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Tax Restructuring Can Benefit Every Virginian

By Michael W. Thompson

What if you could improve Virginia's economy by eliminating state income taxes on the working poor (and cutting taxes for everyone else) while creating thousands of new jobs?

And what if, at the same time, you stimulated hundreds of millions in new business investments – even while eliminating three job-destroying business taxes?

According to a new study by the Thomas Jefferson Institute, all of that can be done ... and more ... by simply collecting 55 percent of the sales taxes that are currently exempt from collection for services provided to individuals..

This is the conclusion of an 18 month study by two sets of respected economists for the Thomas Jefferson Institute, the premier independent public policy foundation in Virginia.

This new study, [*Tax Restructuring in Virginia: Revenue Neutral Path for Improving Virginia's Economy*](#), was researched by Chmura Economics and Analytics of Richmond and a computer model was built to test various scenarios for this tax restructuring concept by the economists at the Beacon Hill Institute (BHI) at Suffolk University in Boston, Massachusetts.

Nine economic scenarios were run through the tax model to seek a restructuring plan that would help business expand, reduce either the sales tax or the state income tax, eliminate the business gross receipts (BPOL), the Machine and Tool (M&T) and the Merchants Capital (MC) taxes on business, and broaden the current sales tax on services provided to consumers to pay for the suggested tax reductions. Today's health and medical sales tax exemptions (accounting for 45% of current sales tax exemptions) were maintained in all but two of the scenarios. So doctors, hospitals, prescription drugs, health care insurance, etc. remain exempt from collecting the sales tax. Some scenarios kept a few other industries as sales tax exempt to illustrate the impact on the economy.

The expansion of the sales tax is only for those services industries that sell to the individual customer and are not required to collect it today. No business-to-business taxes are included since that would only reduce economic growth.

A specific tax restructuring alternative is left up to our political, business and community leaders to hammer out. But this study clearly shows that significant economic gains can be achieved by merely rearranging the tax system in a way that encourages economic growth. And this can be done in a revenue neutral way so that the counties and cities do not lose a penny when they no longer collect the BPOL, M&T or MC tax. The expanded sales tax will reimburse the localities in full.

A great deal of economic good could be accomplished by merely restructuring the current taxes without the overall tax burden changing. By assuring the counties and cities that their budgets will not be adversely impacted, a debate over reducing funds for schools, police, and fire fighters is avoided.

This report shows that income taxes can be eliminated on the working poor, job growth can be substantially improved, investment in our businesses can increase, substantial new disposable income can become available to our citizens, and at the end of the day our overall tax burden can remain the same.

It is time for Virginia's tax code to be updated. One prime example is that the BPOL tax was started almost 200 years ago to pay Virginia's share of the War of 1812! We now have the facts in this new Jefferson Institute study to seriously look at tax restructuring that could dramatically improve Virginia's economy while giving every taxpayer a substantial reduction in their own state income taxes.

Sales taxes impact the poor hardest since these folks have limited incomes. But under some of the tax reform ideas in this new study, the poor could be eliminated from paying income taxes and many of the new jobs would go to these same individuals. So the poor would benefit along with everyone else through a creative re-arrangement of our current tax code. New jobs will be created, more investments made in our economy, and more money will be available for spending on goods and services.

It's time to modernize our tax system here in Virginia. Our leaders in and out of government should pursue sensible tax restructuring that can help everyone in our state. One way to do this is through the ideas outlined in the Jefferson Institute's new study found on its website:

www.thomasjeffersoninst.org.

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