

Fair Taxes ★ Quality Schools



*A COMMONWEALTH OF OPPORTUNITY PLAN*

# A Budget and Tax Reform Plan

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Creating Tax Fairness

Keeping our Commitment to Education

Preserving Virginia's Fiscal Integrity

## Fiscally Responsible Approach

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The Warner Administration has instituted sweeping reforms to help ensure accountability to taxpayers and restore Virginia's fiscal stability. We have worked with the General Assembly to close a \$6 billion budget shortfall:

- Eliminated more than 50 agencies, boards, and commissions.
- Eliminated 5,000 positions from state government.
- Cut every agency by an average of 20%.
- Produced significant savings through government-wide efficiency plans.

***But more must be done.***

## A Long-Term Vision

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To sustain our progress, we will launch a tax and budget reform plan with three goals:

1. Make the tax system more fair.
2. Meet Virginia's Constitutional commitment to provide a quality public education.
3. Protect the Commonwealth's fiscal integrity.

## Creating Tax Fairness: *What the Plan Will Accomplish*

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- ✓ Lower the income tax for most Virginians.
- ✓ Reduce the food tax by 1.5 cents and add 1 cent to the sales tax.
- ✓ Close corporate loopholes.
- ✓ Increase Virginia's lowest-in-nation state cigarette tax to pay for health care needs. Give counties ability to levy the tax, up to a cap.
- ✓ Finish the promise to end the car tax.
- ✓ Eliminate estate tax for working farms and family-owned businesses.
- ✓ End the unfair accelerated sales tax collection for retailers.
- ✓ Provide incentives for small and mid-size businesses to invest.
- ✓ Ease the tax burden on military, reservists, and National Guard families.
- ✓ Streamline collection of the state sales tax.

## Creating Tax Fairness: *Individual Income Tax*

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- ✓ Provide a larger personal exemption (from \$800 to \$1,000).
- ✓ Provide a larger standard deduction for individuals (from \$3,000 to \$4,000).
- ✓ Eliminate the marriage penalty (raising the standard deduction for married couples from \$5,000 to \$8,000).
- ✓ Lower income taxes for all filers on first \$20,000 income.
- ✓ Raise the income threshold for filing tax returns (from \$5,000 to \$7,000 for individuals and from \$8,000 to \$14,000 for couples).
- ✓ Conform to provisions of the federal Military Family Relief Act.
- ✓ Create 6.25% bracket for those with taxable income above \$100,000. *Less than 8% of filers are affected.*

## Creating Tax Fairness: *Reforming Age Deduction*

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- ✓ Preserve \$12,000 deduction for current seniors 65 and older.
- ✓ Preserve \$6,000 deduction for current seniors aged 62 – 64.
- ✓ For persons turning 65 after January 1, 2005, the age deduction will be based on income.
  - For individuals, the age deduction will be reduced by \$1 for every \$2 above \$50,000 of income, and phased out for individuals with incomes above \$74,000.
  - For couples, the age deduction will be reduced by \$1 for every \$2 above \$75,000 of income, and phased out for couples with incomes above \$123,000.
  - The \$6,000 deduction for persons aged 62 to 64 will no longer be available for those who become 62 after January 1, 2005.

***100% of Current Seniors 65 and Older are Unaffected.***

***Over 75% Of Future Single and Married Seniors***

***Will Not Be Affected.***

## Creating Tax Fairness: *Sales and Use Tax*

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- ✓ Lower sales tax on groceries (from 4 cents to 2.5 cents by 2005) (1 cent reduction on July 1, 2004; additional half cent reduction on July 1, 2005)
- ✓ Increase sales tax on non-food items by one cent (currently 2<sup>nd</sup> lowest sales tax in nation). Virginia remains lower than most neighboring states.
- ✓ End unfair accelerated sales tax filing for retailers adopted in 2002 as one-time budget fix.
- ✓ Modernize the state sales tax by adopting the multi-state streamlined sales tax statute (without sourcing rules), effective July 1, 2006. (This will not allow taxes on internet access.)

## Creating Tax Fairness: *Car Tax*

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Eliminate car tax (frozen currently at 70%) in budgets proposed during Governor Warner's term, subject to existing triggers:

- ✓ 77.5% in 2005.
- ✓ 85% in 2006.
- ✓ 92.5% in 2007.
- ✓ 100% elimination in 2008.

## Creating Tax Fairness: *Cigarette Tax*

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- ✓ 2.5 cents per pack state tax moves to 25 cents per pack, dedicated for health care.
  
- ✓ Expand taxing authority to counties over three years, and cap combined state and local taxes at 75 cents per pack (50 cpp local, 25 cpp state).
  - July 1, 2004      up to 20 cpp
  - July 1, 2005      up to a total of 35 cpp
  - July 1, 2006      up to a total of 50 cpp
  
- ✓ Localities that have a higher local cigarette tax than 50 cpp may levy their existing tax, but may not raise it further.

***Ease the pressure on local property taxes.***

## Creating Tax Fairness: *Estate, Business, & Corporate Income*

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- ✓ Fully eliminate estate tax on working farms and closely held businesses (if they comprise the majority of the estate), and estates up to \$10 million in value.
- ✓ Stimulate investment by allowing companies to deduct as business expenses up to \$100,000 in equipment purchases (conform to recent federal tax changes).
- ✓ Close corporate tax loopholes. *21 of 50 largest corporate employers paid no corporate income tax in Virginia in 1999.*
  - Eliminate “Delaware holding company” loophole.
  - Eliminate the “nowhere income” loophole, ensuring that profits on goods shipped from Virginia are taxed in Virginia, unless they are taxed in another state.
  - Require more “pass-through entities” to identify their owners, most of whom live outside Virginia.

## Keeping our Commitments

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The budget and tax reform plan enables Virginia to:

- ✓ Properly fund the Standards of Quality (SOQ) for public education (enrollment growth, inflation, and teacher retirement estimated at an additional \$715 million).
- ✓ Begin to address chronic underfunding of higher education (increase investment by about \$140 million over biennium to address enrollment and research needs).
- ✓ Keep commitment to transportation by dedicating part of the insurance premiums tax and paying debt service on FRANs from the general fund (additional \$370 million over biennium).
- ✓ Begin to replenish the Revenue Stabilization Fund.
- ✓ Make Virginia financially stable and reduce pressure on local governments to raise property taxes.

## Preserving Virginia's Fiscal Integrity

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Why can't we meet basic commitments within the current revenue structure?

**Fiscal Reality:** Virginia still faces a \$1.2 billion shortfall next biennium -- without any new programs.

- Medicaid: Baseline growth above 8% per year means \$800 million in additional costs for health care needs.
- Adult Inmates: More than 4% a year average growth in adult inmates in this decade exceeds prison capacity.
- Public Education: 100,000 new students by end of decade and commitment to pay the state share of the Standards of Quality.
- Car Tax Cut: Growth in vehicles and value of cars means \$160 million above current costs in the next biennium, even at 70% reimbursement.
- Transportation: Aging roadways mean that over \$400 million in construction funding has to be used for ordinary maintenance in this 6-year plan.
- Continuing effect of absorbing the fiscal impact of the 50 different tax breaks granted since 1995, many of which grow over time.

## Preserving Virginia's Fiscal Integrity

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Virginia faces major shortfalls in the next two-year budget, with no new programs -- even assuming consistent economic growth every year.

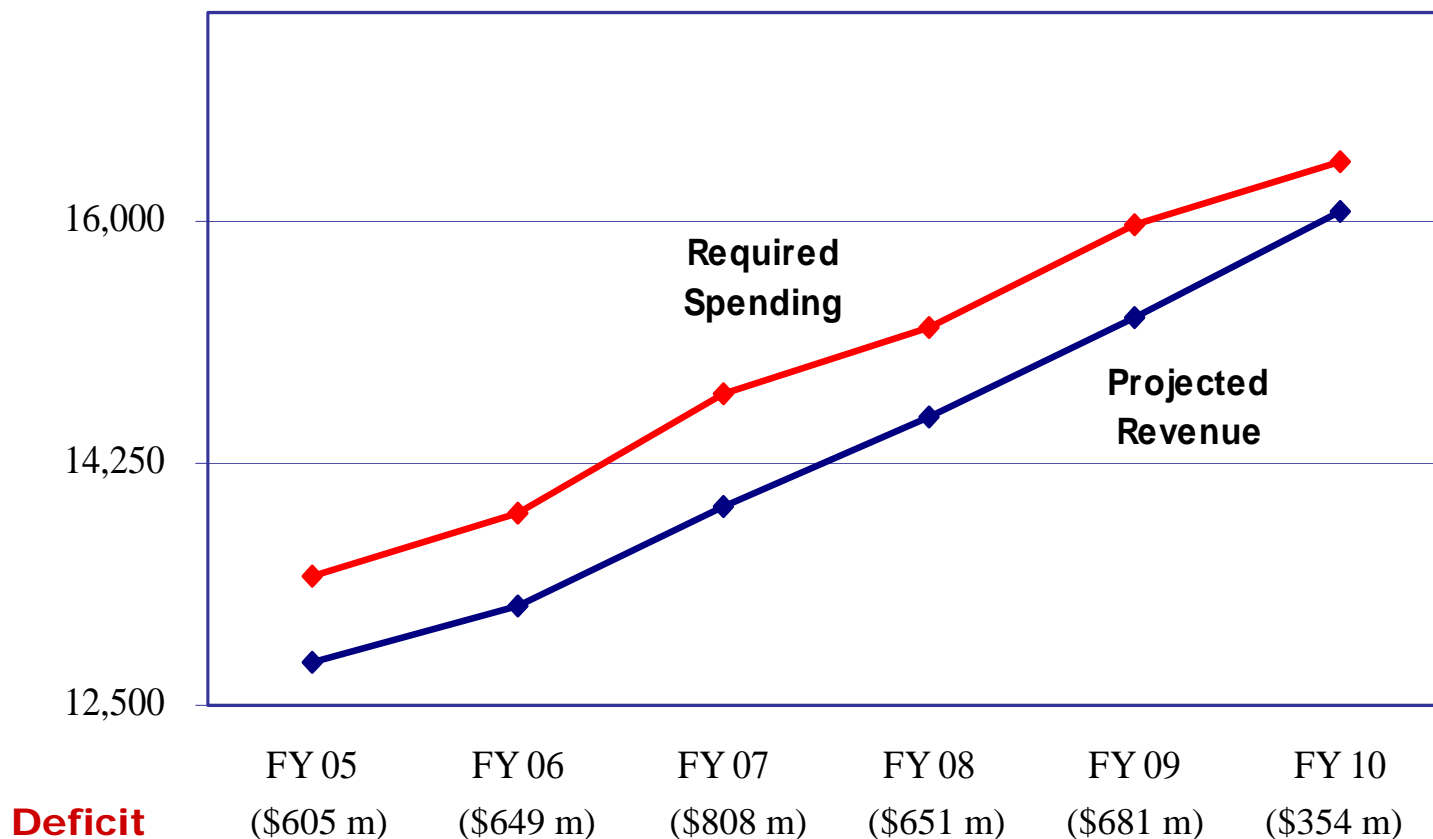
- ✓ More dramatic cuts in the next biennium will not correct the long-term fiscal problem.

# Preserving Virginia's Fiscal Integrity

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## Required Spending Exceeds Projected Revenue Through the End of the Decade

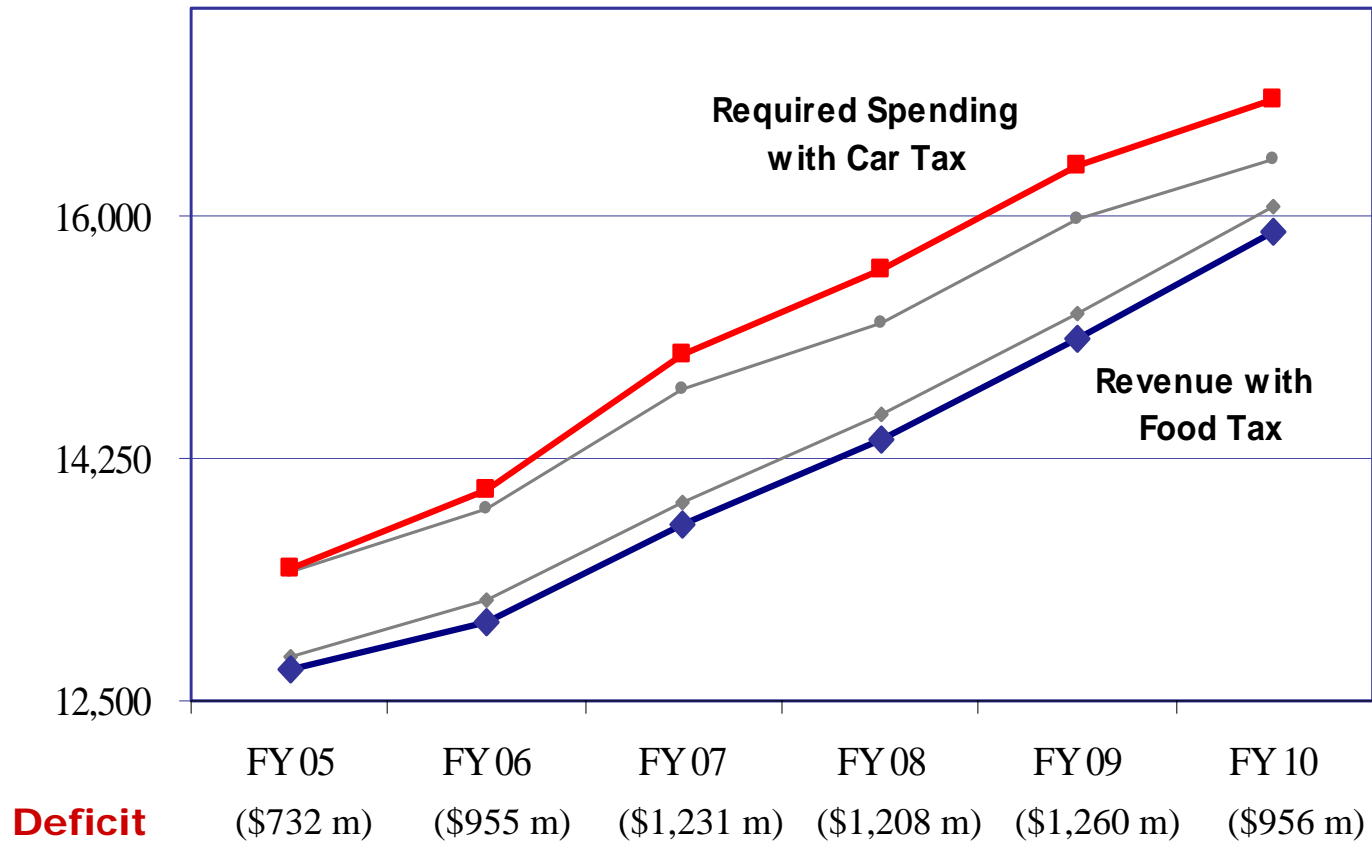
(in millions of dollars)



# Preserving Virginia's Fiscal Integrity

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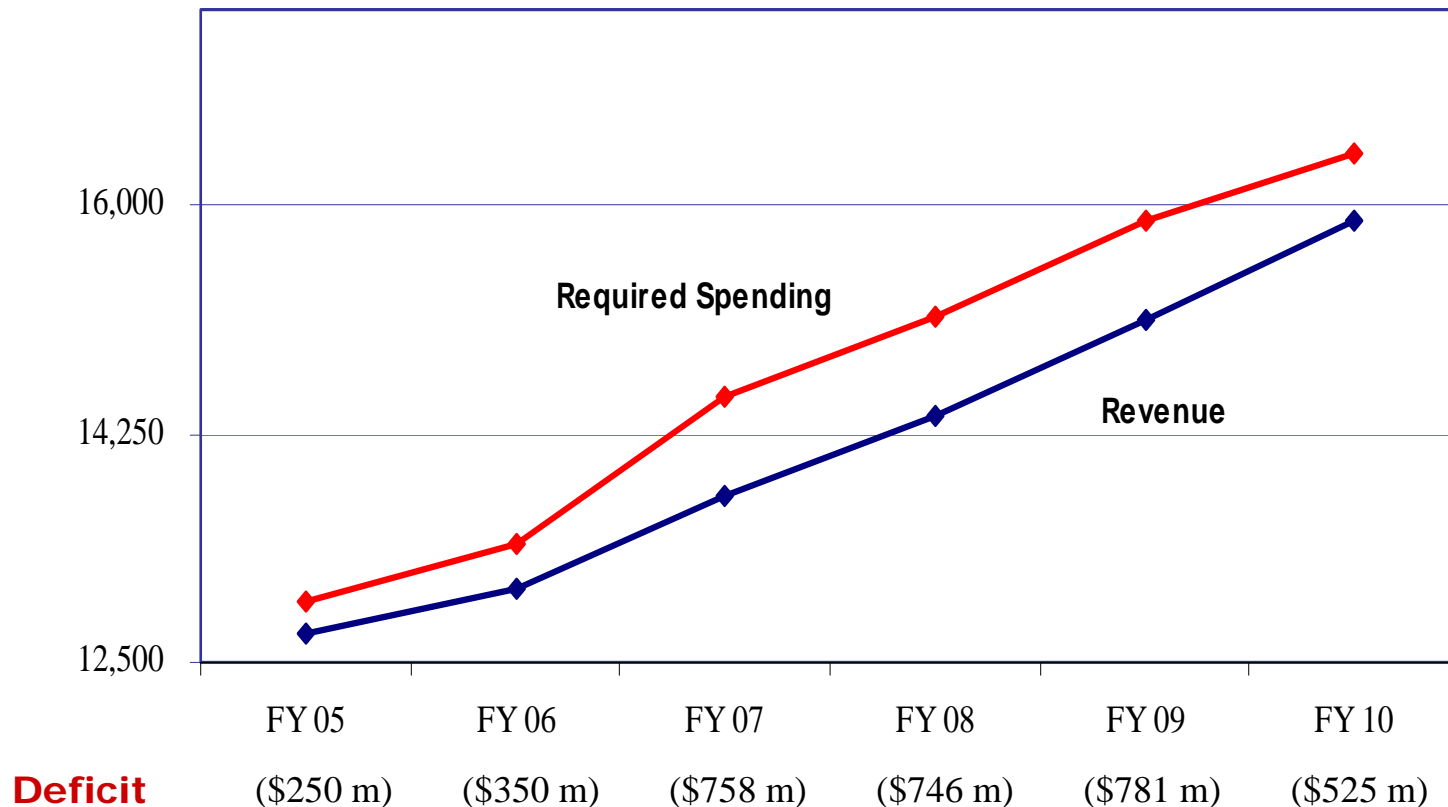
## With Car Tax at 100% and Food Tax Relief, the Budget Shortfalls Worsen



## Preserving Virginia's Fiscal Integrity

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**If Car Tax And Food Tax Commitments are Kept,  
Even \$1 Billion in Budget Cuts to Current  
Programs Will Not Eliminate Budget Shortfalls**



## Preserving Virginia's Fiscal Integrity

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The Commonwealth of Opportunity budget and tax reform plan will:

- ✓ Make the tax code fair: 65% pay less.
- ✓ Meet Virginia's basic obligations:
  - FY 04: –\$2 million
  - FY 05: +\$478 million
  - FY 06: +\$541 million in new revenue
- ✓ Create no new programs or entitlements.
- ✓ Allow replenishment of the Revenue Stabilization Fund.
- ✓ Help preserve our coveted AAA bond rating.
- ✓ Return Virginia to responsible budget practices.

## Preserving Virginia's Fiscal Integrity

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A plan that's fair to the people  
who pay the bill.

65% PAY LESS.