DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. Patron John H. Chichester

2. Bill Number SB 467

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee Senate Finance

4. Title Commonwealth of Opportunity Plan for Tax Reform

5. Summary/Purpose:

This bill would make the following changes to Virginia's tax code:

- Individual income tax personal and dependent exemption amounts would be raised to $1,000 per exemption.

- Individual income tax standard deductions would be increased to $4,000 for single taxpayers and married taxpayers filing separately and $8,000 for married taxpayers filing jointly.

- The filing threshold would increase to $7,000 for single taxpayers and married taxpayers filing separately, and $14,000 for married taxpayers filing jointly.

- The upper limit of the individual income tax 3% bracket would be expanded from $5,000 to $7,000, the upper limit of the 5% bracket would be expanded from $17,000 to $20,000, and an additional 6.25% bracket would be added for income greater than $100,000.

- For taxpayers reaching age 65 in 2005 or later, an income-related age deduction would be provided. Those individuals eligible to receive the age deduction prior to 2005 would be grandfathered.

- The retail sales and use tax rate would increase by 1% on all items currently taxed except food.

- The food tax rate would decrease by 1% on July 1, 2004, and an additional 0.5% on July 1, 2005.

- The following two corporate income tax provisions will be changed:
  - The effects of transactions with intangible holding companies would be eliminated from the Virginia corporate income tax computation.
  - A sales throwback rule would be used to eliminate the effect of nowhere income by ensuring that profits on goods shipped from Virginia are taxed in Virginia, unless they are taxed in another state.
- Pass-through entities doing business in Virginia would be required to file an annual informational return with the Department listing its income and owners.
- Sales tax dealers with annual sales of $1.3 million or more would no longer be required to make a prepayment of their June sales tax collections.
- The Virginia estate tax would be eliminated on all estates of $10 million or less and on estates valued at greater than $10 million provided the majority of the value of the estate's assets are made up of a closely held business or working farm.
- Personal property tax relief would increase to 77.5% for 2005, 85% for 2006, 92.5% for 2007, and 100% for 2008.
- The state cigarette tax would increase to $.25 per pack and all localities would be permitted to impose a cigarette tax up to the rate of $.50 per pack; phased in over a 3-year period.

The effective dates of these provisions are described in line 11.

6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

6a. Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2003-04	$493,724	0	GF
2004-05	$3,017,970	14	GF
2005-06	$1,835,206	14	GF
2006-07	$1,152,478	14	GF
2007-08	$1,076,403	14	GF
2008-09	$1,076,403	14	GF
2009-10	$1,076,403	14	GF

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2003-04	$4.0 million	GF
2004-05	$495.2 million	GF
2005-06	$553.7 million	GF
2006-07	$511.8 million	GF
2007-08	$448.3 million	GF
2008-09	$407.6 million	GF
2009-10	$462.6 million	GF

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

   Administrative Impact

   The Department would incur administrative costs of $493,724 in Fiscal Year 2004, $3,017,970 in Fiscal Year 2005, $1,835,206 for Fiscal Year 2006, $1,152,478 in Fiscal Year 2007 and $1,076,403 for Fiscal Year 2008 and each year thereafter for systems development, forms revision and additional employees.

   The Executive Budget assumes the passage of the Governor's tax reform proposal. Assumed in the Executive Budget are costs of $493,724 for Fiscal Year 2004, $3,017,970 for Fiscal Year 2005, and $1,835,206 for Fiscal Year 2006 to implement the changes proposed in the Governor's tax reform plan.

   Revenue Impact

   This bill would increase General Fund revenues by $4.0 million in Fiscal Year 2004, $495.2 million in Fiscal Year 2005, $553.7 million in Fiscal Year 2006, $511.8 million in Fiscal Year 2007, $448.3 million in Fiscal Year 2008, $407.6 million in Fiscal Year 2009, and $462.6 million in Fiscal Year 2010. The Executive Budget assumes the passage of the Governor's tax reform plan.

Revenue Impact by Component

($ millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Individual Income Tax	$0	($66.1)	($101.2)	($63.6)	($36.0)	($4.8)	$24.3
Sales Tax	$0	$625.9	$667.5	$695.2	$730.0	$768.6	$808.9
Business Taxes	$0	($134.4)	$35.7	$38.6	$39.7	$40.8	$41.9
Cigarette Tax	$4.0	$146.5	$145.8	$143.8	$143.8	$143.8	$143.8
Estate Tax	$0	($50.9)	($63.3)	($53.3)	($50.3)	($50.3)	($35.9)
Personal Property Tax	$0	($25.8)	($130.8)	($248.9)	($378.9)	($490.5)	($520.4)
Total	$4.0	$495.2	$553.7	$511.8	$448.3	$407.6	$462.6

   For more detail regarding the revenue impact of the individual components of this bill, see Appendix A of this impact statement.

9. **Specific agency or political subdivisions affected:**

   Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Individual Income Tax Components

Personal Exemptions

Current Law

Virginia currently allows a deduction of $800 for each personal and dependent exemption allowed on a taxpayer's individual income tax return. An additional exemption amount of $800 is allowed for individuals who are blind or age 65 and over. The personal and dependent exemption amount was last increased by the General Assembly in 1987.

Proposed Change

This bill would increase the Virginia personal and dependent exemption amount from $800 to $1,000. The additional exemption for blind or age 65 and over individuals would remain at $800. This provision would be effective for taxable years beginning on and after January 1, 2005.

Filing Threshold

Current Law

A filing threshold is the amount of Virginia adjusted gross income for which a tax return is required to be filed. The current filing threshold amounts have not been changed since 1987. The current individual income tax filing thresholds are as follows:

Single	$5,000
Married Filing Jointly	$8,000
Married Filing Separately	$4,000

Proposed Change

This bill would increase the filing thresholds for the Virginia individual income tax. The proposed filing thresholds would be as follows and would be effective for taxable years beginning on and after January 1, 2005.

Single	$7,000
Married Filing Jointly	$14,000
Married Filing Separately	$7,000

Standard Deduction

Current Law

Currently, individuals are entitled to claim a standard deduction on their Virginia return if they claimed a standard deduction on their federal return. The deduction amounts are as follows: $3,000 for single individuals, $5,000 for individuals married filing jointly, and $2,500 for married individuals filing separately. These amounts have been in effect since the 1989 taxable year.

Proposed Change

This bill would increase the standard deduction amounts. The proposed standard deduction amounts are as follows: $4,000 for single and married filing separately individuals and $8,000 for married filing jointly individuals. The effective date of this provision would be January 1, 2005.

Income Tax Brackets

Current Law

The top two individual income tax brackets have not been changed since 1987. The bottom two brackets have not been changed since 1926. The table below shows the current individual income rate and bracket structure.

Virginia Taxable Income Range	Rate
$3,000 or less	2%
$3,001 to $5,000	3%
$5,001 to $17,000	5%
$17,001 or more	5.75%

Proposed Change

Under this bill, the rates and brackets would be changed as shown below and would be effective for taxable years beginning January 1, 2005.

Virginia Taxable Income Range	Rate
$3,000 or less	2%
$3,001 to $7,000	3%
$7,001 to $20,000	5%
$20,001 to $100,000	5.75%
$100,001 or more	6.25%

Age Deduction

Current Law

Virginia currently allows an age deduction for individuals age 62 or older. The deduction amounts are $6,000 for individuals age 62 through 64 and $12,000 for individuals age 65 and over. These amounts have remained unchanged since the 1996 taxable year.

Proposed Change

Individuals eligible to receive the $12,000 age deduction prior to 2005 would continue to receive the age deduction at its current amount.

Individuals eligible to receive the $6,000 age deduction prior to 2005 would continue to receive the $6,000 age deduction until they reach age 65. Once they reach age 65, they would receive up to a $12,000 age deduction, subject to a reduction based on income.

Individuals who have not been eligible to receive an age deduction prior to 2005 would not receive an age deduction until they reach the age of 65. Once they reach age 65, they would receive up to a $12,000 age deduction, subject to a reduction based on income.

Single individuals age 65 and over would reduce their age deduction by $1 for every $2 of adjusted federal adjusted gross income above $50,000. The deduction would be phased out at $74,000.

Married individuals age 65 and over would reduce their age deduction by $1 for every $2 of their total combined adjusted federal adjusted gross income above $75,000. The deduction would be phased out at $123,000 if both spouses receive an age deduction.

Adjusted federal adjusted gross income would be defined as federal adjusted gross income minus taxable social security and taxable Railroad Retirement benefits.

These provisions would be effective for taxable years beginning on and after January 1, 2005.

Sales Tax Components

Sales and Use Tax

Current Law

Virginia's combined state and local sales tax rate is 4.5%; the second lowest in the nation. The 4.5% sales tax rate is composed of a 3.5% state sales tax rate and a 1% sales tax rate imposed at the local level. Currently, one-half percent of the 3.5% sales and use tax rate is distributed to the Transportation Trust Fund. In addition, one percent of the 3.5% state sales and use tax rate is distributed among the counties and cities of the Commonwealth based on school age population.

Proposed Change

Effective July 1, 2004, the state portion of the retail sales and use tax rate would increase by 1% on all items except food. This would result in a combined state and local rate of 5.5%. The additional one percent of the 5.5% sales and use tax rate would be deposited in the General Fund for general appropriation purposes.

Sales and Use Tax on Food

Current Law

As originally enacted, the Food Tax Reduction Program was to reduce the state sales and use tax rate on food products purchased for human consumption by 0.5% per year over a four year period. Beginning January 1, 2000, the state tax rate decreased to 3% for the period January 1, 2000 through March 31, 2001. Thereafter, the rate was scheduled to decrease to 2.5% for the period April 1, 2001 through March 31, 2002, 2% for the period April 1, 2002 through March 31, 2003, and to 1.5% effective April 1, 2003.

The tax rate reductions for April 1, 2001 and thereafter were to be effective provided two conditions were satisfied: (1) the next level of the phase-out of the tangible personal property tax under the Personal Property Tax Relief Act of 1998 was implemented for that fiscal year, and (2) actual General Fund revenues for the fiscal year preceding a fiscal year in which a rate reduction is contemplated exceeded the official revenue estimates for that second preceding fiscal year by at least 1 percent.

The current state sales and use tax rate on food products is frozen at 3%.

Proposed Change

Under this bill, the food tax phase out schedule would be revamped. The sales tax on food would decrease by 1% on July 1, 2004, for a total sales tax rate on food of 3%. An additional decrease 0.5% would be effective July 1, 2005, for a total sales tax rate on food of 2.5%.

This provision would be effective for taxable years beginning July 1, 2004.

Business Tax Components

Accelerated Sales Tax Payments

Current Law

Currently, sales tax dealers with annual sales of $1.3 million or more must make a prepayment in June of 90% of their June sales tax liability.

Proposed Change

This bill would repeal the accelerated sales tax payment requirement for dealers effective for the June payment of 2005.

Nowhere Income

Current Law

A corporation that is doing business in multiple states and is subject to a corporate income tax in at least one other state apportions its income to the several states in which it makes sales based on a formula based upon the amount of property, payroll, and sales in each of those states. Currently, these corporations treat sales shipped out of Virginia as non-Virginia sales even if the corporation is not subject to an income tax in the destination state. (Foreign countries are "states" for this purpose.) Since these sales are not counted in assigning income to any state, they are commonly referred to as "nowhere income."

Proposed Change

The definition of Virginia sales would include the sales of products shipped from Virginia to a destination state (or foreign country) in which the corporation is not taxable. Because such sales are thrown back from the destination state to the shipping state, this provision is commonly referred to as a "throwback rule." This bill would restore a throwback rule that existed in Virginia's corporate income tax law until 1981.

For example, Corporation A is located in Virginia and New York. During the year, Corporation A ships all of its goods from Virginia to customers in Virginia, Maryland and New York. The goods shipped to New York increase the share of the corporation's income taxed by New York. Under current law, the goods shipped to Maryland reduce the share of the corporation's income taxed in Virginia even though no Maryland income tax is paid. With the proposed sales throwback rule, the goods shipped to Maryland would be treated as Virginia sales and correspondingly increase the share of the corporation's income taxed in Virginia.

Intangible Holding Companies

Current Law

Corporations start with federal taxable income, which reflects deductions taken for royalties, interest and other expenses paid to an affiliated intangible holding company. If the corporation has done its planning correctly (i.e., established a nontax reason for the intangible holding company's existence and arm's length rates for their transactions), then Virginia cannot invoke its authority under existing law to correct transactions between related companies that improperly reflect income. In extreme cases, a corporation may contribute a valuable patent or trademark to an affiliated intangible holding company in a tax-free transaction, pay royalties for its use, then borrow the funds back from the intangible holding company and pay interest for the use of its own money.

Proposed Change

Corporations would be required to add back to federal taxable income any interest and intangible expenses directly or indirectly paid to one or more related members. A related member is defined by reference to the Internal Revenue Code. Two safe-harbors would be allowed:

- The add-back would not be required if in the same taxable year of the payment the item of income received by the related member is subject to a tax on or measured by the related member's net income in any state of the United States or a foreign country that has an income tax treaty in force with the United States.
- The add-back would not be required if the corporation can establish to the satisfaction of the Tax Commissioner both of the following:
  - The related member directly or indirectly incurred the same costs to a person who is not a related member (e.g., interest paid to a bank); and
  - The transaction did not have as a principal or primary purpose the avoidance of any state tax.

Pass-Through Entities

Current Law

Pass-through entities are business entities, such as partnerships, limited liability companies and Subchapter S corporations, that are not subject to federal and state income taxes at the entity level. The partners, members or shareholders (the "owners") of the pass-through entity report their share of the income from the entity on their own income tax returns.

Under current law, the owners of pass-through entities are liable for Virginia income taxes on Virginia source income. However, the Department does not have an effective way of identifying these owners and verifying that they have properly paid tax on Virginia income. The revenue loss attributable to noncompliance on the part of the owners of pass-through entities has grown with the increased popularity of pass-through entities.

Pass-through entities are currently required to file informational returns with the IRS and most other states. Virginia formerly required partnerships to file such returns, but repealed the practice in 1988. New technology will enable the Department to utilize effectively the proposed informational returns to ensure that the owners of pass-through entities properly report and pay tax on Virginia income.

Proposal

This proposal would require every pass-through entity doing business in Virginia or having income from Virginia sources to file an annual informational return with the Department listing its income and owners. This proposal is effective January 1, 2004.

This proposal would authorize the Department to establish an income threshold for the filing requirement. Pass-through entities with income below this threshold would not be required to file returns. This proposal would also allow pass-through entities to apply to the Department to file a single composite return for all nonresident shareholders. These provisions would help reduce the compliance burden on affected individuals.

Under this proposal, entities would be required to file returns using an electronic medium prescribed by the Department. However, the Department would be authorized to waive this requirement for businesses with small numbers of owners.

Cigarette Tax Components

State Cigarette Tax

Current Law

The current cigarette tax rate in Virginia is 2.5 cents per pack. Virginia has the lowest state cigarette tax in the nation. The current national average for state cigarette tax rates is 72 cents per pack.

Proposed Change

Effective July 1, 2004, the state cigarette tax would increase to 25 cents per pack. This provision would be effective on and after July 1, 2004.

Local Cigarette Tax

Current Law

The authority to impose a cigarette tax is limited to cities, towns and two counties. For those localities that impose a local cigarette tax, the rate ranges from $0.02 to $0.65 per pack.

Proposed Change

Effective July 1, 2004, all localities would be permitted to impose a cigarette tax up to a rate of 50 cents per pack. Localities that currently have a higher rate will be allowed to retain their existing rates. The authority for localities will be phased in over a three-year period as follows:

Fiscal Year	Local Cigarette Tax Rate
2005	Up to 20 cents
2006	Up to 35 cents
2007	Up to 50 cents

Estate Tax Components

Estate Tax

Background

Federal Estate Tax Credit for State Death Taxes

A credit is allowed against the Federal estate tax for estate taxes paid to any state with respect to property included in the decedent's gross estate. The maximum amount of the credit allowable for state death taxes is determined under a graduated rate table, based on the size of the decedent's adjusted taxable estate.

Virginia Estate Tax

Virginia imposes a "pick-up" estate tax that is equal to the maximum amount of the federal credit for state death taxes as it existed on January 1, 1978. Prior to federal legislation enacted in 2001, the maximum federal credit amounts have not changed since 1978.

2001 Federal Legislation

Under the Economic Growth and Tax Relief Act of 2001 (EGTRRA) enacted by Congress, the state death tax credit is reduced incrementally beginning in 2002, and is fully repealed in 2005. For 2005 and years thereafter, a deduction from the taxable estate is allowed for any state death taxes actually paid.

Year of Death	% Reduction of Federal Credit for State Death Taxes
2002	25%
2003	50%
2004	75%
2005	Credit Repealed

Current Law

The estate tax is imposed on the transfer of taxable estates in excess of $1.5 million. The federal estate tax is slowly being phased out until it is finally repealed in 2010. While most states automatically conform to the federal estate tax, Virginia bases its tax on a federal credit as it existed in 1978.

Proposed Change

This bill would eliminate the Virginia estate tax on all estates of $10 million or less and on estates valued at greater than $10 million provided the majority of the value of the estate's assets are made up of a closely held business or working farm.

For the purposes of this exemption, “closely held business” has the same definition as in Internal Revenue Code (IRC) § 6166, which allows estate taxes to be paid in installments in order to prevent the breakup of closely held businesses. A “working farm” is defined to be a closely held business that operates for agricultural purposes.

IRC § 6166 requires that “an interest in a closely held business” be an interest in a trade or business. Internal Revenue Service (IRS) Rulings clarify that:

- The decedent or his agents must conduct active, material management.

- The mere management of income producing assets from which decedent obtained income largely through ownership of property rather than the performance of management activities does not constitute an active business.

- In order for the rental of property to constitute an active business, the decedent or his employees or agents must perform substantial personal services in managing, maintaining, and leasing the property.

- An individual is engaged in the business of farming if he cultivates, operates, or manages a farm for gain or profit, either as owner or tenant, and if he receives a rental based upon farm production rather than a fixed rental. Farming under these circumstances is a productive enterprise as distinguished from management of investment assets.

IRS regulations provide that the determination whether an interest in a business is an interest in a closely held business is a factual matter.

Personal Property Tax Components

Car Tax Relief

Current Law

When originally enacted, car tax relief was scheduled to reach 100% in 2002. Car tax relief is currently frozen at 70% due to insufficient revenue growth.

Proposed Change

Under this bill, the phase out of the car tax would phased out according to the following reimbursement schedule:

Taxable Year	Reimbursement
2005	77.5%
2006	85%
2007	92.5%
2008	100%

Other Legislation

Senate Bill 467 is identical to this bill.

Other Components of the Governor's Tax Reform Plan

House Bill 107 and **Senate Bill 466** would advance Virginia's date of conformity to the Internal Revenue Code from December 31, 2002 to December 31, 2003.

House Bill 788 and **Senate Bill 514** would conform the Commonwealth's sales and use tax laws to the provisions of the Streamlined Sales and Use Tax Agreement.

Other Tax Reform Plans

House Bill 108 would make the following changes to Virginia's tax code: (i) The individual income tax brackets would be changed. For single filers the rate for the first $15,000 of taxable income would be 0%, above $15,000 to $25,000 of taxable income would be 3.5%, above $25,000 to $30,000 of taxable income would be 4%, above $30,000 up to $50,000 of taxable income would be 5.5%, and above $50,000 would be 6.25%. For married filers, the rate for the first $30,000 of taxable income would be 0%, above $30,000 up to $50,000 of taxable income would be 5.5%, and above $50,000 would be 6.25%. (ii) All individual income addition, subtractions, and deductions would be repealed with the exception of the subtractions for federal obligations and taxable social security income. (iii) Tax credits would no longer be applicable to the individual income tax. (iv) The state sales and use tax rate would be reduced from 3.5% to 3.0%. (v) All services would be subject to the sales and use tax. (vi) Industrial materials, food, and Internet services would be exempt from the sales tax while all other agricultural exemptions, commercial and industrial exemptions, service exemptions, media-related exemptions, nonprofit cultural exemptions, miscellaneous exemptions, and nonprofit exemptions would be repealed. (vii) 10.75% of state sales and use tax revenues would be distributed to the transportation trust fund. (viii) 21.5% of state sales and use tax revenues would be distributed to localities based on school age population. (ix) The estate tax would be repealed for the estates of persons who die after December 31, 2004. (x) Local license taxes would be repealed. (xi) Eliminates the accelerated sales tax.

Senate Bill 530 would make the following changes to Virginia's tax code: (i) increase the personal exemption amount from $800 to $2,500, and increase the standard deduction amount to $3,500 for singles and married filing separately and to $7,000 for married filing jointly, and raise the filing thresholds to $7,000 and $13,000, (ii) make food fully subject to sales and use tax but provide a refundable tax credit for the sales tax paid on food equal to $40 per person, (iii) tighten certain corporate income tax provisions, (iv) increase Virginia's state cigarette tax to 30 cents per pack, distribute all state cigarette tax revenues to local governments, and repeal all local cigarette taxes, (v) beginning January 1, 2005, provide personal property tax relief at 100 percent on personal use vehicles, regardless of vehicle value, (vi) conform the amount of Virginia estate tax due from an estate to the maximum amount of the federal estate tax credit for state estate taxes, (vii) end the accelerated sales tax collection for retailers, (viii) increase the retail sales and use tax by one-half percent to five percent, (ix) conform Virginia's tax law to make available certain federal tax law changes to military, reservists, and National Guard families, (x) change Virginia's individual income tax brackets and add a six percent and 6.5 percent income tax bracket, (xi) make the age deduction dependent upon federal adjusted gross income, and (xii) increase the tax on motor fuels by an additional five cents per gallon.

Senate Bill 589 would make the following changes to Virginia's tax code: (i) increase the income tax personal exemption amount from $800 to $2,500, (ii) increase the income tax standard deduction amount to $3,500 for singles and married filing separately and to $7,000 for married filing jointly, (iii) add and expand the income tax rates, with a top rate of seven and one-half percent on income greater than $100,000, (iv) eliminate the low-income tax credit and the age deduction; (v) provide an income tax credit for sales taxes paid that is income-based; (vi) eliminate the sales tax on food and expands the sales tax to include consumer services; and (vii) tighten certain corporate income tax provisions, and increase the rate from six percent to seven and one-half percent.

Senate Bill 635 would make the following changes to Virginia's tax code: (i) Corporate income tax. The bill tightens certain corporate income tax provisions. (ii) Personal property tax relief. The bill provides personal property tax relief on qualifying vehicles at the 100 percent level beginning January 1, 2005. (iii) Sales and use tax. The bill increases the state sales tax from 3.5 percent to 4.5 percent and dedicates a portion of the revenues generated to the Virginia Water Quality Improvement Fund and the Virginia Land Conservation Fund; reduces the state sales tax on food to one percent; dedicates the sales tax revenues from the 1986 one-half percent increase and an additional one percent of the current 3.5 percent state tax to reimburse localities for personal property tax relief; and eliminates provisions requiring vendors to make accelerated sales and use tax payments. (iv) Individual income tax. The bill adds new tax brackets of 6.25 percent for income between $100,000 and $150,000 and 6.5 percent for income above $150,000; increases the standard deduction for single taxpayers to $3,500 and to $7,000 for married taxpayers; increases the personal exemption amount to $1,000; increases the filing threshold for married taxpayers to conform to the new level of standard deduction and personal exemption; applies a means test to the age deduction tax preference; and in tax year 2011, eliminates eligibility for the $6,000 age deduction for those born after January 1, 1949. (v) Estate tax. Conforms the amount of Virginia estate tax due from an estate to the maximum amount of the federal estate tax credit for state estate taxes, as permitted under federal estate tax law. (vi) License tax on automobile insurance premiums. Dedicates the revenues from the state license tax on insurance companies that are attributable to automobile insurance premiums to the Priority Transportation Fund. The bill also repeals current law dedicating one-third of all insurance license taxes to the Priority Transportation Fund. (vii) Recordation tax, titling tax, fuels tax, and motor vehicle registration fees. Increases the recordation tax from 15 cents to 45 cents per $100 and dedicates the revenues from the increase to the Rainy Day Fund through June 30, 2006, and to the Transportation Trust Fund thereafter. The bill also increases the titling tax on motor vehicles from 3.5 percent to 5.5 but allows a deduction for trade-ins, increases motor vehicle registration fees by $10 annually, and increases the gasoline tax by three cents per gallon and the tax on diesel fuel by 4.5 cents per gallon and imposes an additional 5.5 percent wholesale tax on gasoline and diesel fuel.

cc : Secretary of Finance

Appendix A: Senate Bill 467; A Commonwealth of Opportunity Plan for Tax Reform
Fiscal Impact of Each Action**

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Individual Income Tax					
Raise the personal and dependent exemption from $800 to $1,000 (effective January 1, 2005)	--	(29.3)	(56.2)	(55.5)	(54.9)
Raise the standard to $4,000 single, $8,000 married, $4,000 separate (effective January 1, 2005)	--	(54.2)	(104.5)	(104.4)	(103.7)
Increase the filing threshold to $7,000 single, $14,000 married, $7,000 separate (effective January 1, 2005)	--	(2.3)	(4.5)	(4.7)	(4.8)
Expand the 3% bracket to $7,000 and 5% bracket to $20,000 (effective January 1, 2005)	--	(89.0)	(171.2)	(170.3)	(169.1)
Add a top bracket of 6.25% on taxable income above $100,000 (effective January 1, 2005)	--	96.6	195.9	215.5	235.6
Retain the $12,000 age deduction in its current form for all filers who are at least 65 by January 1, 2005.	--	--	--	--	--
For filers who are 65 on or after January 1, 2005, adjust the $12,000 age deduction based on income:	--	1.6	6.4	9.7	13.7
For single filers, the age deduction will be reduced by $1 for every $2 above $50,000, and be phased out completely for those with incomes above $74,000.					
For married couples where both are 65, the age deduction will be reduced by $1 for every $2 above $75,000, and be phased out completely for income above $123,000.					
Allow $6,000 age deduction only for those who are 62 by January 1, 2005 (effective January 1, 2005)	--	7.6	28.6	42.9	44.4

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	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Sales Tax					
Increase the sales tax on non-food items by 1 percent items (effective July 1, 2004)	--	727.1	832.6	869.5	908.8
Reduce the sales tax on food by one percent (effective July 1, 2004)	--	(101.2)	(113.2)	(116.2)	(119.2)
Reduce the sales tax on food by one half percent (effective July 1, 2005)	--	--	(51.9)	(58.1)	(59.6)
Corporate Income					
Eliminate the corporate income tax effects of intangible holding companies (effective January 1, 2004)	--	34.0	22.4	23.2	24.1
Eliminate the "nowhere income" effects on corporate income by ensuring that profits on products shipped form Virginia are taxed in Virginia, unless they are taxed in another state (effective January 1, 2004)	--	10.6	7.3	7.5	7.7
Other Business Taxes					
Require that "pass through entities" file an annual information return with the Department of Taxation identifying their owners (effective January 1, 2004)	--	2.0	6.0	7.9	7.9
Eliminate the requirement that businesses with more than $1.3 million in annual sales accelerate their payment of sales taxes each June (effective for the June payment, 2005)	--	(181.0)	--	--	--
Cigarette Tax					
Increase Cigarette Tax by 22.5 cents per pack to 25 cents per pack, dedicated for health care (effective July 1, 2004)	4.0	146.5	145.8	143.8	143.8

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Fiscal Impact of Each Action**

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Estate Tax Provide a full exemption against the estate tax for all estates valued at $10 million or less, all closely held businesses, and all working farms (provided the closely held business or working farm comprises more than half of the estate's value) (effective January 1, 2004)	--	(50.9)	(63.3)	(53.3)	(50.3)
Personal Property Tax Increase the reimbursement percentage for personally owned vehicles assessed at $20,000 or less on the following timetable, subject to the current revenue triggers: CY 2005 77.5% CY 2006 85.0% CY 2007 92.5% CY 2008 100.0%	--	(25.8)	(130.8)	(248.9)	(378.9)
Senate Bill 467 Net Impact**	**$4.0**	**$495.2**	**$553.7**	**$511.8**	**$448.3**

**Individual actions do not add to the total because income tax actions interact.

Senate Bill 466

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Conform to the provisions of the Military Family Relief Act (allowing military families to exclude the gain on the sale of a home owned for less than 2 years, and allowing National Guard and reservists to deduct up to $1,500 for overnight travel on military duty (effective January 1, 2004)	(2.6)	(2.4)	(2.0)	(2.1)	(2.1)
Conform to federal tax provisions which allow businesses to expense up to $100,000 for purchases of equipment and similar goods (effective Dec. 31, 2003)	(11.7)	(11.2)	(5.6)	6.0	6.9
Conform to the federal tax provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 which includes deductions for Health Savings Accounts	(1.0)	(3.6)	(3.6)	(3.4)	(3.5)
Senate Bill 466 Total Impact	**($15.3)**	**($17.2)**	**($11.2)**	**$0.5**	**$1.3**