _Interstate-Intermodal Analysis_, p.39.

TABLE B-16
SYNOPSIS OF RAILROAD TAXATION IN SELECTED STATES, 1974[1]

State	Regular Corporation Income Tax	Regular Business Franchise Tax	Gross Receipts Tax	Intrastate Gross Receipts Tax	Special Regulatory Tax	Local Property Taxation, State Assessed	Separate Rolling Stock Tax	Intangibles Tax	Special License Tax
Virginia			X		X	X	X		
Alabama	X	X		X		X			
Florida	X				X	X			X
Georgia	X	X			X	X		X	
Illinois	X	X			X	X			
Kentucky	X					X		X	
Maryland	X		X		X	X			
New Jersey						X[2]			X
New York		X	X			X[3]			X
North Carolina	X					X		X	X
Ohio				X	X	X		X	
South Carolina	X			X	X	X		X	X
West Virginia	X	X		X[4]	X	X		X	X

[1]Most states to varying degrees exempt railroads from state sales and use taxes on items used directly in rendition of their public service responsibilities. In the sample, New York grants the fewest exemptions, while West Virginia exempts all railroad purchases.

[2]New Jersey taxes only selected railroad property. The tax is assessed and collected at the State level, with receipts credited to the State General Fund.

[3]New York has a "circuit breaker" on those real railroad properties subject to taxation; real property is locally assessed.

[4]West Virginia, in addition to a tax on intrastate gross receipts, levies an "additional tax" on carrier net income.

Source: C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: An Interstate-Intermodal Analysis, p. 102.

TABLE B-17
ESTIMATED STATE FRANCHIS TAX RECEIPTS FROM RAILROADS
UNDER PRESENT AND SENATE BILL 820
PROPOSED RATE STRUCTURE
(in millions of dollars)

Fiscal Year	(1) Estimated Receipts Under Present 1.5% Tax	(2) Estimated Under S.B. 820 Proposed Rate Structure	(3)[a] Estimated Change in State Receipts from Previous Year	(4)[b] Estimated Difference from Present Schedule
1975-76	$6.7	$6.7	———	———
1976-77	7.1	6.9	+.2	-.2
1977-78	7.5	6.8	-.1	-.7
1978-79	8.0	6.7	-.1	-1.3
1979-80	8.5	6.5	-.2	-2.0
1980-81	8.8	6.2	-.3	-2.6
1981-82	9.4	6.3	+.1	-3.1

[a]Column 3 was derived by subtracting the estimated revenues in column 2 for the previous fiscal year from the present fiscal year's estimated revenues in the same column.

[b]Column 4 was derived by subtracting column 1 from column 2 for the year shown.

Sources: Research Section, State Department of Taxation: Virginia Railway Association; Staff economists.

TABLE B-18
USER CHARGE PAYMENTS PER MILE BY SELECTED TYPE
OF MOTOR CARRIER FOR SELECTED YEARS

Carrier	Federal User Charge Per Mile	All-State[a] User Charge Per Mile	Virginia User Charge Per Mile	Federal and State User Charge Per Mile	Federal and Va. User Charge Per Mile
1973					
Interstate Common--Va.	.0241	.0375	.0543	.0616	.0784
Interstate Common--Foreign	.0228	.0325	.0242	.0553	.0470
Intrastate Common--Va.	.0248	.0399	.0447	.0647	.0695
Intercity Buses[b]	.0203	.0286	.0372	.0489	.0575
1970					
Interstate Common--Va.	.0244	.0373	.0515	.0621	.0759
Interstate Common--Foreign	.0227	.0315	.0206	.0542	.0433
Intrastate Common--Va.	.0271	.0484	.0423	.0755	.0694
Intercity Buses	.0195	.0270	.0339	.0465	.0534
1966					
Interstate Common--Va.	.0197	.0278	.0586	.0475	.0783
Interstate Common--Foreign	.0205	.0272	.0222	.0477	.0427
Intrastate Common--Va.	.0240	.0401	.0495	.0641	.0735
1960					
Interstate Common--Va.	.0189	.0282	.0377	.0471	.0566
Interstate Common--Foreign	.0183	.0302	.0205	.0485	.0388
Intrastate Common--Va.	.0201	.0326	.0521	.0527	.0722

[a]The terms "all state", "all state average", and "total state" as used herein refer to the taxes paid by the sample motor carriers to the states in which they travel. In essence, we are comparing what the sample motor carriers pay to Va. with what they pay to the other states in which they travel.

[b]We have ascertained motor passenger carrier (bus) contributions throughout the study for the years 1970 and 1973 only.

Source: C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: An Interstate-Intermodal Analysis, p. 35.

TABLE B-19
ESTIMATED ALLOCATED COST PER MILE BY INCREMENTAL COST METHOD, BY CLASS OF MOTOR CARRIER, 1973*

Class of Motor Carrier	Cost Per Mile in Cents
Interstate Common Carriers - Virginia Domicile	8.73
Interstate Common Carriers - Foreign Domicile	9.68
Intrastate Common Carriers - Virginia Domicile	7.29

* Dr. Zeis believes that these estimates of allocated cost per mile are too low. See his accompanying dissent.

Source: C. J. Gallagher and G. E. Hoffer, Transportation Taxation in Virginia: An Interstate-Intermodal Analysis, p. 32.

TABLE B-20

A COMPARISON OF ESTIMATED STATE REVENUES UNDER PRESENT FRANCHISE TAX RATES ON NONTRANSPORTATION PUBLIC UTILITIES AND PROPOSED REDUCED FRANCHISE RATES ON NONTRANSPORTATION PUBLIC UTILITIES, THE ELIMINATION OF SELECTED EXEMPTIONS FROM THE SALES AND USE TAX BASE AND THE EXTENSION OF THE SALES AND USE TAX TO NONTRANSPORTION PUBLIC UTILITY SERVICES, 1976-77 THROUGH 1981-82.
(in million of dollars)

	ESTIMATED REVENUES PROPOSED STRUCTURE				
Fiscal Year	Franchise Tax	Sales Tax on Public Utility Services [a]	Sales Tax on Selected Services [a]	Total [b]	Estimated State Revenues Present Rate from Franchise Tax
1976-77	$75.6	$51.7	$43.4	$170.7	$78.8
1977-78	79.7	58.7	49.3	187.7	90.7
1978-79	82.1	64.9	54.5	201.5	103.0
1979-80	85.4	72.1	60.5	218.0	119.6
1980-81	86.4	80.8	67.8	235.0	136.6
1981-82	94.3	90.5	75.9	260.7	159.6

[a] Estimates bases on long-term sales tax collection projections in B. E. Lipman, and R. D. Brown, Fiscal Projects and alternatives: 1976, A Staff Report of the Revenue Resources and Economic Commission, P.103.

Estimated increased revenues to localities from the proposal can be derived by taking one-third of the sum of the two columns footnoted (a). The increases range from $31.7 million in 1976-77 to $55.5 million in 1981-82.

Source: C. J. Gallagher and G. E. Hoffer, Staff Economists

TABLE B - 21

A COMPARISON OF THE ESTIMATED LOCAL REVENUES UNDER THE PRESENT LOCAL CONSUMER UTILITY AND FRANCHISE TAX RATES ON NONTRANSPORTATION PUBLIC UTILITIES WITH THE ESTIMATED REVENUES DERIVED FROM THE EXTENSION OF THE SALES AND USE TAX TO NONTRANSPORTATION PUBLIC UTILITY SERVICES, THE INCREASE IN THE SALES AND USE TAX RATE BY 0.5 PERCENT AND THE ELIMINATION OF SELECTED EXEMPTIONS FROM THE SALES AND USE TAX BASE, FISCAL YEARS 1976-77 THROUGH 1981-82
(in millions of dollars)

	ESTIMATED LOCAL REVENUES UNDER PROPOSED STRUCTURE				
Fiscal Year	Sales Tax on Selected Services[a]	Sales Tax on Public Utility Services[a]	Increase in Sales Tax on Original Base[a]	Total Local Revenues From Proposed Structure	Estimated Total Local Revenues From Consumer Utility and Local Franchise Taxes[b]
1976-77	$21.7	$25.9	$81.1	$128.7	$110.0
1977-78	24.7	29.4	92.1	146.2	121.0
1978-79	27.3	32.5	101.8	161.6	130.7
1979-80	30.3	36.1	113.2	179.6	138.5
1980-81	33.9	40.4	126.5	200.8	145.4
1981-82	38.0	45.3	141.2	224.5	151.3

[a]Estimates based on long-term sales tax collection projections in B. E. Lipman and R. D. Brown, Fiscal Prospects and Alternatives: 1976, A Staff Report to the Revenue Resources and Economic Commission, p. 103.

[b]Estimates based on actual 1974 and estimated 1975 collections. It was assumed that the annual rates of increase in collections from these taxes were 10% in 1977-78, 8% in 1978-79, 6% in 1979-80, 5% in 1980-81 and 4% in 1981-82. The declining rate of increase is based on the fact that most localities are constrained by the statutory ceilings imposed on the consumer utility tax by the General Assembly. This issue is discussed in Recommendation 4.

Source: C. J. Gallagher and G. E. Hoffer, Staff economists.

TABLE B-22
THE ESTIMATED LOCAL REVENUES FROM A 0.5 PERCENT SALES TAX, THE ELIMINATION OF SELECTED EXEMPTIONS FROM THE SALES AND USE TAX BASE AND THE EXTENSION OF THE SALES AND USE TAX TO NONTRANSPORTATION PUBLIC UTILITY SERVICES COMPARED WITH THE ESTIMATED LOCAL REVENUES FROM THE CONSUMER UTILITY TAXES AND LICENSE TAXES FOR SELECTED LOCALITIES, CALENDAR YEAR 1975
(in millions of dollars)

Localities	Estimated 1975 Consumer Utility and License Tax Collections	Estimated 1975 Revenue Collections from Proposed Structure
All Virginia Localities Including Those Not Shown	$105.0	$99.6
Norfolk*	19.5	8.4
Fairfax County*	16.6	13.0
Richmond*	15.0	9.7
Virginia Beach*	6.2	4.6
Roanoke City*	5.4	3.7
Alexandria*	4.6	3.7
Portsmouth*	4.2	2.5
Newport News	3.7	3.3
Chesapeake*	3.3	1.6
Hampton	3.2	2.8
Prince Williams	2.9	2.9
Henrico*	2.0	5.4
Lynchburg	1.9	2.6
Charlottesville*	1.6	1.9
Albemarle*	1.5	.8
Augusta	.7	.8
Chesterfield	.2	1.8
Roanoke County*[1]	0	1.9

* Collections under present structure estimated by locality.

[1] Tax expired with service rendered through September 30, 1974. Collections in 1974 were $.8 million.

Sources: Survey by C. J. Gallagher and G. E. Hoffer, staff economists, Research Section, Department of Taxation.

APPENDIX C

THE INCIDENCE OF STATE FRANCHISE TAXES ON ELECTRIC, GAS, AND TELEPHONE SERVICES

A Report Prepared for the Special Committee to Study State Franchise and License Taxes Applicable to Public Service Corporations in Virginia

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Table of Contents

Introduction

In studying particular taxes it is useful to start by stating two widely accepted criteria for "good" tax structures. First, the distribution of the tax burden should be equitable. Equity may be approached in several different ways. Under the benefit principle each taxpayer contributes in line with the benefits he receives from expenditures on public services. Since actual tax policy is largely determined independently of the expenditure side, an alternative to the benefit principle is needed as a guide to equity. The ability-to-pay principle is the widely accepted alternative and generally calls for equal amounts of tax to be paid by consumers with equal tax capacities measured by income and different amounts of tax to be paid by consumers with different incomes.

Second, taxes should be chosen so as not to distort economic decisions in otherwise well-operating markets. As a tax is imposed, consumers and firms respond by adjusting their behavior. This adjustment affects the burden distribution or incidence of the tax, that is, the place where the tax burden finally comes to rest, as opposed to the legal impact that refers to place where the tax is initially paid. Thus, adjustments to the tax not only affect the efficiency of resource use in the private sector but also bear upon its incidence and equity. In terms of efficiency, or not distorting economic decisions in otherwise well-operating markets, economists have recommended that if a selective tax on gross receipts is to be utilized, it be placed on products like electricity or telephone service for which the quantity demanded is not very responsive to price (and therefore tax) change. Since a consumer cannot easily avoid such taxes, the operation of otherwise well-functioning markets is not harmed much.

This study deals with the incidence of the State franchise taxes on electric, gas, and telephone services. In section II we discuss the expected and estimated incidence of State franchise taxes on residential service, and in section III we discuss the incidence of these taxes applied to commercial and industrial service.

II. The Incidence of State Franchise Taxes on Residential Customers

A. The Expected Incidence

The three candidates for the burden of the State franchise taxes on residential customers are residential consumers, utility stockholders, and labor. Residents are clearly affected since these taxes are part of the cost of service used in computing regulated prices. Assuming that demand is sufficiently strong and inelastic, as a gross receipts tax is imposed the price of the utility service in question is increased via the regulatory process, and all of the tax burden is transferred to the residential consumer.

Stockholders of privately owned public utilities are not affected by these taxes since the State Corporation Commission can be expected to adjust prices and profits to a level that yields utility investors an adequate rate of return. If there is a regulatory lag between the time when the State increases taxes and the time when the State Corporation Commission adjusts prices upward, then stockholders do bear the incidence of increased taxes during this period. Conversely, during the period of a regulatory lag after after a decrease in State utility taxes, stockholders may earn unusually high profits.

After a tax increase a utility may find that less product will be demanded at the higher price, resulting in less demand for labor and lower wages. This scenario in which some of the burden of tax falls on labor is unlikely to occur in the case of public utilities since they represent a small fraction of the demand in labor markets.

Thus of the three possible candidates for the burden of State taxes on utility service to residential consumers, we expect the burden to fall on residential customers after the State Corporation Commission has adjusted prices to reflect these taxes.

B. The Estimated Incidence of State Franchise Taxes on Residential Electric and Gas Service

Since these taxes are paid by residents and are reflected in the gross receipts of public utilities, we can obtain estimates of the amounts of such taxes paid by families in various income classes by first examining consumption expenditures for utility services in each income class and then assigning to each income class the amount of residential tax paid on each particular service.

Annual expenditure on electricity and gas by income class are reported in a Bureau of Labor Statistics survey (4) constructed on the basis of diary data collected over the period July 1972 to June 1973 from 10,000 families in the U.S. which kept daily records of their expenditures for two one-week periods. In Table 1 annual expenditures on electricity and gas as a percentage of income fall from 7.85 percent for incomes between $1875 and $3399 to 2.08 percent for incomes between $15,000 and $19,474. Thus low income families pay the highest fraction of their income for electricity and gas, and the proportion of each dollar of these services paid to the State for taxes represents the highest proportion of their income. Since occasionally concern surfaces about the incidence of the sales tax on food, for the purpose of comparison we report in Table 1 expenditures on food by income class.

To estimate the amount of gross receipts taxes paid by electric and gas residential customers we first refer to Table 2 to calculate the ratio (.0349) of Virginia gross receipts taxes on both services to sales of these services. We then multiply this ratio times the number of dollars spent on electricity and gas in each income class to obtain the amount of gross receipts taxes paid annually by each income class. In Table 3 we report the estimated annual gross receipt taxes by income class. These taxes vary from $7.22 for the income class $1875 to $3399 up to $12.60 for the income class $15,200 to $19,474.

These calculations have several qualifications since they utilize data that is less than ideal because of availability. First, expenditure data reported in Table 1 is for typical U.S., not Virginia, families.

Second, the per cent of sales to residents is based on 1973 data from VEPCO'S service area. The latest figures available for all Virginia utilities on a consolidated basis are for the year 1971. Since that time the price of electricity to residential and commercial users has increased relative to the price of electricity to industrial users. Thus, the breakdown of sales into types of users was obtained for a large utility (VEPCO) for a more recent year.

C. The Estimated Incidence of State Franchise Taxes on Residential Telephone Service

Calculations similar to the ones above can be performed for residential telephone service. Annual residential expenditures on telephone service by income are obtained from a 1974 survey by Chesapeake and Potomac Telephone Companies. These data are in Table 4 where also we report the estimated annual gross receipts taxes paid on telephone service. Since only 72.6 percentFN # 1 of the residential calls in Virginia are intrastate and therefore subject to the Virginia gross receipts tax, the estimated annual gross receipts tax for each income class is adjusted downward.

D. How Regressive Are State Franchise Taxes?

In Table 5 we summarize the average degree of regressivity of State franchise taxes on electricity, gas, and telephone service and compare these to a State sales tax on food. The last column of Table 5 measures tax regressivity by taking the ratio of percent of income paid in State taxes by low income families to the percent of income paid in State taxes by high income families. These ratios indicate that the State franchise taxes on electricity- gas, and telephone services are slightly more regressive than the State sales tax applied to food.

III. The Incidence of the State Franchise Tax on Commercial and Industrial Customers

A. The Incidence of Taxed Utility Sales to Commercial Customers

The extent to which the burden of these State taxes on public utilities falls directly on commercial customers varies with the market structure in which each firm operates. In general, a Virginia firm selling in a regional or national geographic market will find it more difficult to shift the burden of increased public utility taxes to final consumers than a firm that competes with local or statewide firms only. Commercial firms such as retal stores in Virginia can generally be expected to shift the burden of increased utility taxes to final consumers since almost all of these stores face competitors with the same State utility taxes and, therefore, the same cost of production. However,. to the extent that the retail clientele of Virginia stores can shop in states (like Tennessee and West Virginia in the case of electricity) with lower utility taxes, these consumers will be able at least partially to avoid the Virginia tax differential and thereby force the retail store owners in Virginia to absorb some of the tax.

Since shopping outside the State seems to be of minor importance, we will assume that all of the State franchise taxes on public utility services are shifted to the final consumer in proportion to family consumption expenditures. Since a breakdown between commercial and industrial is not available for telephone companies, we will focus here only on electric and gas services. From Table 2 we calculate that the commercial customers of electric and gas utilities paid $8.06 million in utility taxes in 1974. These taxes were passed on to final consumers generally in proportion to their consumption expenditures. In Table 6 we report annual consumption for four person families. Since the amount of this tax paid will be proportional to the ratio of consumption to income at each level (reported in the last row Table 6), it is apparent that the State franchise taxes on commercial sales are much less regressive than the same taxes on residential sales. This is intuitively obvious, since the commercial sales of final goods and services capture the whole spectrum of income while residential sales of utility services diminish in proportion to income as income increases.

B. The Incidence of Taxed Utility Sales to Industrial Customers

The incidence of State gross receipt taxes on industrial customers varies with the market structure in which each firm operates. Here we will see that the incidence is less certain and is a function of the geographic location of firms in a particular industry. Several different cases with different incidence implications can be identified.

In the first case we will assume that Virginia firms produce a product that is sold only in Virginia and there are no imports from out of state firms. This is the case, we have argued, that is most important in considering the incidence of taxed utility sales to commerical customers. Here the incidence will fall on residential customers in proportion to their expenditure patterns. If one firm is selling a product to a second firm, then the final incidence pattern can be determined by considering the case (discussed here or below) pertaining to the second firm.

In a second case we can consider a large number of imports from another state and Virginia firms still selling in Virginia only. If the Virginia gross recipts tax rate on a utility service is higher than the tax rate in the other state and if the market is reasonably competitive, the Virginia firm faced with relatively high unit production costs and a low market price will not earn a rate of return high enough to operate in the long run. Thus, in this case the short-run incidence falls on stockholders and the long-run incidence will fall on land and labor if there is significantly less demand for these factors of production. To the extent that the Virginia firms have a transportation cost advantage imports may not occur even though production costs are higher. If the Virginia gross receipts tax rate on a utility service is lower than in the states from which imports come, then in the short run Virginia firms will earn above normal profits by pricing at the level of production cost plus transportation cost faced by firms in other states, but in the long run prices will fall in Virginia as new firms enter the market.

In a third case we can consider Virginia firms exporting to other states. Virginia firms will only export to those states where the market price is high enough to cover all production and transportation costs at the margin. Thus, if Virginia utility taxes are significantly lower than in some states, Virginia firms will in the short run be able to earn above normal profits at the expense of lower profits for firms in these states. In the long run many firms will build plants in Virginia and export to other states and none will earn an above normal level of profit.

Since cases two and three are most realistic it is useful to summarize their incidence. Higher (lower) utility taxes in Virginia than in states where competitors produce yield in the short run lower (higher) profits to Virginia firms and higher (lower) profits to these non-Virginia firms. Thus the short-run incidence of the utility tax differential falls on or accrues to the firms' owners. In the long run as capital moves to states where it can produce and sell at least cost, higher (lower) utility taxes in Virginia than in other states where transportation costs make production feasible lead to a smaller (higher) Virginia demand for labor and land and thus a lower (higher) return to these factors. However, if labor is mobile then any wage differential will be eliminated by in or out migration. Thus the long-run incidence of the utility tax differential falls on or accrues to land and labor to the extent that it is not mobile.

The analysis so far has dealt only with the gross receipts tax differential between Virginia and other states. To the extent that all states have a gross receipts tax rate of at least x percent, firms will pass that amount of the tax on to final consumers who will bear the incidence in proportion to their consumption patterns.

Since the cost of utility services is influenced by all forms of taxes (i.e., property, local gross receipts, and state income taxes), we now turn to an analysis of the level of overall taxation of electricity in Virginia and some neighboring states. Electricity is selected because it is a major component of the cost of some firms.

In Table 7 we report state and local taxes as a percent of operating revenue for some major firms operating in Virginia, North Carolina, Kentucky, and Maryland. From these figures it would appear the total tax differential between Virginia and its neighbors is small. Virginia firms exporting products to Maryland and North Carolina should be able to pass on to final consumers virtually the entire tax bill on electric service since these states have taxes as a per cent of electric operating revenue either above or slightly below the Virginia level. Because of cheaper electricity in Kentucky due to the Tennessee Valley Authority and lower tax rates, Kentucky and other states in the T.V.A. service area are more attractive to firms (such as metal producers) for which electricity represents a large proportion of their production costs.

IV. Summary

We have found that the incidence of the State franchise taxes on electric, gas, and telephone residential services is slightly more regressive than the incidence of the State sales tax on food. This should not be a surprising result since as a family's income increases it cannot spend more by increasing the quality of electricity and gas it consumes, but it may spend more by increasing the quality of food consumed. We are not saying that the sales tax on food is "bad" since this is a normative judgement outside the economist's realm. The local consumer tax on these services is even more regressive since, as discussed in (1) and (2), these taxes cannot apply to more than the first $15 of a family's monthly bill (unless the locality falls under a grandfather clause).

We found that the incidence of State franchise taxes on utility sales to commercial customers to be about the same as a general sales tax since the former taxes are passed on to Virginia consumers in virtually every good or service they consume. Also the bulk of the franchise tax on utility sales to industrial customers is passed on to final consumers in proportion to their expenditure pattern to the extent that Virginia charges the same aggregate level of utility taxes as other states.

References

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2. Knapp, John L. "Estimated Tax Bills for Three Family Income Levels," Tax Rates in Virginia Cities and Selected Counties: 1974, Virginia Municipal League and the Institute of Government, University of Virginia.

3. U.S. Department of Labor, Bureau of Labor Statistics. Monthly Labor Review, "Family Budget," pp. 57-62.

4. ...., "News," May 15, 1975.

FOOTNOTES

1. This caculation is based on C & P data furnished by O. O. Ashworth at C & P's Washington Office.

Table 1: Annual Family Expenditures on Electricity and Gas and Food (at home and away) by Income for All Urban and Rural Families and Single Consumers, United States

Family Income Before Taxes									
Under $1875	1875-3399	3400-5000	5001-6899	6900-8749	8750-10,499	10,500-12,549	12,550-15,199	15,200-19,474	19,474 and over
Annual Expenditures on Electricity and Gas									
$273	207	223	253	265	310	323	346	361	405
Annual Expenditures on Gas and Electricity as a Percentage of Income[a]									
____	7.85%	5.31%	4.24%	3.39%	3.22%	2.80%	2.49%	2.08%	____
Annual Expenditures on Food (at home and away)									
$745	1071	1369	1641	1899	2095	2416	2580	2993	3710
Annual Expenditures on Food (at home and away) as a Percentage of Income[a]									
____	40.7%	32.5%	27.6%	4.0%	21.7%	21%	18.6%	17.3%	____

[a] Calculated using the mean of closed class intervals

Source: (4)

Table 2: Utility Sales and Taxes in Virginia for 1974

Type of Service	Sales ($1000's)	Percent of Sales to: Residential Customers	Commercial Customers	Industrial Customers	Virginia Gross Receipt Taxes ($1000's)
Electricity	$704,845	43.7%[a]	28.5%[a]	12%[a]	$24,616
Gas	$108,204	61.7%[b]	28.2%[b]	9.4%[b]	$3,750
			Business Customers		
Telephone	$409,798	50.1%[c]	49.9%[c]		$12,272

[a] Based on 1973 data in Vepco's Annual Report

[b] Based on 1973 data furnished by Vepco from Clark Stevens' office

[c] Based on 1973 data furnished by C&P, Washington Office, O. O. Ashworth

Table 3: Estimated Annual Gross Receipt Taxes by Income Class for Electricity and Gas

Family Income Before Taxes

$1875-3399	3400-5000	5001-6899	6900-8749	8750-10,499	10,500-12,549	12,550-15,199	15,200-19,474
Estimated Annual Gross Receipts Taxes for Electricity and Gas by Income Class (1972-1973)							
$7.22	7.78	8.82	9.42	10.82	11.27	12.07	12.60
Estimated Annual Gross Receipts Taxes for Electricity and Gas by Income Class (1974)							
$9.44	10.41	11.50	12.28	14.11	14.70	15.75	16.44

Annual Residential Expenditures on Telephone by Income Based on C&P's Sample of Virginia Residents - 1974

Family Income Before Taxes						
3000-4999	5000-7499	7500-9999	10,000-14,999	15,000-19,999	20,000-29,999	Over 30,000
Annual Expenditures on Telephone Service						
153.36	179.28	197.88	191.52	273.60	351.60	275.04
Annual Expenditures as a Percentage of Income						
3.83%	2.86%	2.26%	1.53%	1.56%	1.41%	
Estimated Annual Gross Receipts Tax Paid on Telephone Service						
$3.34	3.90	4.31	4.17	5.96	7.66	

(Note: Some computational adjustments were made by the Committee Staff to this table.)

Table 5: Relative Incidence in Selected Income Classes

Income	State Franchise Tax or State Sales Tax Paid	Percent of Income Paid in State Taxes	Measure of Regressivity
(Electricity and Gas) 3400 - 5000	$7.78	.185%	
(Telephone) 3000 - 4999	$3.34	.084%	
(Food) 3000 - 4999	$41.07	1.027%	
(Electricity and Gas) 15,200 - 19,474	$12.60	.073%	2.53
(Telephone) 15,000 - 19,999	$5.96	.034%	2.47
(Food) 15,200 - 19,474	$89.79	.518%	1.98

(Note: Some computational adjustments were made by the Committee Staff to this table.)

Table 6: Annual Consumption for a 4-Person Family at Three Levels Living in the Urban United States, Autumn 1973

Componentor Ratio	Lower Income	Intermediate Income	Higher Income
Total Income	$8181	$12,626	$18,021
Total Family Consumption	$6580	$9761	$13,450
Ratio of Consumption to Income	.80	.77	.74

Source: (3, p. 57)

Table 7: All Local and State Taxes Paid by Firms Operating Predominantly in Virginia or in a Neighboring State - 1973

All taxes are given as a percent of operating revenue

	State Gross Receipt and Property Taxes	Local Gross Receipt Taxes	Sales Tax	State Income Tax	Total State and Local Taxes as a Percent of Sales
Virginia Electric Power Co.	7.6%	5.6%[a]	none	.0%	13.2%
Duke Power Co.	8.4%	none	4%	.3%	12.7%
Kentucky Power Co.	2.7%	none	5%	.01%	7.7%
Baltimore Gas and Electric	16.5%	none	none	none	16.5%

[a] 1974 figure

Sources: (1) and (2).