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Gillespie Tax Plan Makes Good Sense

By Michael W. Thompson

Ed Gillespie, one of the candidates running for Governor this year, has proposed a major tax cut that makes a lot of sense.

Its key provisions would cut individual income taxes by 10 percent across the board over a three year period, and would accelerate reform of an antiquated system of local business taxes that now depresses economic growth and job formation.

The current tax rates were established in 1972 and have never been changed. The results are startling.

Low income Virginians pay a huge penalty because 45 years of inflation have not been reflected in our tax code. When the current income tax brackets were established, Virginians paid the lowest tax rate on their first $3,000. But if the brackets had been adjusted for inflation, the lowest tax bracket would apply to Virginians' first $17,483.

The same is true at the highest tax bracket. In 1972, the top rate kicked-in at incomes over $17,000. If that highest bracket had been adjusted for inflation, the top rate would not be imposed until incomes exceeded $99,000. With inflation, everybody gets hurt.

The 10% tax cut proposed by Gillespie helps reduce this 45 year impact from inflation.

And the Gillespie tax cut will be paid for from the projected growth in the current state budget. No state program will have its current funding reduced under this plan.

The Gillespie tax plan was run through the sophisticated tax model developed for the Thomas Jefferson Institute. This model, known as a State Tax Assessment Modeling Program (STAMP), is unique to Virginia and has been used in the past with high marks from Republicans and Democrats. It was vetted in public meetings by two General Assembly business commissions.

The Thomas Jefferson Institute has promoted the idea of income tax cuts and the elimination of the anti-business taxes that have vexed our businesses for years – the BPOL tax which is a tax on gross revenues rather than profits, the Machine and Tool Tax that puts us at a significant disadvantage compared with states such as North Carolina, and the Merchants Capital tax which is a tax on inventory and one that many business avoid by moving assets to other counties without this tax on "inventory day." We are proud that much of what we have promoted is in this plan by Ed Gillespie.

Our tax model projects that Gillespie's proposed 10% income tax cut will create 53,000 more jobs than would otherwise be the case. That is 25% above what the state currently projects in job creation. New jobs increase the amount of goods and services purchased by our taxpayers. More goods purchased means more sales tax revenue for the state and localities. More jobs mean more people are paying income taxes.

An additional $304 million in business investment will also be generated under this plan. These investments will help create the additional 53,000 jobs.

This tax plan will create a stronger economy. More Virginians will find employment as the private sector grows and creates more jobs. This means Virginia can reverse the recent trend of dropping lower and lower on various business rankings.

And this tax cut will bring $1285 a year in tax savings to the average household in our state. Skeptics say this "is only $25 a week" in extra spending. But that $25 a week adds up as the annual $1285 clearly shows. This money will buy clothes, groceries, and will pay for more nights out at dinner and the movies.

The counties that now impose the unfair gross receipts tax (BPOL), Machine & Tool Tax, and the Merchants Capital Tax will be required to sunset those anti-business taxes within three years. They can renew these taxes or not after a full debate or choose alternatives to replace these anti-business taxes with something less onerous. Available alternatives will be determined by a group of experts in cooperation with the General Assembly.

The endorsements of this tax plan by top economists, the Virginia Chamber and leaders of key tax committees in the General Assembly show that these ideas have credibility by those who understand how taxes impact our business climate. And it is our business climate that must improve if Virginia is to once again be on the top, or near the top, of the various business rankings where we have been falling dramatically over the past few years.

If Virginia is to reverse its recent downward spiral in these business ratings and thus improve the private sector job environment, then this tax plan makes a lot of sense.

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This column originally appeared in the March 26, 2017 edition of The Richmond Times-Dispatch*.* *Michael Thompson is the President of the Thomas Jefferson Institute for Public Policy and can be reached at info@thomasjeffersoninst.org.*