

## VIRGINIA AT A GLANCE

Virginia has made several improvements to its tax code in recent years, including scaling back its tax preferences for higher income seniors and creating a non-refundable state Earned Income Tax Credit. It should continue these reform efforts by modernizing the sales tax base and making further improvements to the state income tax.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	
2. Modernized sales taxes?		<input checked="" type="checkbox"/>	
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	
4. Enacted Earned Income Tax Credit?	<input checked="" type="checkbox"/>		
5. Modernized income tax bracket?		<input checked="" type="checkbox"/>	
6. Dealt with hidden income tax increases?		<input checked="" type="checkbox"/>	
7. Rethought senior tax preferences?	<input checked="" type="checkbox"/>		
8. Eliminated corporate loopholes?	<input checked="" type="checkbox"/>		
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	
10. Strengthened accountability?	<input checked="" type="checkbox"/>		
11. Conducted a performance review?	<input checked="" type="checkbox"/>		

## A better Virginia...

**Idea 1: Broaden the sales tax base.** Virginia should abolish sales tax holidays and review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Virginia recently passed a sales tax holiday, which will cost an estimated \$2.6 million in FY 2007.

**Idea 2: Modernize sales taxes for the new economy.** Virginia should modernize its policy on taxing services. In 2004, it taxed 18 out of 168 possible services. It also should approve the Streamlined Sales and Use Tax Agreement.

**Idea 3: Raise cigarette taxes to promote public health.** Virginia should raise its 30-cent-per-pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so likely would cause 31,400 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$1.21 billion.

**Idea 4: Enact a state Earned Income Tax Credit.** Virginia is the only Southern state to offer an earned income tax credit, which will go into effect in tax year 2006. However, Virginia's EITC is non-refundable.

**Idea 5: Modernize state income brackets.** Virginia should modernize its income tax structure by adjusting brackets and consider the creation of a new top rate to provide progressive balance. The state's top tax bracket is 5.75 percent for income \$17,000 and above for single filers.

**Idea 6: Account for inflation.** Virginia should enact strategies to adjust taxes for inflation to promote long-term *fairness* and reduce back-door inflationary tax hikes. Virginia does not index personal exemptions, standard deductions or brackets for inflation. But Virginia's EITC is indexed to inflation since it is based on the federal EITC.

**Idea 7: Rethink senior tax preferences.** Virginia is the only Southern state to have scaled back its senior tax preferences. Tax exemptions will phase out for seniors with more than \$50,000 of income. It should revisit the issue periodically.

**Idea 8: Eliminate corporate tax loopholes.** While Virginia does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. Virginia does not, however, implement a throwback rule.

**Idea 9: Connect property taxes and *ability-to-pay*.** If Virginia insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. Compared to all states in the U.S., Virginia ranked in the middle for property taxes per capita in 2002.

**Idea 10: Strengthen accountability.** Virginia has a tax expenditure report, but it is limited to sales. Virginia should work to incorporate all tax expenditures into an annual report that includes cost projections and is readily available to lawmakers and the public.

**Idea 11: Review the performance of government.** Virginia has established the Council on Virginia's Future, which is in the process of conducting a comprehensive performance review.