

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** Bill R. DeSteph, Jr.

3. **Committee** House Rules

4. **Title** Study; Joint Legislative Audit and Review
Commission to Update its 2004 study.

2. **Bill Number** HJ 563

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would direct the Joint Legislative Audit and Review Commission (JLARC) to replace its findings from the 2004 study of replacing individual income tax revenues with sales and use tax revenues, with more current relevant data.

The chairman would be required to submit an executive summary of its findings and recommendations to the Division of Legislative Automated Systems no later than the first day of the 2016 Regular Session of the General Assembly.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No

7. **No Fiscal Impact:** (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have no impact on General Fund revenue.

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

Joint Legislative Audit and Review Commission
Department of Taxation

10. **Technical amendment necessary:** No

11. Other comments:

2004 JLARC Study on Replacing Income Tax with Sales Tax

In 2004, JLARC studied the implications of replacing Virginia's individual income tax revenue with retail sales and use tax revenue. This study determined that 54.7 percent of the General Fund revenue was comprised of individual income tax revenues and 22 percent of the General Fund revenue was comprised of retail sales and use tax revenues. The study found that:

- Replacing all personal income tax revenues with sales and use tax revenues would require a state general sales tax rate in excess of 7.0 percent, which was the highest rate in the nation at the time of the study;
- A portion of income tax revenues could be replaced with sales tax revenues by expanding the sales tax base, increasing the sales tax rate, or both; and
- Any replacement of income tax revenues with sales and use tax revenues would result in a less equal distribution of Virginia's tax burden across income groups.

Ultimately, the report concluded that:

- It did not appear feasible to replace all personal income tax revenues entirely with sales and use tax revenues;
- It did appear feasible to replace some income tax revenue with sales and use tax revenue, and;
- Any replacement of income tax revenues with sales and use tax revenues would likely result in Virginia's tax structure being more regressive.

Since the completion of the 2004 study, reliance on the individual income tax as a source of tax revenue has increased while Virginia's economy has continued to evolve into an economy that is heavily dependent upon sales of services. Most services that are performed in Virginia are exempt from state and local retail sales and use tax.

Proposed Legislation

This bill would direct the Joint Legislative Audit and Review Commission (JLARC) to replace its findings from the 2004 study of replacing individual income tax revenues with sales and use tax revenues, with more current relevant data.

In conducting this study, JLARC would study Virginia's reliance on the individual income tax as a source of revenue, the annual fiscal impact of exempting services from the state and local retail sales and use tax, and the annual fiscal impact of exempting industry sectors from the state and local retail sales and use tax, including nonprofit, agricultural, media, and commercial and industrial sectors. JLARC would make revenue-neutral recommendations such that additional revenues generated by the retail sales and use tax would be sufficient to replace the revenues generated by the individual income tax. The recommendations would be based on the elimination of exemptions from the state and local retail sales tax, including exemptions for sales of services and exemptions benefiting industry sectors.

JLARC would be required to complete its meetings for the first year by November 30, 2015, and for the second year by November 30, 2016. The chairman would be required to submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the 2016 Regular Session of the General Assembly.

Similar Bills

House Joint Resolution 505 would establish a joint subcommittee to study reforming Virginia's tax structure, including the feasibility of adopting a flat tax or fair tax.

House Joint Resolution 581 would direct JLARC to study the adequacy of taxes and fees currently dedicated to highway funding and the feasibility of alternative revenue sources.

Senate Joint Resolution 235 would direct the Virginia Housing Commission to study methods to evaluate and determine a dedicated revenue source for the Virginia Housing Trust Fund.

cc : Secretary of Finance

Date: 1/21/2015 CWM
HJ563F161