

# Virginia – Ten Years and Beyond

Investing in our Future

# Virginia Investment Act (VIA)

- Tax Actions Summary:

- **General Tax Actions**

- Tax Relief = \$1.2 billion/yr (Includes 1-time cost of \$181 million)
    - Tax Increases = \$1.2 billion/yr

**Note:** Actions impact individual taxpayers differently;  
some will pay more, some will pay less.

- **User Taxes/Fees**

- Transportation = \$1.1 billion/yr (\$725 million net)
      - \$107 approximate annual cost increase to own & operate a vehicle

# Tobacco Products Legislation

- Tobacco user tax = \$224 million/yr
  - Increase state cigarette tax from 2.5 cents per pack to 35 cents per pack
  - 10% excise tax on other tobacco products
- Cap state/local cigarette tax at 90 cents
- Phase county taxing authority in 5 steps, beginning in July 2005

# Objectives

- Honor prior commitments to tax relief so future revenue growth can be directed to future needs
- Put transportation program back on course
- Help regain structural balance in state budget
  - Avoid downgrade of bonds
  - Minimize further cuts in core services
- Make tax code fairer
- Begin reducing pressure on local real estate taxes
- Fund strategic high priorities that have been neglected

# Keep promises already made . . .

- **Car Tax Relief**

- 100% car tax relief in **TY 2005**;
- Convert existing sales tax into dedicated local revenue source for car tax replacement, on value up to \$20,000;
- 1½ cent dedicated, plus \$230 million produces \$1.4 billion for replacement in TY 2005 (roughly half a billion more than current level of tax relief);
- Distributed to localities in same proportion as car tax reimbursements made in TY 2004.

- **Food Tax Relief & Estate Tax Relief**

- 2 percent reduction in sales tax on food (1/2 cent reduced in FY 2000);
- Phase out entire estate tax by FY 2006.

# Put transportation back on course . . .

- **Bring transportation user fees up-to-date**, to produce additional funds of \$725 million/year (net)
  - Increases the annual cost of owning/operating a vehicle by a little over 1 percent, or about \$107 (details attached).
  - Applies the sales tax to fuel so the ½ cent sales tax on non-fuel purchases can be returned to GF for car tax relief.
    - Taxpayer will pay more for fuel but will get back twice as much in car tax relief.
  - Exchanges the ½ cent sales tax for other taxes that have a more direct link with transportation needs.
    - Automobile insurance premium tax
    - Real estate deed recording tax-30 cent increase (dedicated FY 07 & beyond)
    - Exchange produces \$356 million for car tax relief; sales tax on fuel replaces the \$356 million.
  - Provides additional funds for mass transit as well as roads.

# Make tax code fairer . . .

- **Additional tax relief**

- Increase personal exemption from \$800 to \$1000;
- Increase standard deduction from \$3,000 to \$3,500 for single filers and from \$5,000 to \$7,000 for joint filers;
- Phase out low income tax credit as income rises marginally above the poverty level rather than eliminating all benefit at income \$1 over the poverty level;
- Eliminate requirement that businesses accelerate the payment of sales tax collections.

## Make tax code fairer (continued)

- **Higher income** filers will **pay slightly more**
  - Add upper income tax brackets
    - 6.25% for **taxable** income between \$100,000 - \$150,000
    - 6.50% for **taxable** income over \$150,000
  - Means test **tax preference** for those aged 62 and above
    - Phase preference down as income rises above \$64,000 (\$40,000 for single filers).
      - Example: For filers aged 65 or older, benefit phases out at \$88,000 for joint filers and at \$52,000 for single filer



# Make tax code fairer (continued)

- **Eliminate tax loopholes**

- Require corporations to pay taxes on profits in one state or another;
- Limit ability of corporations to avoid taxes through payments for intangible assets to subsidiaries they own;
- Require reporting of corporate owners for “pass through entities”;

# Make strategic decisions. . .

- Remedy structural imbalance in budget to **preserve Triple A bond rating**
  - Recapitalize Rainy Day Fund with over \$500 million by end of 2004-06 biennium;
    - Eliminate FY 2004 withdrawal;
    - Normal deposit in FY 2006;
    - Part of any year-end surplus (Appropriation Act language);
    - Deposit increased deed recording tax of \$60 million per year to RDF in 2004-06 (Beginning in FY 07, dedicated to TTF).
  - Provide \$400 million per year to address costs in Medicaid and SOQ re-benchmarking that exceed the level of revenue growth.

# Make strategic decisions (continued)

- **Reduce pressure on local real estate tax**
  - Education SOQ: Adopt selected JLARC and Board of Education recommendations that move part of current SOQ cost from local tax base to state tax base.
- **Fund neglected priorities**
  - Higher Education: Curb rising tuition costs by phasing recommendations of Joint Subcommittee on Higher Education Funding Policies;
  - Phase public safety communications system;
  - Annual deposits to Water Quality Improvement Fund and Virginia Land Preservation Fund;
  - Eliminate mental retardation critical waiting list.

# Recap of Major Features (Annual amount)

## – Tax Relief

- Reduce sales tax on food from 4 cents to 2 cents (\$225 million)
- Eliminate car tax for personal use vehicles valued up to \$20,000, effective Tax Year 2005 (TY 2005 = \$465 million; FY 2006 = \$556 million)
- Increase personal exemption from \$800 to \$1,000 (\$56 million)
- Eliminate estate tax (\$113 million)
- Reduce tax burden on lower income taxpayers (\$115 million)
- Eliminate accelerated payment of sales tax (\$181 million 1-time cost)

## – Strategic Funding Decisions

- SOQ: Shift cost from local taxes to state taxes by updating standards to reflect current practice. Details attached (\$328 million)
- Phase funding for higher education base adequacy & public safety radio system (\$120 million)
- Require annual deposit to Water Quality Improvement Fund and Virginia Land Conservation Fund (\$15 million each)
- Eliminate MR critical waiting list (\$22 million)
- \$400 million to avoid further cuts in core services
- Transportation stands on its own (\$725 million net)
- Recapitalize Rainy Day Fund

# How do we pay for these things?

- **Virginia Investment Act**

- Add upper income tax brackets - **\$285 million**;
- Means test tax preference for aged 62 and above - **\$96 million**;
- Eliminate tax loopholes - **\$35 million**;
- Increase sales tax on non-food by 1 percent - **\$833 million**;
- Exchange ½ cent TTF sales tax for auto insurance premium tax and dedicated recordation tax increase - **\$356 million** gain to GF (food tax loss included under tax relief);
- A little over 1 percent increase in user taxes/fees to own and operate a vehicle - **\$1,081 million less \$356 million from exchange = \$725 million net.**

- **Tobacco Products Legislation**

- Increase state cigarette tax from 2.5 cents to 35 cents per pack; 10% excise tax on other tobacco products - **\$224 million.**

Note: FY 2005 changes result in a \$147 million balance that is available in FY 2006.

# General Tax Changes – FY 2006 Amounts\* (\$ in millions)

- Tax Relief
  - Reduce sales tax on food; includes loss from Transportation ½ cent (\$225)
  - Eliminate car tax on value up to \$20,000 (\$556)
  - Increase personal exemption from \$800 to \$1,000 (\$56)
  - Eliminate estate tax (\$113)
  - Reduce tax burden on low income (\$115)
  - Eliminate accelerated sales tax-1 time cost (\$181)\*

**Total Tax Relief = \$1.2 billion**

- Additional Taxes
  - Add upper income brackets + \$285
  - Means test age deduction tax preference +\$96
  - Eliminate tax loopholes +\$35
  - Increase sales tax on non-food items by 1 percent +833

**Total Additional Taxes = \$1.2 billion**

\*Accelerated sales tax will be eliminated in June 2005 (FY 05); all other figures reflect FY 2006 amounts because FY 2005 does not include 12-month impact in all cases.

## Increased User Taxes/Fees – (\$ in millions)

- Transportation user taxes/fees (VIA) +\$1,081
  - Additional average annual cost to own/operate a vehicle = about \$107.
  - Net additional transportation funds, after exchange of automobile insurance premium tax and increased recordation tax for ½ cent sales tax on non-fuel purchases = \$725 million\*.
- Tobacco-related tax +\$224

\* Beginning in FY 2007, \$60 million from deed recording tax will be added.

# Transportation User Taxes/Fees (Details in Appendix A)

|  | FY 06 (\$'s in millions) | Per Vehicle* |
|--|--------------------------|--------------|
| Motor Fuels Excise Tax   | +180.6                   | \$17.22      |
| Motor Vehicle Sales Tax (Net)  | +417.7                   | \$44.64      |
| Sales Tax on Motor Fuels   | +418.6                   | \$35.13      |
| General Sales Tax (existing)   | - 475.0                  | N/A          |
| Auto Insurance Premium Tax (existing)  | +119.0                   | N/A          |
| Vehicle Registration Fee   | + 64.4                   | \$10.00      |
|  |                          |              |
| <b>Net Total</b>   | <b>+\$725.3**</b>        | <b>\$107</b> |
| <small>*Sources: DMV, TAX, USDOT, US Energy Dept., AAA, Used Car Annual<br/> **Plus \$60 million from increase in deed recording fee starting in FY 07</small> |                          |              |



# Appendix A

## Details

# Virginia Investment Act

# Specific Details – VIA

- Increase personal exemption from \$800 to \$1,000
- Reduce tax burden on low income taxpayers
  - Increase standard deduction from \$3,000/\$5,000 to \$3,500/\$7,000
  - Eliminate “cliff” effect of low income tax credit by phasing benefit down
- Add upper income tax brackets
  - 6.25% for **taxable** income between \$100,000 - \$150,000
  - 6.50% for **taxable** income over \$150,000
- Means test age deduction
  - Phase out preference dollar-for-dollar as income rises above \$64,000 (\$40,000 single); Income level at which benefit phases out depends on amount of benefit received.
  - Use modified Federal AGI for means test (excludes Social Security income)

# Specific Details - VIA

- Change eligibility for age deduction effective TY 2011
  - Those already age 62 or above would be grandfathered
  - \$6,000 benefit would no longer be available for those who turn 62 after January 1, 2011
  - \$12,000 benefit would be available at federal (Social Security) retirement age
- Eliminate corporate tax loopholes
  - Bring taxable profits back to Virginia, if not taxed in another state
  - Limit ability to avoid taxes through payments to wholly-owned subsidiaries for intangible assets
  - Require reporting of owners for “pass through entities”
- Transportation related tax changes
  - Gasoline tax goes from 17.5 cents to 20.5 cents
  - Diesel tax goes from 16 cents to 20.5 cents
  - Vehicle titling tax from 3% to 5.5% of sales price (net of trade-in value)
  - Exchange ½ cent sales tax for automobile insurance premium tax and dedicated revenue from 30 cent increase in recordation tax rate
  - Apply 5.5% sales tax to price of gasoline before excise taxes are levied
  - Raise vehicle registration fee by \$10.00

# Details – SOQ Initiative

- Begin to take pressure off local real estate taxes by addressing JLARC and Board of Education recommendations that state pay part of the cost of existing programs (estimate of local impact attached).
  - Update SOQ to better reflect local practice:
    - Elementary art/music/PE teachers for combined 3 periods/week
    - Planning period for teachers
    - Technology training/support
    - Intense remediation in high poverty divisions
  - Enhance At-Risk Four-Year-Old program to include all eligible children;
  - Continue correcting calculation errors noted by JLARC.

# Appendix B

## Questions & Answers Virginia Investment Act & Tobacco Products Legislation

# How do bills impact citizens generally?

- Targets high and low ends of **income tax** scale and leaves majority of taxpayers alone
  - Less than 10 percent of filers have **taxable** income over \$100,000
- Reduces sales tax by 2 cents on non-discretionary purchases (food) and increases sales tax by 1 cent on remaining purchases
- Provides additional car tax relief for most taxpayers
- Increases user costs
  - Requires vehicle owners to pay more to support road costs
  - Requires tobacco users to help offset increasing Medicaid costs
- Reduces pressure on real estate tax rates through SOQ changes
- Curbs rising college tuition costs by having the GF pick up a larger proportion of base operating costs
- Protects core services from further cuts

# How does VIA impact “typical” taxpayers?

(Estimated impact does not include tobacco products legislation)

- 3-person family with income just above poverty level (\$16,000)
  - Will pay \$376 less in general taxes (**income, sales, car tax**)
  - Will pay \$107 more to own/operate vehicle
- Low income single parent and child (\$30,000)
  - Will pay \$99 less in general taxes
  - Will pay \$107 more to own/operate vehicle
- Low income family of 3 (\$30,000)
  - Will pay \$258 less in general taxes
  - Will pay \$214 more to own/operate 2 vehicles
- Middle income family of 3 (\$60,000)
  - Will pay \$134 less in in general taxes
  - Will pay \$214 more to own/operate 2 vehicles
- Family of 3 (\$90,000)
  - Will pay \$92 less in general taxes
  - Will pay \$214 more to own/operate 2 vehicles

# How does VIA impact “typical” taxpayers?

- Upper income families of 4
  - \$175,000 income
    - Will pay \$278 more in general taxes
    - Will pay \$214 more to own/operate 2 vehicles
  - \$250,000 income
    - Will pay \$898 more in general taxes
    - Will pay \$214 more to own/operate 2 vehicles



# How does VIA impact “typical” taxpayers?

- Retired couple, both over 65
  - \$60,000 income
    - Will pay \$129 less in general taxes
    - Will pay \$107 more per vehicle operated
  - \$100,000 income
    - Will pay \$821 more in general taxes
    - However, still enjoy tax preference of over \$20,000 from exclusion of Social Security income and double personal exemption
    - Younger couple with same income would pay \$4,718 in taxes, versus \$3,425 for couple over 65; **therefore value of remaining tax preference is \$1,293**
    - Will pay \$214 more to own/operate 2 vehicles
- Single filer, over 65
  - \$50,000 income
    - Will pay \$20 less in general taxes
    - Will pay \$107 more per vehicle operated

# How does legislation help localities?

- **Takes pressure off local real estate taxes;**
  - Picks up larger part of education SOQ costs.
  - Generates resources for critical road projects.
  - Revenue potential from cigarette tax and recordation tax increases.
- **Dedicates a specific tax to replace lost car tax revenue;**
  - Locality doesn't have to depend on state to decide how much it can afford to fund; the entire amount that is collected will be returned.
  - Sales tax and car tax growth are highly correlated; sales tax will grow in roughly the same proportion as the car tax would have grown.
- **Improves local cash flow** by starting monthly car tax replacement payments in January of the tax year;
- **Offers substantial growth potential** for localities through sales tax dedication (a windfall will occur when Streamlined Sales Tax project convinces Congress to require vendors to collect the tax on remote sales).

# Appendix C

CY 2005 Increase in Car Tax Relief

Additional SOQ Funds – Revise Standards  
and Correct Calculation Errors