DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. Patron John H. Chichester

2. Bill Number SB 635
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee Senate Finance

4. Title Omnibus Tax Bill

5. Summary/Purpose:

This bill would make numerous changes to the taxes and fees of the Commonwealth as follows:

Individual Income Tax

- The individual income tax brackets would be changed by adding new tax brackets of 6.25% for income between $100,000 and $150,000 and 6.5% for income above $150,000.
- The standard deduction for single taxpayers would be increased to $3,500 and to $7,000 for married couples.
- The personal exemption amount would be increased to $1,000.
- The filing threshold would be increased to $9,000 for married taxpayers filing jointly, $4,500 for married taxpayers filing separate returns, and $5,000 for single taxpayers.
- The age deduction would be based on modified federal adjusted gross income and eligibility for the $6,000 age deduction would be eliminated in 2011 for those born after January 1, 1949.
- A Virginia earned income tax credit for low-income taxpayers would be allowed equal to 20% of the federal earned income tax credit.
- A “two-earner” credit would be available to married taxpayers whose combined taxable income exceeds $100,000.

Retail Sales & Use Tax

- The state sales tax rate would be increased from 3.5% to 4.5%.
- The state sales tax rate on food for human consumption would be reduced to 1%.

- A portion of the additional sales tax revenue would be dedicated as follows: $15 million to the Virginia Water Quality Improvement Fund and $15 million to the Virginia Land Conservation Fund.

- A portion of the additional sales tax revenue, together with the revenue from the 0.5% 1986 increase would be dedicated to reimburse localities for personal property tax relief.

- 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.

Motor Vehicle Taxes

- The sales tax on motor vehicles would be increased from 3 percent to 5.5 percent but would allow a deduction for trade-ins.

- Motor vehicle registration fees would be increased by $10 annually.

- The gasoline tax would be increased by three cents per gallon.

- The tax on diesel fuel would be increased by 4.5 cents per gallon.

- An additional 5.5 percent wholesale tax would be imposed on gasoline and diesel fuel.

- The revenues from these increases would be dedicated to the Transportation Trust Fund.

Other Taxes, Fees, and Distributions

- 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.

- Personal property tax relief reimbursement would be increased to 100% beginning January 1, 2005.

- The amount of Virginia estate tax due from an estate would conform to the maximum amount of the federal tax credit for state death taxes as permitted under federal estate tax law.

- The revenues from the state license tax on insurance companies that are attributable to automobile insurance premiums would be dedicated to the Priority Transportation

Fund. Also, current law dedicating one-third of all insurance license taxes to the Priority Transportation Fund would be repealed.

- The recordation tax would be increased from 15 cents to 21 cents per $100 and the revenues from the increase would be dedicated to the Rainy Day Fund through June 30, 2006, and to the Transportation Trust Fund thereafter.

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

6a. Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2003-04	$1,375,281	0	GF
2004-05	$2,516,833	4	GF
2005-06	$1,432,254	7	GF
2006-07	$711,603	7	GF
2007-08	$684,703	7	GF
2008-09	$687,003	7	GF
2009-10	$689,503	7	GF

6b. Revenue Impact:

Fiscal	***FUNDS*** *(amounts in millions)*		
Year	***GF***	***TTF***	***NGF***
2003-04	$0	$0	$0
2004-05	$177.5	$448.6	$979.3
2005-06	($731.5)	$433.8	$1,865.3
2006-07	($696.0)	$822.9	$1,563.6
2007-08	($668.6)	$832.6	$1,622.5
2008-09	($652.6)	$849.1	$1,686.9
2009-10	($635.5)	$866.7	$1,754.4

7. Budget amendment necessary: Yes.
Item(s): Page 1, Revenue Estimates
284 and 286, Department of Taxation

8. Fiscal implications:

Administrative

The Department would incur administrative costs to implement this bill in the amount of $1,375,281 for FY 2004, $2,516,833 for FY 2005, $1,432,254 for FY 2006, $711,603 for FY 2007, $684,703 for FY 2008, $687,003 for FY 2009, and $689,503 for FY 2010. These administrative costs would be for systems development, forms revisions, and 7 additional employees.

Some of the administrative costs that the Department would incur as a result of this bill are similar to the costs for some of the changes in the Governor's tax reform plan that are assumed in the Executive Budget. 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.

The Department of Motor Vehicles would incur minimal costs to implement the increase in the motor fuel tax.

Revenue

This bill would result in an increase in state revenue of $1,605.4 million in Fiscal Year 2005, $1,567.6 million in Fiscal Year 2006, $1,690.5 million in Fiscal Year 2007, $1,786.5 million in Fiscal Year 2008, $1,883.4 million in Fiscal Year 2009, and $1,985.6 million in Fiscal Year 2010. With the number of structural changes made to the tax system under this bill, the responses of taxpayers and the resultant impacts on their tax liability are difficult to predict. Therefore, the revenue estimates should be considered highly tentative.

This estimate is made assuming that the income tax changes proposed by this bill are implemented as specified in the bill for the 2004 taxable year or July 1, 2004. It would be nearly, if not actually, impossible for the Department to properly implement all of these changes for 2004. As an alternative for some of the provisions that require extensive systems modifications, such as the age deduction and income tax brackets, a 2005 effective date would allow the Department an adequate timeframe to implement the changes proposed by this bill.

The Executive Budget assumes the passage of the Governor's tax reform proposal. The Governor's tax reform proposal contains provisions that would amend the individual income tax, sales tax, corporate income taxes, cigarette tax, estate tax, and personal property tax. Currently, car tax relief is provided with an appropriation from the General Fund to the Personal Property Tax Relief Fund ("PPTRF"). The General Fund impact of the Governor's plan included the additional appropriation to bring the reimbursement level from 70% to 100%.

This bill dedicates sales tax revenues to the PPTRF in an amount sufficient to fully fund car tax relief without appropriations from the General Fund. Therefore, in order to compare the General Fund impact of this bill with the Executive Budget one must account for the impact of the forecasted PPTRF appropriation at a 70% reimbursement level that would not be needed under this bill.

The following chart compares the General Fund revenue effects of this bill on current law (including the PPTRF appropriation) with the changes to the General Fund revenue forecast, assumed in the Executive Budget, caused by the provisions in the Governor's tax reform proposal.

(Amounts in millions)

Fiscal Year	Effect of SB 635 on General Fund Revenue	Forecasted Appropriation for PPTRF at 70%	Net General Fund Impact of SB 635	GF revenue effect of Governor's tax reform proposal	Difference between SB 635 and Governor's tax reform proposal
2005	$177.5	$240.6	$418.1	$495.2	($77.1)
2006	($731.5)	$996.9	$265.4	$553.8	($288.4)
2007	($696.0)	$1,046.8	$350.8	$511.9	($161.1)
2008	($668.6)	$1,098.3	$429.7	$448.3	($18.6)
2009	($652.6)	$1,155.0	$502.4	$407.6	$94.8
2010	($635.5)	$1,216.2	$580.7	$462.6	$118.1

In addition to the revenue impact discussed above, this bill would dedicate some of the revenue to particular funds, and change the funds to which existing revenue is dedicated. For example, the license tax on insurance premiums for insuring motor vehicles (and workers compensation policies that include motor vehicle coverage) would be dedicated to the Priority Transportation Fund under this bill. The major changes are described in Line 11.

The table below shows the state revenue impact of the proposed bill broken down by its major components. This table includes the additional cost of personal property tax relief, but does not include any redistributions of existing revenue, such as the 0.5% .of sales tax revenue changed from the Transportation Trust Fund to the Personal Property Tax Relief Fund, or the revenue from the tax on insurance premiums on motor vehicle insurance changed to the Transportation Trust Fund.

State Revenue Impact of SB 635 by Component

($ millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Individual Income Tax	$440.3	$249.3	$293.0	$332.3	$359.4	$386.4
Business Tax Provisions	($134.4)	$35.7	$38.6	$39.7	$40.8	$41.9
Sales Tax	$523.0	$604.2	$635.2	$668.6	$705.6	$744.4
Recordation Tax	$343.8	$357.1	$379.5	$394.6	$410.5	$427.0
Estate Tax	($67.1)	($106.2)	($107.4)	($108.6)	($108.6)	($108.6)
Motor Vehicle & Fuel Taxes	$863.8	$907.9	$937.5	$953.2	$976.8	$1,001.9
Personal Property Tax	($364.0)	($480.4)	($485.9)	($493.3)	($501.1)	($507.4)
Total	**$1,605.4**	**$1,567.6**	**$1,690.5**	**$1,786.5**	**$1,883.4**	**$1,985.6**

NOTE: The revenue impact of increasing the recordation tax reflects an increase of 30¢ per $100 as set out in this legislation. It is the Department's understanding that the intent of the recordation tax increase is to raise additional annual revenue of $60 million. To increase recordation tax revenue by this amount, an increase in the recordation tax rate of 6¢ per $100 would be required.

Local Revenue

This bill may increase local revenues to the extent that distributions from the Personal Property Tax Relief fund exceed the cost of reimbursement based on 100% of actual assessments of qualifying vehicles, and also to the extent that localities take advantage of the increase in state recordation tax to increase the local recordation tax.

Based on current revenue estimates, the PPTRF will have more than enough funds to provide for 100% reimbursement. For tax year 2005 (paid in Fiscal Year 2006), reimbursement at 100% is estimated to cost $1,411.3 million, while the PPTRF under the proposed change is estimated to have a balance of $1,477.3 million, all of which would be distributed to localities under this bill. Thus, localities would receive $66.0 million more in Fiscal Year 2006 under this bill than 100% reimbursement under current law.

9. Specific agency or political subdivisions affected:

Auditor of Public Accounts
Department of Motor Vehicles
Department of Taxation
Department of Treasury
Cities, Counties and Towns

10. Technical amendment necessary: Yes.

To ensure that the proper funds are dedicated to the Personal Property Tax Relief Fund, the following amendment is suggested:

Page 34, Line 2046, after use tax
Insert: on non-food items

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 or 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	$5,000
Married Filing Jointly	$9,000
Married Filing Separately	$4,500

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: $3,500 for single and married filing separately individuals and $7,000 for married filing jointly individuals. The effective date of this provision would be January 1, 2005.

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

For taxable years beginning on or after January 1, 2004, the age deduction would be reduced $1 for each $1 by which the taxpayer's modified federal adjusted gross income ("FAGI") exceeds $40,000 for single taxpayers and $64,000 for married taxpayers. However, if a married taxpayer files a separate return, then the age deduction would be reduced by $1 for each $2 that the combined modified FAGI exceeds $64,000. Modified FAGI would be defined as federal adjusted gross income minus taxable social security and taxable Railroad Retirement benefits.

For taxable years 2011 and after, the $12,000 age deduction would be allowed only if the taxpayer had reached the age that qualifies for full Social Security retirement benefits. The retirement age is scheduled to increase until it reaches age 67 for those born after 1959. The $6,000 age deduction would be eliminated, but those born on or before January 1, 1949, would be eligible to receive it until they reach full retirement age at 66. Thus, by 2015 no one would be eligible to claim the $6,000 age deduction.

Under federal law, the age at which one is eligible for full Social Security benefits will increase as follows:

Year of Birth	Full Retirement Age	Year of Birth	Full Retirement Age
1937 or earlier	65	1943–1954	66
1938	65 and 2 months	1955	66 and 2 months
1939	65 and 4 months	1956	66 and 4 months
1940	65 and 6 months	1957	66 and 6 months
1941	65 and 8 months	1958	66 and 8 months
1942	65 and 10 months	1959	66 and 10 months
		1960 and later	67

Income Tax Brackets

Current Law

The top two 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, 2004.

Virginia Taxable Income Range	Rate
$3,000 or less	2%
$3,001 to $5,000	3%
$5,001 to $17,000	5%
$17,001 to $100,000	5.75%
$100,001 to $150,000	6.25%
$150,001 or more	6.5%

Earned Income Credit

Current Law

Currently, a taxpayer whose family income does not exceed the poverty level may claim the Credit for Low Income Taxpayers. The credit is equal to $300 each for the taxpayer, spouse and dependent(s).

Proposed Change

In lieu of the $300 credit, taxpayers may elect to receive a credit against their Virginia income tax equal to 20% of the federal earned income tax credit.

Two-Earner Credit

Current Law

Married taxpayers who file joint federal returns have the option of filing a joint Virginia return or they may separately compute their tax on a combined return. The separate computation gives each taxpayer the benefit of the graduated rates, and they may allocate their standard deduction and certain other items in the manner that best reduces the tax. The only area in which Virginia married taxpayers face a "marriage penalty" compared to a single taxpayer with the same income is the standard deduction, which is $500 less for a married taxpayer filing a separate return than for a single taxpayer.

Proposed Change

This bill would allow a credit when the family taxable income exceeds $100,000. Married taxpayers would be required to compute their tax on the combined income and then calculate a credit against the tax, not to exceed $1,132, as follows:

Virginia Taxable Income Range	Credit Rate
$100,000 to 125,000	4.5%
$125,001 to $150,000	4%
$150,001 to $200,000	3%
$200,001 to $300,000	2%
$300,001 or more	1%

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. For sales of $5 or less the statute provides a bracket table to simplify collection of the tax for retail dealers. In certain cases, 2% of the 3.5% state tax collected at certain public facilities may be turned over to the locality while the bonds that financed the public facility remain outstanding.

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 (see below). This would result in a combined state and local rate of 5.5%. The revenues would be distributed as follows:

Sales Tax Components	Under Current Law	Proposed Change
1% Local Sales Tax	Distributed to localities based on point of sale	No Change
1% of State Sales Tax	Distributed to localities based on school age population	No Change
2% of State Sales Tax	General Fund	▪ 1% to PPTRF beginning December 2004 ▪ $230 million annually to PPTRF beginning July 2005 to be paid $46 million per month for 5 months
0.5% of State Sales Tax	Transportation Trust Fund	▪ To General Fund July – November 2004 ▪ To Personal Property Tax Relief Fund after November 2004
Additional 1% of State Sales Tax	*Not Applicable*	▪ $15 million to Virginia Water Quality Improvement fund; ▪ $15 million to Virginia Land Conservation Fund ▪ Balance to General Fund

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

This bill would reduce the rate on food to 1% effective July 1, 2004. The revenue from the 1% state tax on food would be distributed to localities in proportion to school-age population. The local 1% sales tax would continue to be applicable to food.

Recordation Tax Components

Current Law

A tax at the rate of 15¢ per $100 is imposed when deeds, deeds of trust, leases, and other contracts relating to real estate are recorded. The tax on deeds is measured by the consideration or actual value, whichever is greater. The tax on deeds of trust is measured by the amount of the obligation secured by the deed of trust, but not more than the actual value of the property. Reduced rates are imposed on deeds of trust securing more than $10 million. The tax on leases is measured by the total rent for the term of the lease, but not more than the actual value of the property. The tax on other types of contracts relating to real estate is measured by the consideration. Localities are authorized to impose a local recordation tax equal to one-third of the state tax.

Proposed Change

This bill would increase the tax rate to 45¢ per $100 for the various types of documents recorded. The additional revenue generated by this change would be deposited into the Revenue Stabilization Fund for Fiscal Years 2006 and 2007. Thereafter, the additional revenue would be deposited into the Transportation Trust Fund.

Local governments are authorized to impose a local recordation tax equal to one-third of the state tax. Because the state tax rate is increased, local tax revenues may also be increased to the extent that localities take advantage of the increased state tax rate.

Estate Tax Components

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 allow the Virginia Estate Tax to be phased out in the same manner as the federal credit upon which the Virginia tax is based.

Motor Vehicle Tax Components

Motor Vehicle Fuel Tax

Current Law

A state tax is imposed on motor fuels at the following rates: 17½ cents per gallon on gasoline and gasohol and 16 cents per gallon on diesel fuel and liquid alternative fuel. Motor carriers pay a road tax equivalent to 19½ cents per gallon with a credit of 16 cents per gallon for fuel purchased in Virginia.

Proposed Change

The tax on motor fuels would be increased to 20½ cents per gallon on gasoline and gasohol and 20½ cents per gallon on diesel fuel and liquid alternative fuel. An additional tax would be imposed on fuel on a cents-per-gallon rate set by the Department of Motor Vehicles that is equivalent to 5.5% of the statewide average retail price of self-serve regular unleaded gasoline. Motor carriers would pay a road tax on a cents-per-gallon basis equivalent to 3½ cents per gallon greater than the fuel tax and new additional fuel tax, with a credit for the taxes paid on fuel purchased in Virginia. The additional revenue would be deposited into the Transportation Trust Fund.

Motor Vehicle Sales Tax

Current Law

A sales tax on motor vehicles is imposed at the rate of 3% of the gross sales price.

Proposed Change

The motor vehicle sales tax would be increased from 3% to 5.5% on the gross sales price less the value of any vehicle traded in. The additional revenue would be deposited into the Transportation Trust Fund.

Motor Vehicle Insurance Premium Tax

Current Law

A license tax is imposed on insurance companies based on their gross premiums.

Proposed Change

The tax attributable to premiums on motor vehicle insurance policies, and the portion of workers compensation policies attributable to motor vehicle insurance would be dedicated to the Priority Transportation Fund. This bill would repeal the enactments in 2000 legislation that requires one-third of all revenue from the insurance premium taxes to be deposited into the Priority Transportation Fund.

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. Car tax relief applies only to the first $20,000 of value.

Proposed Change

This bill would remove the revenue triggers from the Personal Property Tax Relief Act and would set the reimbursement rate for 2004 at 70% and increase reimbursement to 100% for 2005 and subsequent years. However, payments to localities in 2005 and subsequent years would not be based on the values actually assessed by localities on qualifying vehicles. The entire amount in the Personal Property Tax Relief Fund ("PPTRF") would be distributed to localities each year based on each locality's pro-rata share of the state's reimbursement in 2004. Local property tax bills in 2005 and after must show a deduction based on a 100% reimbursement even though the distributions from the PPTRF may be more or less than the amount based on actual assessments of the qualifying vehicles.

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.

House Bill 1081 and Senate Bill 467 would (i) lower the income tax for most Virginians by increasing the personal exemption amount from $800 to $1,000, increasing the standard deduction amount to $4,000 for single taxpayers and married filing separately and to $8,000 for married filing jointly taxpayers, and raising the filing thresholds to $7,000 and $14,000, (ii) reduce the food tax by 1.5 cents and add 1 cent to the sales and use tax, (iii) tighten certain corporate income tax provisions, (iv) increase Virginia's state cigarette tax to 25 cents per pack to pay for health care needs while giving counties the authority to levy the tax up to a cap, (v) complete the plan to end the car tax on personal vehicles valued at $20,000 or less, (vi) eliminate the estate tax for certain working farms and family-owned businesses, and (vii) end the accelerated sales tax collection for retailers. The effective date for the individual income tax provisions of this bill is generally January 1, 2005. The effective date for the sales tax provisions of this bill is generally July 1, 2005. The effective date of the other provisions of this bill varies.

Senate Bill 530 would (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.

cc : Secretary of Finance

Date: 2/9/2004 JPJ