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**THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY**

## **Tax Reform and Job Creation Go Hand in Hand**

By Michael W. Thompson

8/10/2015 –I recently sat through two days of state candidates discussing top issues facing Virginia with several dozen business leaders interested in public policy. These discussions made it clear that our economy needs a significant boost and that our tax code needs to be made more relevant to today's world.

In one business survey after another, Virginia is slipping from its high rated position of a few short years ago. Our economy did not grow last year – not at all. Our growth rate was zero. And with federal military spending decreasing, our future must be based on encouraging job growth in the private sector – in companies not as reliant on federal dollars as in the past. Without more and better private sector job creation, Virginia's business environment will continue to deteriorate and that will impact our tax base and thus our ability to improve our education, our transportation system, and keep our streets and communities safe.

So what should our candidates be suggesting? When asked this question, not one had a really good answer. Most agreed that a new approach to our taxes should be considered. But none promoted a alternative to today's tired system created decades ago when our economy was significantly different.

The Thomas Jefferson Institute has been working with major associations in our state to develop a tax restructuring plan that can create up to 79,000 new jobs over the next five years. The manufacturers, the retailers, a key Northern Virginia group of gas station owners, and the state's 6,000 member strong association of small businesses – the state's chapter of the National Federation of Independent Business – have worked on this plan. Governor McAuliffe has called for regional cooperation among our counties and cities and is suggesting that tax money be used in some undefined way to encourage economic development through this local cooperation. This is a nice idea but unlikely to change the dynamics of each county trying to encourage businesses to pick their own jurisdiction over the one next door.

Only true tax restructuring will bring quick change to the dynamics of job creation. And that is exactly why this idea makes so much sense.

Let me outline this well-thought through tax restructuring plan that will encourage private sector job growth and make Virginia once again a leading pro-growth state as we were only a few short years ago.

This plan will create tens of thousands of new jobs according to the respected tax model we have used. There are no new business-to-business taxes. This plan will eliminate three clearly

job-destroying taxes that most everyone knows are a hindrance to economic growth – taxes few other states even have in their code. These are the gross receipts tax known as BPOL, the Machine & Tool tax, and the Merchants Capital tax that taxes inventory.

And our plan offers various tax cuts for all of us – there are different ways to cut our taxes depending on how you want to allocate these cuts. And, to make this plan revenue neutral so that our funding for schools, roads and public safety are not impacted it would broaden the sales tax to include those services not now taxed except for all health care services which would remain untaxed.

By broadening the sales tax to such items as haircuts, dry cleaning, personal legal bills, and airline tickets, there is enough money to cut all of our income tax rates by 17%; or eliminate the lowest two tax brackets on those least able to pay and reduce the other income taxes by 9.25%; or we could eliminate the 2.5% tax on our groceries, eliminate the bottom two tax brackets, and reduce the remaining income taxes by 3%. And, as outlined earlier, tens of thousands of new jobs would be created.

Our plan and the tax model behind it clearly show that a modern tax code, based on today's economic realities, can be a job creation tool and not a job destroying hammer on our businesses. It shows that a modern, creative tax code can be developed to encourage private sector growth.

Our state is faced with a declining economy and our status compared to other states has been slipping for years. There is currently no program to stop this decline being advocated by our Governor or our political leadership.

But the tax restructuring outline here is supported by the major job industries in our state: the manufacturers, the retailers and the small businesses.

It's time for tax restructuring here in Virginia. The plan outlined here has been vetted and can work. All it takes is strong political leadership to make it reality. Tens of thousands of new jobs can be created. What's needed is the courage to do it.

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