

THE JEFFERSON JOURNAL

...a commentary from

THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

Taxaginia Reappears as Special Session Looms

By Stephen D. Haner

8/5/2020 -- It must be a reflex. Waken or startle a Democrat and they shout, “raise taxes!” Our friends at the Commonwealth Institute for Fiscal Analysis came out Monday with a new list of (mostly old) tax proposals for the August 18 General Assembly special session. It drew the attention of Virginia’s Public Radio in a report this morning.

Keep in mind, it is still unknown (to us anyway) how much (or little) cash the state accumulated to carry forward into the new budget cycle that started July 1. And nobody outside of state government has seen the new Fiscal Year 2021 and 2022 revenue forecasts, showing the impact of the economic-shutdown-induced recession. We see those August 18. Why wait for actual data before proposing new tax hikes?

For that matter, nobody can be sure yet just how much money the tax increases already approved by the 2020 regular session will extract from Virginia businesses and individuals. That might also be clearer come August 18. The tobacco and motor fuel tax increases landed hardest on those low-income taxpayers the Commonwealth Institute seems most concerned about.

No, the General Assembly is back in town, so tax hikes must be sought, including proposals the Democratic majorities rejected just a few months ago. The wish list is worth reviewing, even if there is no sign legislators are rushing to introduce them. The rules for the special session might even preclude them.

The largest tax hike proposed would add more steps to Virginia’s income tax ladder, with higher marginal rates at \$100,000, \$500,000 and \$1 million of taxable income. Now the top rate of 5.75% starts at a low \$17,000 of income. Raising that in .75% or 1% increments would raise substantial revenue, of course, and have a disparate impact on high income regions.

Corporations can never pay enough in taxes to satisfy these people, so they are back with the idea of forcing all corporations into a tax accounting straight jacket

called “mandatory combined reporting.” They also want to take another stab at creating a Virginia-specific tax on personal estates.

The new wrinkle is these are racial justice issues now.

“Because corporate taxes and estate taxes are largely taxes on wealth, these policies would likely also reduce racial inequality....Inheritance and wealth are linked; for white households, their higher likelihood of receiving an inheritance and the larger average value of inheritances received may explain part of this divide. Adopting these policies to support public investments would help to build greater opportunity more broadly across the state.”

Then they go after The Average Taxpayer, not a millionaire, with a proposal to expand the retail sales tax to digital platforms, such as the streaming services which have boomed during the pandemic. A Netflix tax. The lousy \$20 million that tax change would raise is hardly worth the political hubbub that it would stir.

Done with The Average Taxpayer, they turn to the Small Business Owner and seek to eliminate the minor fee paid to small businesses that collect and remit their state sales tax receipts manually. The big companies have all moved to on-line remittance, with the loss of that fee. Sure, let’s eliminate one more revenue stream for struggling little business startups. That’s a truly moronic suggestion in this climate, for peanut sized revenue.

Enmity toward jobs is also displayed in the proposal to disallow any state deductions for Opportunity Zone qualified investments. *“The Opportunity Zones program has been criticized because of concerns that it will contribute to gentrification and displacement.”* Aha! That was the real purpose of burning down those businesses in central cities, a move to stop gentrification. Well they got that done. Why give any new investors an incentive?

They can have their last idea, putting a tight cap on the land preservation tax credit. Everybody knows the highest and best use for Virginia’s trees or pastures is to be cut, plowed and covered with solar panels. Any other use is a waste. But I’ve never been a fan of that particular tax break.

Virginia is actually desperately in need of a full review of its tax policies, and there might be some common ground for a serious discussion. One reason I hang around the Capitol like Banquo’s Ghost is hoping for such an effort. This is not a starting point for that.

Besides, Republicans have reflexes too, and one of them is that raising taxes is not the proper response to move out of a recession. Yes, the state is in fiscal stress

now. When everybody thought it was a great idea to shutter the economy, some of us mentioned that might happen.

Stephen Haner is Senior Fellow for State and Local Tax Policy at the Thomas Jefferson Institute for Public Policy. He may be reached at steve@thomasjeffersoninst.org.