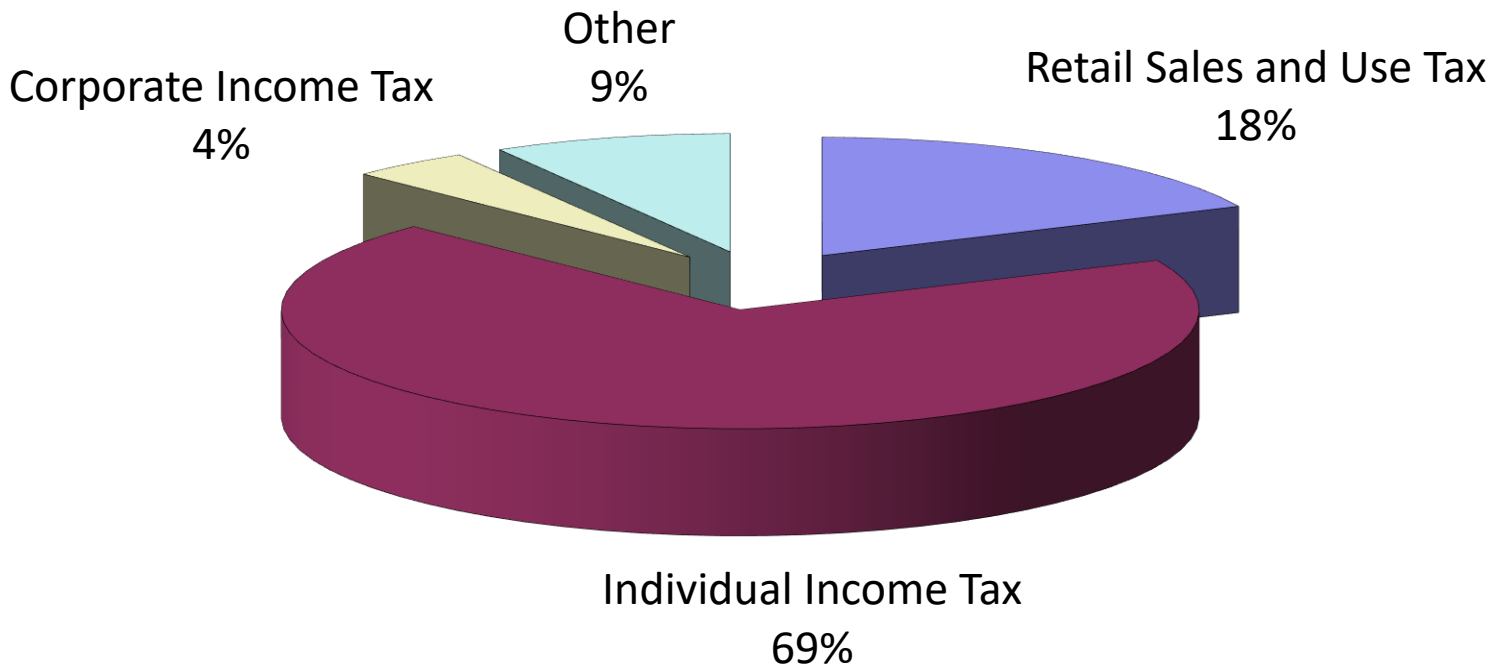


Revenue Impact of Tax Preferences in Virginia

Joint Subcommittee to Evaluate Tax Preferences

September 25, 2017

Collection of Revenues Administered by the Department, FY 2016



Tax Type	Revenue (FY 2016)
Retail Sales and Use Tax	\$6.1 billion
Individual Income Tax	\$12.6 billion
Corporate Income Tax	\$765 million

Estimated Tax Revenue Foregone

Tax Preference	Est. Revenue Loss
Retail Sales and Use Tax Exemptions (excludes Services)	\$2.9 billion
Retail Sales and Use Tax Exemption for Services	\$4.8 billion
Individual Income Tax Deductions/Subtractions	\$787.6 million
Tax Credits	\$371.8 million
Corporate Income Tax Deductions/Subtractions	\$40.7 million
Total	\$8.3 billion

Revenue Estimate (Preliminary)

- ▶ Total estimated revenue loss: \$2.9 billion
 - ▶ Based on data from SUTES studies conducted from 1994-2012
 - ▶ Updated to reflect changes in tax rates and CPI
- ▶ Exemptions excluded from this estimate:
 - ▶ Resale exemption
 - ▶ Government exemptions
 - ▶ Medicaid/purchases made with food stamps
 - ▶ Exemption for services (see Slides 7-8)

Largest Sales and Use Tax Exemptions

Exemption	Est. Revenue Loss
Manufacturing Exemption	\$1.1 billion
Partial Exemption for Food (2.5% rate)	\$598.4 million
Medical-Related Exemptions	\$550.9 million
Exemption for Non-Profit Organizations	\$239.4 million
Agricultural Exemption	\$157.1 million
Exemption for Data Centers	\$74.5 million

Revenue Impact of Exempting Services (Preliminary)

- ▶ Total estimated revenue loss from exempting services: \$4.8 billion (based on 2007 US Census data adjusted for inflation and current tax rates)
- ▶ Services divided into four categories:
 - ▶ Professional services include accounting, legal, health, engineering, and computer services
 - ▶ Business services include employment, consulting, advertising, and security services
 - ▶ Personal services include admissions, auto repair, hairdressing, laundry, and maintenance services
 - ▶ Insurance services consist of insurance agency/broker services

Revenue Impact of Exempting Services (Preliminary)

Type of Service	Est. Revenue Loss
Professional Services	\$3.0 billion
Business Services	\$1.1 billion
Personal Services	\$558 million
Insurance Services	\$142 million
Total	\$4.8 billion

Largest Tax Credits

Tax Credit	Amt. Claimed (FY 2016)
Low Income Taxpayer Credit	\$137.1 million
Historic Rehabilitation Tax Credit	\$98.1 million
Land Preservation Tax Credit	\$70.1 million
Coalfield Employment Enhancement Tax Credit	\$23.4 million
Neighborhood Assistance Act Tax Credit	\$15.6 million

Alternative #1: Decrease the 5.3% Sales and Use Tax Rate

Rate	Decrease	FY 2019	FY 2020
5.05%	0.25%	(\$248.3)	(\$276.5)
4.8%	0.50%	(\$496.5)	(\$553.0)
4.3%	1.00%	(\$993.0)	(\$1,106.1)
3.8%	1.50%	(\$1,489.5)	(\$1,659.1)
3.3%	2.00%	(\$1,986.1)	(\$2,212.1)
2.8%	2.50%	(\$2,482.6)	(\$2,765.1)
2.5%	2.80%	(\$2,780.5)	(\$3,097.0)

**Estimates in millions*

Alternative #2: Reduce Individual Income Tax Rates

Current Law		Proposed Options			
Tax Rate	Bracket	Option 1	Option 2	Option 3	Option 4
2%	0 - \$3K	2%	2%	1.00%	0.97%
3%	3K - \$5K	3%	2%	1.22%	2.00%
5%	5K - \$17K	5%	3.95%	3.08%	3.87%
5.75%	\$17K +	5.258%	5.50%	5.75%	5.57%

Alternative #3: Reduce the Corporate Income Tax Rate

Current Rate	Proposed Rate	Decrease	FY 2018	FY 2019	FY 2020
6%	5.575%	0.425%	(\$29.2)	(\$78.4)	(\$62.5)

**Estimates in millions*