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HOUSE JOINT RESOLUTION NO. 578
AMENDMENT IN THE NATURE OF A SUBSTITUTE
 (Proposed by the House Committee on Rules
 on February 8, 1999)

(Patrons Prior to Substitute—Delegates Clement, May [HJR 590], Rhodes [HJR 641], and Tate [HJR 686])
Establishing a commission to study Virginia's state and local tax structure for the 21st century.

WHEREAS, the past few decades have seen unprecedented changes in the way society operates in the new global economy; and

WHEREAS, these changes have occurred in technology, computers, medicine, telecommunications, and the retail environment and have changed the way every person works, lives and operates; and

WHEREAS, we are witnessing the deregulation of the electric and telecommunications industries; the consolidation of the banking and finance sector; and the growth of the world economies, which affect every aspect of the Commonwealth and its citizens; and

WHEREAS, one aspect of our society, the tax system, has changed little from when the economy was primarily agrarian and the measure of wealth was the amount of farm land one owned; and

WHEREAS, the local real estate tax was first imposed in 1645 under the reign of England's King Charles I, the personal property tax was enacted in 1654 under Lord Oliver Cromwell, and the BPOL tax was first imposed on a blacksmith to fund the War of 1812; and

WHEREAS, the Commonwealth enacted its sales and use tax in 1966 and since that time has had very few changes except for a one-half cent increase; and

WHEREAS, the Commonwealth adopted its current income tax structure in 1971 when Virginia "conformed" its income tax structure to the federal structure for taxpayer convenience and administrative simplification; and

WHEREAS, sales and income taxes generate 89 percent of the general fund revenues for the Commonwealth; and

WHEREAS, to this day, the main source of local tax revenue is the property tax, which generates over 61 percent of total local revenues in Virginia and therefore gives little flexibility to local government officials in collecting tax revenue needed to fund local government services, such as education; and

WHEREAS, in the cities of Virginia over 22 percent of the fair market value of real property and in the counties over 10 percent of real property is owned by the government or some other tax-exempt entity and cannot be taxed; and

WHEREAS, Virginia's cities with no realistic annexation option and a limited and stagnant tax base are among Virginia's most fiscally stressed localities; and

WHEREAS, society's trend towards purchasing an increasing share of goods and services that are nontaxable under the current sales tax means a higher resulting tax burden on the remaining goods than if the tax were extended to a broader base of taxation; and

WHEREAS, the traditional nexus for sales taxation, that is, having a physical presence in the state, was decided by the Supreme Court in the 1967 *National Bellas Hess* decision, is rapidly becoming an antiquated concept and should be addressed by the U.S. Congress; and

WHEREAS, in 1998, Congress passed the Internet Tax Freedom Act, declared a three-year moratorium on taxation over the Internet, and created the National Commission on Electronic Commerce; and

WHEREAS, the current tax structure may inhibit continued growth of Virginia's emerging information, knowledge and service-based economy, or, in turn, further strain the ability of local governments to invest and reinvest in critical infrastructure needs; and

WHEREAS, the state income tax structure has evolved in a way that creates inequitable shifts with respect to the burden on the citizens of the Commonwealth, particularly by failing to make changes paralleling the Internal Revenue Code; and

WHEREAS, since Virginia's enactment of the Tax Conformity Act in 1971, inflation and other changes in the economic environment have eroded the value of certain deductions and other components of the state income tax structure; and

WHEREAS, the failure to make corresponding adjustments has resulted in Virginia placing a higher state tax burden on families with incomes below the federal poverty level guidelines than 38 of the 43 states taxing personal income; and

WHEREAS, Virginia and other governments must adapt and harness this inevitable change and use it to improve the way they deliver and pay for the public goods and services that Virginia citizens need and demand; now, therefore, be it,

RESOLVED by the House of Delegates, the Senate concurring, That a commission be created to

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60 study Virginia's state and local tax structure for the 21st century. The commission shall study the proper
61 division of revenues and responsibilities for services between the state and local governments and how
62 the state and local tax structure should be changed to adapt to the tremendous economic, social,
63 demographic, and technological trends that are clearly overwhelming the current tax structure.

64 The commission shall be comprised of 13 members with significant expertise in state and local
65 taxation, public or private budgeting and finance, or public services delivery, none of whom shall be
66 currently serving in an elected capacity. The Secretary of Finance and the State Tax Commissioner shall
67 serve as nonvoting members of the commission. The members of the commission shall be appointed by
68 an ad hoc committee consisting of the Speaker of the House, the co-chairs of the House Appropriations
69 Committee, the co-chairs of the House Finance Committee, the co-chairs of the House Committee on
70 Counties, Cities and Towns, the chair of the Senate Privileges and Elections Committee, the co-chairs of
71 the Senate Finance Committee and the chair and one other member of the Senate Committee on Local
72 Government to be designated by the chair of such committee. The Speaker of the House shall chair the
73 ad hoc committee which shall solicit nominations and recommendations from the Virginia Municipal
74 League, the Virginia Association of Counties, the Virginia Chamber of Commerce, the Virginia State
75 Bar, taxpayer associations and the public.

76 The commission shall examine all aspects of the state and local tax structure to ensure its viability,
77 fairness, and appropriateness for the 21st century. It shall analyze the relationship between state and
78 local tax authority and service responsibilities in order to determine whether the duty to provide services
79 at the appropriate level of government is matched by the ability to generate sufficient revenues. In
80 conducting its study, the commission shall examine what other states have done to assist their localities
81 with raising revenues paying particular attention to those states in which a local income tax is imposed.
82 The commission is specifically directed to develop revenue-neutral recommendations that will not
83 increase Virginia's per capita state and local tax burden.

84 The Weldon Cooper Center at the University of Virginia shall provide staff support for the study and
85 is hereby allocated \$250,000 from the General Assembly's contingent fund to provide such staff support.
86 All agencies of the Commonwealth shall provide assistance to the commission upon request.

87 The commission shall complete its work by December 1, 2000, and submit its findings and
88 recommendations to the Governor and the 2001 Session of the Virginia General Assembly as provided
89 in the procedures of the Division of Legislative Automated Systems for the processing of legislative
90 documents.