

## HOUSE JOINT RESOLUTION NO. 60

*Continuing the Joint Subcommittee to Study and Revise Virginia's State Tax Code.*

Agreed to by the House of Delegates, February 12, 2002

Agreed to by the Senate, March 5, 2002

WHEREAS, House Joint Resolution No. 685 (2001) was established to study and revise Virginia's state and tax code; and

WHEREAS, the Commonwealth of Virginia generates more than 85 percent of its total general fund revenue from the individual and corporate income taxes and the sales and use tax; and

WHEREAS, the current individual income tax structure, which conforms to the federal income tax, was adopted in 1971 but has experienced modest changes during the past three decades; and

WHEREAS, the state sales and use tax was enacted in 1966 with only one rate change adopted since that time when the 1986 Special Session added an additional one-half cent sales tax for transportation purposes; and

WHEREAS, the 1998 General Assembly enacted a Personal Property Tax Relief Act of 1998 (§ 58.1-3523 et seq.), which began to phase out the personal property tax on the first \$20,000 value of automobiles and other vehicles over a five-year period; and

WHEREAS, the business, professional, and occupational license (BPOL) tax is a local tax levied on certain businesses, professionals and occupations; and

WHEREAS, property taxes are the most important source of revenue for local governments, and localities need to be able to collect fairly assessed taxes promptly and efficiently so as not to interfere with local governments' ability to provide necessary services to residents and to meet other needs of citizens; and

WHEREAS, the property tax assessment process, including consideration of administrative and judicial challenges by taxpayers, is a complex process that varies in administration from jurisdiction to jurisdiction; and

WHEREAS, the real estate tax imposed by local governments constitutes another financial challenge faced by farmers that contributes to farm failures or causes farmers to sell their land; and

WHEREAS, despite the economic, ecologic and aesthetic importance of farming and agriculture to the Commonwealth, the number of farms within the Commonwealth has been reduced by half since 1960; and

WHEREAS, much of the land that used to be farm land has been converted to nonagricultural uses; and

WHEREAS, the loss of this land undermines the Commonwealth's food production capabilities and reduces the amount of open spaces; and

WHEREAS, there is a need to review the current method of imposing taxes on farm real estate to encourage the continued use of the land for farming; and

WHEREAS, the changes in the state tax structure, including tax deductions and credits, have evolved in a piecemeal fashion in an effort to correct specific problems or advocate certain policies rather than in a systematic way and thus a comprehensive review of such tax policy is warranted; and

WHEREAS, the state tax structure, with its reliance on income and sales taxes, has experienced strong revenue growth while the local tax structure, which is dependent on the property tax and other ad valorem taxes, has experienced slower revenue growth; and

WHEREAS, the state tax system strives to be citizen-friendly, but a review of policies is needed to lessen the burden on taxpayers to comply with the Commonwealth's tax laws and reduce administrative costs to the Commonwealth; and

WHEREAS, there is an emerging consensus that the state tax code must be revised to reflect not only the changing nature of our economy but also to make it more equitable and to generate the revenues needed to provide services to Virginia's citizens; and

WHEREAS, the joint subcommittee began its work in 2001 and much remains to be done; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee to Study and Revise Virginia's State Tax Code be continued. The joint subcommittee shall consist of 18 members, who shall be appointed as follows: 9 members of the House of Delegates, of whom 2 shall have served as members of the Commission on the Condition and Future of Virginia's Cities to be appointed by the Speaker of the House in accordance with the principles of proportional representation contained in the Rules of the House of Delegates; and 7 members of the Senate to be appointed by the Senate Committee on Privileges and Elections, of whom 1 shall have served as a member of the

Commission on the Condition and Future of Virginia's Cities. In addition, the Secretary of Finance and the Tax Commissioner, or their representatives, shall serve as non-voting, ex-officio members.

The joint subcommittee shall ensure that Virginia's tax code is fair, uniform, understandable, and contemporary. The joint subcommittee shall continue the work it began in 2001 and undertake the following:

1. Examine the report and recommendations of the Commission on Virginia's State and Local Tax Structure for the 21st Century.
2. Seek broad input from all levels of government, the private sector, and citizens concerning the sufficiency of the Commonwealth's current tax system.
3. Consider the necessity and sufficiency of current taxes, fees, deductions and credits as well as the rates of taxation.
4. Consider current revenue capacity of localities and the sufficiency of their revenue tools.
5. Examine the number and costs of tax preferences including income tax subtractions, deductions and exemptions, and income tax credits currently in the tax code.
6. Estimate the loss in sales tax due to electronic commerce.
7. Evaluate the real estate assessment appeals process, the need for any changes to the process, and the effect that such changes would have on taxpayers and local governments.
8. Consider the long-term effect on the Commonwealth's revenues from the phase-out of the personal property tax.
9. Evaluate the appropriateness of the merchants' capital tax and the business, professional and occupational license tax.
10. Consider a plan to more equitably address tax preferences and rates for personal and business income taxes.
11. Determine the equitable division of support to be assumed by the state and localities for education and mandated services in light of the reforms recommended by the Commission.
12. Review the current method of imposing taxes on farm real estate and alternative methods for imposing farm real estate taxes, including the feasibility of replacing the current method with a tax on the value of what is produced by farms.

The direct costs of this study shall not exceed \$32,000.

The Division of Legislative Services shall provide staff support for the study. The Weldon Cooper Center at the University of Virginia and the Department of Taxation shall provide technical assistance to the joint subcommittee.

All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The joint subcommittee shall complete its work by November 30, 2002, and shall submit its written findings and recommendations to the Virginia Code Commission and to the Governor and the 2003 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The committee may withhold expenditures or delay the period for the conduct of the study.