

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** Mark L. Cole

3. **Committee** House Rules

4. **Title** Reforming Virginia's state and local tax structure; report.

2. **Bill Number** HJ 505

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would establish a joint subcommittee to study reforming Virginia's tax structure, including examining the feasibility of adopting a flat tax or fair tax. The joint subcommittee would have a total membership of thirteen members that would consist of ten legislative members and three nonlegislative citizen members. Administrative staff support would be provided by the Office of the Clerk of the House of Delegates. Legal, research, policy analysis, and other services as requested by the joint subcommittee would be provided by the Division of Legislative Services. Technical assistance would be provided by the Department of Taxation.

The chairman of the joint subcommittee would be required to submit an executive summary of its findings and recommendations by the first day of each regular General Assembly session to the General Assembly and to the Governor.

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:

Department of Taxation
Division of Legislative Services
Office of the Clerk of the House of Delegates

10. Technical amendment necessary: No.

11. Other comments:

Joint Subcommittee to Evaluate Tax Preferences

The 2012 General Assembly established the Joint Subcommittee to Evaluate Tax Preferences to oversee the evaluation of Virginia's tax preferences. The Joint Subcommittee has a total membership of fourteen legislative members, consisting of eight members of the House of Delegates and six members of the Senate. The eight members of the House of Delegates consist of six members of the House Committee on Finance and two members of the House Committee on Appropriations who are appointed by the Speaker of the House of Delegates, upon the recommendations of the Chairman of the House Committee on Appropriations and the Chairman of the House Committee on Finance, respectively. The six members of the Senate are appointed by the Senate Committee on Rules, upon the recommendation of the Chairman of the Senate Committee on Finance. The Joint Subcommittee is responsible for the following:

- Undertaking a systematic review of Virginia's tax preferences;
- Adopting a schedule for reviewing tax preferences based upon program areas to which the preferences relate;
- Establishing procedures and performance measures to evaluate the effectiveness of tax preferences;
- Requesting that the Governor direct the Department of Taxation staff to conduct independent evaluations of tax preferences in promoting economic activity, generating revenue, or otherwise achieving their intended policy purpose and report the findings to the Joint Subcommittee;
- Recommending a process and guidelines for establishing expiration dates for tax preferences; and
- Submitting an annual report to the General Assembly and the Governor of its recommendations, including which tax preferences should be continued, expanded, modified, or eliminated.

The Joint Subcommittee is authorized to establish a technical advisory group to assist the Joint Subcommittee and the Department of Taxation. Such technical advisory group may consist of individuals with tax policy or economic expertise and legislative staff. The Department of Legislative Services is required to provide legal, research, policy analysis, and other services requested by the Joint Subcommittee. Technical assistance is provided by the staffs of the House Committee on Appropriations and the Senate Committee on Finance.

The chairman of the Joint Subcommittee is required to submit an annual executive summary of the interim activity and work of the Joint Subcommittee by the first day of each regular General Assembly session to the General Assembly and to the Governor.

JLARC Tax Preferences Study

The 2010 General Assembly passed Senate Joint Resolution 21, which required the Joint Legislative Audit and Review Commission (JLARC) to conduct a two-year examination of Virginia individual income tax, corporate income tax, and retail sales and use tax preferences. In its report, JLARC was required to do the following:

- Determine which individual income, corporate income, and sales and use tax preferences are being claimed or taken and to what extent;
- Provide an estimate of the fiscal impact of all such tax preferences claimed or taken;
- Examine the public policies for which the tax preferences were established and whether the desired public policies have been achieved;
- Report on whether other states routinely provide a sunset date for their tax preferences; and
- Establish a proposed mechanism or processes for the ongoing evaluation of the effectiveness of such tax preferences in bringing about the desired public policies for which the tax preferences were established.

In its report (2012 Senate Document No. 4), JLARC provided an overview of Virginia's tax preferences and the overall fiscal impact of these preferences. JLARC then divided existing preferences into various categories and determined the utilization of preferences within each category. The report identified several factors that hinder the effectiveness of certain tax preferences, including the limited use of sunset dates in tax preference bills and the lack of a formal process for evaluating the effectiveness of tax preferences. The report concluded with the suggestion that the General Assembly establish a joint subcommittee to oversee an ongoing evaluation process.

Corporate Tax Preferences Report

From 2005 through 2013, the Department was required to issue an annual report detailing the amount of income tax relief granted to corporations in the Commonwealth. This report included the total dollar amount of income tax subtractions, deductions, exclusions, exemptions and credits claimed cumulatively by corporations. Beginning in 2010, this report also included summary information regarding the types of taxpayers that claim corporate income tax relief, as well as information regarding the number of companies that have qualified for the Major Business Facility Job Tax Credit and the amount of such credits.

Fiscal Year Tax Credit Report

Since 2011, the Department has published an annual fiscal year tax credit report as part of its annual report. This report shows the number of individual and corporate taxpayers

that claim each tax credit and the dollar amount of tax credits that are claimed each fiscal year.

Proposal

This bill would establish a joint subcommittee to study reforming Virginia's tax structure, including examining the feasibility of adopting a flat tax or fair tax. The joint subcommittee would have a total membership of thirteen members that would consist of ten legislative members and three nonlegislative citizen members. The thirteen members would consist of six members of the House of Delegates, four members of the Senate, two nonlegislative citizen members with experience in taxation and finance issues to be appointed by the Speaker of the House of Delegates, and one nonlegislative citizen member with experience in taxation and finance issues to be appointed by the Senate Committee on Rules. The joint committee would be responsible for the following:

- Studying Virginia's entire state and local tax structure;
- Examining ways to eliminate tax preferences and lower tax rates;
- Eliminating or restructuring unfair or unnecessarily burdensome taxes; and
- Examining the feasibility of adopting a flat individual income tax.

This bill would allow nonlegislative citizen members of the joint subcommittee to be reimbursed for reasonable and necessary expenses for travel originating and ending within the Commonwealth of Virginia for the purpose of attending meetings. The joint subcommittee would be limited to six meetings for the 2015 year, and the direct costs of this study would not be permitted to exceed \$33,600 without approval. Approval for unbudgeted nonmember-related expenses would require the written authorization of the chairman of the joint subcommittee and the respective clerk.

The joint subcommittee would be required to complete its meetings by November 30, 2015. The chairman of the joint subcommittee would be required to submit an executive summary of its findings and recommendations by the first day of the 2016 Regular Session of the General Assembly to the Division of Legislative Automated Systems.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/19/2015 CWM
HJ505F161