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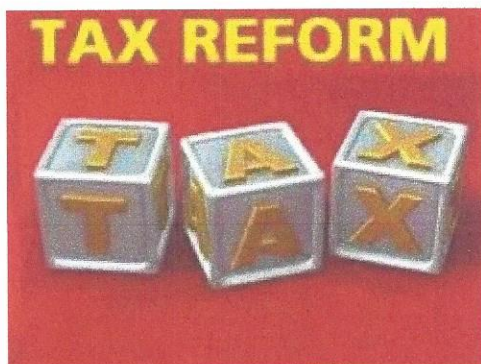
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## **Tax Restructuring in Virginia**

*Updated September 2015 from Previous Studies*

**A Revenue Neutral Path for Improving Our Economy**

**By: Michael W. Thompson**



September 2015

## Thomas Jefferson Institute for Public Policy

The Thomas Jefferson Institute for Public Policy is a non-partisan research and education organization devoted to improving the lives of the people in Virginia. The Institute was organized in 1996, and was the only state and local government focused public policy foundation in Virginia based on a philosophy of limited government, free enterprise and individual responsibility. It is a “solutions tank” seeking better ways to accomplish the policies and programs currently being undertaken by state and local government – always based on the Institute’s underlying philosophy. The first study was published in February 1997.

The work of the Thomas Jefferson Institute for Public Policy is geared toward educating our political, business and community leadership about the issues facing our society here in Virginia. The Institute offers creative solutions to these problems in a non-partisan manner.

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# ***Tax Restructuring in Virginia***

## ***Revenue Neutral Path for Improving Virginia's Economy***

*By: Michael W. Thompson*

<i><b>Updated September 2015 from previous Studies</b></i>
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### **Introduction**

Since the Thomas Jefferson Institute first published our tax restructuring idea in April 2012, Virginia's business rankings have become significantly worse. Our state's previous top or near-the-top rankings have slipped dramatically and we have to take actions that will improve our competitive position vis-à-vis other states.

One way to do this is through a significant restructuring our tax code here in Virginia. And this is exactly what the Thomas Jefferson Institute has been advocating.

Most economists agree that low, broadly applied taxes are best for the economy. Such taxes do not distort the market place as do targeted taxes, tax credits, etc.

In April of 2012, the Thomas Jefferson Institute published its first version of an exciting idea called, "Tax Restructuring in Virginia – A Revenue Neutral Path for Improving Our Economy." And a year later, in April 2013, we updated that study with the new sales tax figures.

This is the fourth edition of our study and includes 23 modeling scenarios showing how the tax changes can impact our state's economy.

This report has generated a great deal of interest and support for this basic idea:

- Broaden the sales tax to services that do not now collect it from their customers, except all health care services continue to be exempt;
- No new business-to-business taxes;
- Eliminate the impact of three business taxes that limit economic growth -- the Business Professional Occupation Licensing (BPOL), Machine and Tool (M&T), and the Merchants Capital (MC) taxes;
- Make sure that the localities that collect any of these three taxes above are not financially harmed by this new tax restructuring.
- The overall tax restructuring is revenue neutral, there are no net additional taxes.

These are the non-variables in this tax restructuring plan.



While developing this tax restructuring idea, we approached four groups all of which responded with an initial “we are interested in this idea.” These groups were the Tax Foundation in Washington DC that has been studying taxes since the 1930’s, Americans for Tax Reform that is an influential group in the General Assembly and which will not oppose a revenue neutral tax plan, and the two critically important local government organizations -- the Virginia Association of Counties (VACO) and the Virginia Municipal League (VML).

And we then talked with the five major private sector industry organizations in Virginia – those with members that employ most of our workers -- for their “buy in” to the concept: the National Federation of Independent Business (NFIB), the Virginia Manufacturers Association (VMA), the two major retailing groups – the Virginia Retail Merchants association and the Retail Alliance (under the umbrella known as the Virginia Retail Federation), and a group of gas station owners in Northern Virginia called the Virginia Gas Marketers Council. We then put together a “working group” of some 60 key people representing a broad set of industries interested in this idea. All await final legislation before “committing” to any specific support.

The Thomas Jefferson Institute has spent three and a half years working with key leaders to determine if the current tax system in Virginia can be “re-arranged” in a way that would be revenue neutral and create a stronger and more competitive business climate that would grow our economy over the next few years. Both candidates for Governor in 2013 – Terry McAuliffe and Ken Cuccinelli – supported the goal of eliminating the impact of the BPOL and Machine & Tool tax. This Jefferson Institute plan outlined herein is the only current road map available today to get this done in a revenue neutral manner that also produces tens of thousands of new jobs.

In 2013, the General Assembly asked the two key legislative commissions to look at this tax restructuring plan and to hold joint public hearings around the state. These two legislative entities were the Small Business Commission and the Manufacturing Development Commission. Hearings were held around the state on the tax restructuring plan.

Further background on this tax restructuring idea can be found in our three previous reports. Chmura Economics and Analytics of Richmond produced the study providing us with the figures by specific service industry that currently do not collect sales taxes and how much those industry would produce is taxes should they collect sales taxes from their customers (see pages 2-A and 2-B of this updated report). And the economists at the Beacon Hill Institute at Suffolk University in Boston developed the tax-and-spending model that they have produced in the past for us and that has received bi-partisan praise for its results. The full Chmura report and the background on the Beacon Hill tax model, known as a STAMP model (State Tax Analysis Modeling Program) can be found on our website with our first report in April of 2012.

### **Tax Model Results**

In order to analyze what kind of potential tax restructuring could be crafted to produce the best “bottom line” results for our economy, the Thomas Jefferson Institute produced a series of 23 scenarios through its dynamic economic model. The results of these scenarios show the economic impact that can be achieved with this basic tax restructuring plan.

Each of these scenarios is based on five non-variables that are key to this effort: The broadening of sales taxes never includes those services associated with health care (except in Scenario #1 which expands sales taxes to include health care for illustrative purposes only); there are no new business-to-business taxes involved; each scenario eliminates the impact of the

# Exemption Value of Detailed Service Industries

3-Digit NAICS Sectors	Industry Descriptions	Value of Tax Exemptions*	Estimated BPOL Tax Paid
481	Transport by air	\$44.57	\$6.60
482	Transport by rail	\$9.12	\$3.51
483	Transport by water	\$12.67	\$2.28
484	Transport by truck	\$58.87	\$6.85
485	Transit and ground passenger transportation	\$20.14	\$1.05
486	Transport by pipeline	\$0.96	\$0.13
488	Scenic and sightseeing transportation and support activities for transportation	\$2.07	\$2.52
492	Couriers and messengers	\$1.63	\$2.68
493	Warehousing and storage	\$0.00	\$2.22
511	Newspaper publishers	\$14.14	\$0.00
511	Periodical publishers	\$6.09	\$0.00
511	Book publishers	\$5.72	\$0.00
511	Directory, mailing list, and other publishers	\$1.25	\$0.00
511	Software publishers	\$7.44	\$0.00
512	Motion picture and video industries	\$4.11	\$0.91
512	Sound recording industries	\$4.64	\$0.25
515	Radio and television broadcasting	\$1.79	\$0.00
515	Cable and other subscription programming	\$1.28	\$0.00
516	Internet publishing and broadcasting	\$0.02	\$0.00
518	Data processing, hosting, ISP, web search portals and related services	\$54.59	\$5.55
519	Other information services	\$0.49	\$0.60
521	Monetary authorities and depository credit intermediation activities	\$0.00	\$0.00
522	Nondepository credit intermediation and related activities	\$136.61	\$0.00
523	Securities, commodity contracts, investments, and related activities	\$60.01	\$0.00
524	Insurance carriers	\$269.00	\$0.00
524	Insurance agencies, brokerages, and related activities	\$0.00	\$7.46
525	Funds, trusts, and other financial vehicles	\$141.48	\$5.05
531	Real estate establishments	\$462.10	\$47.34
531	Imputed rental activity for owner-occupied dwellings	\$0.00	\$0.00
532	Automotive equipment rental and leasing	\$0.00	\$2.14
532	General and consumer goods rental except video tapes and discs	\$3.39	\$0.63
532	Video tape and disc rental	\$3.49	\$0.15
532	Commercial and industrial machinery and equipment rental and leasing	\$0.00	\$1.72
533	Lessors of nonfinancial intangible assets	\$0.00	\$5.34
541	Legal services	\$95.85	\$15.41
541	Accounting, tax preparation, bookkeeping, and payroll services	\$8.40	\$10.40
541	Architectural, engineering, and related services	\$0.00	\$27.65
541	Specialized design services	\$0.71	\$0.90
541	Custom computer programming services	\$0.00	\$19.01
541	Computer systems design services	\$0.00	\$22.84
541	Other computer related services, including facilities management	\$0.00	\$7.28
541	Management, scientific, and technical consulting services	\$0.00	\$25.85
541	Environmental and other technical consulting services	\$0.00	\$3.95
541	Scientific research and development services	\$2.22	\$13.81
541	Advertising and related services	\$0.00	\$3.31
541	Photographic services	\$1.33	\$0.21
541	Veterinary services	\$22.65	\$1.51
541	All other miscellaneous professional, scientific, and technical services	\$0.00	\$3.83
551	Management of companies and enterprises	\$0.00	\$25.28





Confidential

561	Employment services	\$0.00	\$5.51
561	Travel arrangement and reservation services	\$3.65	\$1.08
561	Office administrative services	\$0.00	\$1.54
561	Facilities support services	\$0.00	\$3.13
561	Business support services	\$2.59	\$2.85
561	Investigation and security services	\$9.86	\$2.87
561	Services to buildings and dwellings	\$24.95	\$6.67
561	Other support services	\$0.16	\$0.92
562	Waste management and remediation services	\$13.92	\$2.13
611	Private elementary and secondary schools	\$53.80	\$0.00
611	Private junior colleges, colleges, universities, and professional schools	\$94.19	\$0.00
611	Other private educational services	\$71.85	\$0.00
621	Offices of physicians, dentists, and other health practitioners	\$771.47	\$36.82
621	Home health care services	\$63.99	\$1.85
621	Medical and diagnostic labs and outpatient and other ambulatory care services	\$171.15	\$5.67
622	Private hospitals	\$663.24	\$22.00
623	Nursing and residential care facilities	\$218.13	\$6.35
624	Child day care services	\$60.91	\$1.70
624	Individual and family services	\$68.21	\$2.12
624	Community food, housing, and other relief services, including rehabilitation services	\$33.58	\$0.00
711	Performing arts companies	\$7.91	\$0.35
711	Spectator sports companies	\$8.75	\$0.71
711	Promoters of performing arts and sports and agents for public figures	\$16.69	\$0.76
711	Independent artists, writers, and performers	\$0.00	\$0.29
712	Museums, historical sites, zoos, and parks	\$14.17	\$0.81
713	Fitness and recreational sports centers	\$15.37	\$0.96
713	Bowling centers	\$0.39	\$0.11
713	Amusement parks, arcades, and gambling industries	\$43.31	\$1.55
713	Other amusement and recreation industries	\$19.69	\$0.85
721	Hotels and motels, including casino hotels	\$29.91	\$5.10
721	Other accommodations	\$2.99	\$0.44
722	Food services and drinking places	\$0.00	\$24.65
811	Automotive repair and maintenance, except car washes	\$43.50	\$2.33
811	Car washes	\$3.81	\$0.21
811	Electronic and precision equipment repair and maintenance	\$0.00	\$1.50
811	Commercial and industrial machinery and equipment repair and maintenance	\$0.00	\$1.02
811	Personal and household goods repair and maintenance	\$0.09	\$0.57
812	Personal care services	\$80.11	\$2.89
812	Death care services	\$20.89	\$0.60
812	Dry-cleaning and laundry services	\$13.34	\$0.99
812	Other personal services	\$46.08	\$1.86
	Total	\$4,151.53	\$437.96

*\$4,400.62 at 5.3% rate*

Note: \* The value of tax exemptions are estimated based on if the businesses are taxed at the 5% rate.

Note: For real estate sector (NAICS 531), it includes sales tax on residential apartment rental and commissions of real estate brokers on residential transactions. It does not include sales tax applied to sales price of houses.

NAICS 621 indicates the sales tax applied to visits to doctor and dentist offices. NAICS 622 indicates sales tax applied to the hospital operational revenues.



BPOL, Machine and Tool (M&T) and Merchants Capital (MC) taxes; each scenario is based on making whole the localities that receive income from these three business taxes so that no budget impact is produced on these counties, cities and towns; and the overall tax restructuring is revenue neutral. One way to protect the counties and cities is for the BPOL, M&T and Merchants Capital tax to continue to be collected at the local level, and then the businesses take their receipt from “year one” and reduce taxes dollar for dollar in “year two.” Thus the counties and cities that collect these taxes are not threatened. This does not eliminate the BPOL, M&T and MC taxes, but it eliminates the job-destroying impact of these taxes by providing a dollar-for-dollar tax credit.

The Jefferson Institute developed 23 economic impact scenarios based on discussions with various stakeholders and legislative leaders and from the comments made at the joint hearings held by the Small Business Commission and the Manufacturing Development Commission.

Additional scenarios can be run through our dynamic economic model for those interested in seeing the outcome of new combinations.

**Scenario #1:** Sales taxes are expanded to all currently exempt service sectors and BPOL, M&T and MC taxes are eliminated. The extra funds from the expanded sales tax collection on services were modeled to lower the sales tax. The current sales tax rate can then be reduced to 3.07% (a 42% reduction). The economic results would be:

- Private employment increases by 6,500 – 7,600 jobs
- Investment increases by \$600 million
- Real disposable income decreases by \$161 - \$210 million (negligible to total disposable income in the economy)
- Real state GDP decreases by \$190 million

The scenarios that follow exclude health care from the expansion of the sales tax. A few of these scenarios includes additional exemptions from an expanded sales tax on services.

**Scenario #2:** Sales taxes are expanded to currently exempt service sectors excluding the entire healthcare sector and health insurance premiums while BPOL, M&T and MC taxes are eliminated. Sales tax rate reduced to 3.68% (30.6% reduction). The economic results would be:

- Private employment increases by 8,200 - 10,600 jobs
- Investment increases by \$615 million
- Real disposable income increases by \$683 - \$865 million
- Real state GDP decreases by \$537 million

**Scenario #3:** Sales taxes are expanded to all current service sectors excluding the entire healthcare sector, elimination of BPOL, M&T and MC taxes, and income tax rates for all brackets are cut by 17%. The economic results would be:

- Private employment increase by 45,000 jobs
- Investment increases by \$258 million
- Real disposable income increases by \$1.0 billion
- Real state GDP increases by \$4.8 billion



**Scenario #4:** Sales taxes are expanded to currently exempt service sectors excluding the entire healthcare sector, the BPOL, M&T and MC taxes are eliminated, the lowest personal income tax bracket (\$0 to \$3,000 income level) is eliminated, and the rates for the other brackets are cut by 10%. The economic results would be:

- Private employment increases by 61,000 jobs
- Investment increases by \$274 million
- Real disposable income increases by \$1.8 billion
- Real state GDP increases by \$6.6 billion

**Scenario #5:** Sales taxes are expanded to all exempt service sectors excluding the entire healthcare sector, elimination of the BPOL, M&T, and MC taxes, the bottom two tax brackets are eliminated (\$0 to \$3,000 income and \$3,000 to \$5,000 income) and the remaining two tax brackets cut by 9.25% The economic results would be:

- Private employment increase by 79,000 jobs
- Investment increases by \$287 million
- Real disposable income increases by \$2.85 billion
- Real state GDP increases by \$8.4 billion

**After reviewing these scenarios, we wanted to add specific industries back to the “exempt” status to see what the results would be on the economy.** (Of potential interest: If the CPA industry (#541 in the Chmura table) is excluded from the expanded sales tax, the number is so small (\$8.4 million) that it does not impact any of the numbers in our many scenarios.)

**Scenario #6:** Sales taxes are expanded to all exempt service sectors excluding the entire healthcare sector and private colleges and private schools, BPOL, M&T and MC taxes eliminated, the lowest tax bracket is eliminated and the rates for other brackets cut by 13%. The economic results would be:

- Private employment increase by 49,700
- Investment increase by \$273 million
- Real disposable income increases by \$1.8 billion
- Real state GDP increases by \$6.5 billion

**Scenario #7:** Sales taxes are expanded to all exempt service sectors excluding the entire healthcare sector, private colleges and schools, plus the day care services, BPOL, M&T and MC taxes are eliminated, the lowest tax bracket is eliminated and the rates for other brackets are cut by 12.5%. The economic results would be:

- Private employment increase by 59,800 jobs
- Investment increase by \$274 million
- Real disposable income increases by \$1.7 billion
- Real state GDP increases by \$6.4 billion

**Scenario #8:** Sales taxes are expanded to all current exempt service sectors excluding healthcare, private schools, daycare, and banking/finance, BPOL, M&T and MC taxes are eliminated, the lowest tax bracket is eliminated and the rates for the other personal income tax brackets are cut by 10%. The economic results would be:



- Private employment increase by 46,600 jobs
- Investment increases by \$427 million
- Real disposable income increases by \$1.5 billion
- Real state GDP increases by \$4.9 billion

**We then wanted to see what the results would be if we excluded from the broadening of sales taxes the real estate industry.** Since the sale of homes is a leading indicator going into recessions and coming out of recessions, it seemed that excluding real estate might be something that our elected officials would want to consider.

Here are the scenarios for maintaining the current sales tax exclusion on health care services and adding to that sales tax exclusion the real estate industry.

**Scenario #9:** Sales tax base expanded to service sector excluding the entire healthcare and real estate sectors, elimination of the BPOL, M&T and MC taxes, all income tax brackets are cut by 5.5%. The economic results would be:

- Private employment increase by 24,600 jobs
- Investment increase by \$413 million
- Real disposable income increases by \$570 million
- Real GDP increases by \$2.09 billion

**Scenario #10:** Sales tax base expanded to service sector excluding the entire healthcare and real estate sectors, elimination of the BPOL, M&T and MC taxes, the bottom two tax brackets are eliminated ( \$0 to \$3,000 income and \$3,000 to \$5,000 income brackets) and the other two brackets are reduced by 1%. The economic results would be:

- Private employment increase by 52,200 jobs
- Investment increase by \$442 million
- Real disposable income increases by \$2.17 billion
- Real GDP increases by \$4.36 billion

**In our discussions with business and elected leaders, we were asked to model what would happen if the elimination of some or all of the sales tax on food for home consumption (the grocery tax) was modeled into this tax restructuring idea.** Here is what we found.

**Scenario#11:** Sales tax base expanded to service sectors excluding the entire healthcare and real estate sectors, elimination of the state's portion of the tax on food for household consumption (\$221 million), elimination of the BPOL, M&T and MC taxes, and cut all income tax brackets by 3%. The economic results would be:

- Private employment increase by 9,700 jobs
- Investment increase by \$445 million
- Real disposable income decrease by \$159 million
- Real GDP increases by \$875 million

**Scenario #12:** Sales tax base expanded to service sectors excluding the entire healthcare sector, eliminate the state's portion of the sales tax on food for household consumption (\$221 million), eliminate the BPOL, M&T and MC taxes, and cut all income tax brackets by 10.5%. The economic results would be:

- Private employment increase by 54,400 jobs
- Investment increase by \$420 million
- Real disposable income increases by \$2.12 billion
- Real GDP increases by \$4.32 billion

**Scenario #13:** Sales tax base expanded to service sectors excluding the entire healthcare sector, eliminate the state's portion of the sales tax on food for household consumption (\$221 million), eliminate the BPOL, M&T and MC taxes, eliminate the bottom two income tax brackets (\$0 to \$3,000 and \$3,000 to \$5,000 income brackets) and the remaining two brackets are cut by 4.5%. The economic results would be:

- Private employment increase by 78,400 jobs
- Investment increase by \$447 million
- Real disposable income increases by \$3.43 billion
- Real GDP increases by \$6.35 billion

**Scenario #14:** Sales tax base expanded to service sectors excluding the entire healthcare sector, eliminate the entire sales tax on food for household consumption (\$369 million), eliminate the BPOL, M&T and MC taxes, eliminate the bottom two tax brackets (\$0 to \$3,000 income and \$3,000 to \$5,000 income brackets) and cut the remaining two brackets are by 3%. The economic results would be:

- Private employment increase by 68,500 jobs
- Investment increase by \$439 million
- Real disposable income increases by \$3.07 billion
- Real GDP increases by \$5.52 billion

**Scenario #15:** Sales tax base expanded to service sectors excluding the entire healthcare sector, eliminate the entire sales tax on food for household consumption (\$369 million), eliminate the BPOL, M&T and MC taxes, and cut all income tax brackets by 7%. The economic results would be:

- Private employment increase by 49,600 jobs
- Investment increase by \$440 million
- Real disposable income increases by \$1.541 billion
- Real GDP increases by \$3.15 billion

**We then added child care services as excluded from sales tax services.**

**Scenario #16:** Sales tax base expanded to service sector excluding the entire healthcare sector and childcare services, BPOL, M&T and MC taxes eliminated, the two lowest tax brackets eliminated and the rates for other brackets cut by 8.5%. The economic results would be:

- Private employment increase by 77,700



- Investment increase by \$337 million
- Real disposable income decreases by \$2.9 billion
- Real state GDP increases by \$8.6 billion

**Scenario #17:** Sales tax base expanded to service sector excluding the entire healthcare, daycare services and real estate sectors, BPOL, M&T and MC taxes eliminated, and the lowest two tax brackets are eliminated. The economic would be:

- Private employment increase by 49,900 jobs
- Investment increase by \$371 million
- Real disposable income increases by \$1.8 billion
- Real state GDP increases by \$5.3 billion

**Scenario #18:** Sales tax base expanded to service sector excluding the entire healthcare sector and the childcare services portion of sector #624 (\$60.91 million), and state's portion of the tax on food consumed at home (\$221) is eliminated, BPOL, M&T and MC taxes eliminated, the lowest two tax brackets are eliminated and the remaining two brackets cut by 4.5%. The economic results would be:

- Private employment increases by 66,600 jobs
- Investment increase by \$367 million
- Real disposable income increases by \$2.6 billion
- Real state GDP increases by \$7.3 billion

**Scenario #19:** Sales tax base expanded to service sector excluding the entire healthcare sector, the childcare services portion of sector #624 (\$60.91 million) and legal services (\$95.85), BPOL, M&T and MC taxes eliminated, the state's portion of the tax on food consumed at home (\$221) is eliminated, the lowest two tax brackets are eliminated and the rates for other brackets cut by 3.5%. The economic results would be:

- Private employment increases by 64,600 jobs
- Investment increase by \$380 million
- Real disposable income increases by \$2.6 billion
- Real state GDP increases by \$7.1 billion

**Scenario #20:** Sales tax base expanded to service sector excluding the entire healthcare sector and the childcare services portion of sector #624 (\$60.91 million), BPOL, M&T and MC taxes eliminated, the entire tax on food consumed at home (\$369) is eliminated, the lowest two tax brackets eliminated and the rates for other brackets cut by 2.5%. The economic results would be:

- Private employment increases by 61,700 jobs
- Investment increase by \$388 million
- Real disposable income increases by \$2.5 billion
- Real state GDP increases by \$6.8 billion

**Scenario #21:** Sales tax base expanded to service sector excluding the entire healthcare sector, the childcare services portion of sector #624 (\$60.91 million) and legal services (\$95.85), BPOL, M&T and MC taxes eliminated, and the entire tax on food consumed at home (\$369) is eliminated, the lowest two tax brackets are eliminated and the rates for other two brackets cut by 1%. The economic results would be:

- Private employment increases by 59,700 jobs
- Investment increase by \$388 million
- Real disposable income increases by \$2.4 billion
- Real state GDP increases by \$6.6 billion

**Scenario #22:** Sales tax base expanded to service sector excluding the entire healthcare sector and the childcare services portion of sector #624 (\$60.91 million), BPOL, M&T and MC taxes eliminated, the entire tax on food consumed at home (\$369 million) is eliminated, and all income tax brackets are cut by 7%. The economic results would be:

- Private employment increases by 24,400 jobs
- Investment increase by \$365 million
- Real disposable income increases by \$830 million
- Real state GDP increases by \$2.5 billion

**Scenario #23:** Sales tax base expanded to service sector excluding the entire healthcare sector, childcare services portion of sector #624 (\$60.91 million) and legal services (\$95.85) sectors, BPOL, M&T and MC taxes eliminated, the entire tax on food consumed at home (\$369) is eliminated, and all income tax brackets are cut by 5.5%. The economic results would be:

- Private employment increases by 20,200 jobs
- Investment increase by \$379 million
- Real disposable income increases by \$721 million
- Real state GDP increases by \$2.0 billion

From the perspective of jobs creation, the scenarios listed below are ranked in order from most jobs created to the least jobs created over the next 5 to 6 years:

Scenario #5	79,000 jobs	Scenario #17	49,900
Scenario #13	78,400	Scenario #6	49,700
Scenario #16	77,700	Scenario #15	49,600
Scenario #14	68,500	Scenario #8	46,600
Scenario #18	66,600	Scenario #3	45,000
Scenario #19	64,600	Scenario #9	24,600
Scenario #20	61,700	Scenario #22	24,400
Scenario #4	61,000	Scenario #23	20,200
Scenario #7	59,800	Scenario #2	10,600
Scenario #21	59,700	Scenario #11	9,700
Scenario #12	54,400	Scenario #1	7,600
Scenario #10	52,200		



Clearly, from the modeling with our sophisticated STAMP model, the idea behind this tax restructuring idea can have a significant impact on our state's economy. Broadening the sales tax collection to services not now required to collect that tax, and using these monies to reduce other taxes, can have a very positive impact on our future.

### **Conclusion**

***For the first time, a truly “revenue neutral” tax restructuring proposal is now on the table to eliminate the BPOL, M&T and MC taxes, protect the localities from losing a revenue source, and -- depending on the scenario above -- dramatically cut income taxes and/or food taxes on our citizens.***

This major tax restructuring concept is revenue neutral and yet produces an incredible improvement in our economy. Not only is this fascinating intellectually, but it is truly exciting from a public policy point of view.

If the policy goal is to create a better tax structure in our state, to eliminate BPOL, M&T and MC taxes as our Governor and others have advocated for many years, and to do this in a way that protects our localities from a concern for “lost income” from the three business taxes, this plan outlined herein can do all of this and substantially improves our economy..

Those industries that would have to collect sales taxes from their customers would no longer pay BPOL, M&T and/or MC taxes. This is an incentive for them to consider this new tax policy idea. And depending on which scenario is selected above, income tax reductions would also impact everyone in the state, including everyone who works for the businesses that would have to collect sales taxes from their customers under this new tax concept.

Tax restructuring can have a significant impact on our economy as the scenarios that were run through the Virginia STAMP model clearly show.

The tax restructuring outlined in this study can achieve five important policy goals: cut income tax rates and eliminate entire income tax brackets; eliminate the impact of the three job destroying taxes that businesses and politicians have complained about for years – BPOL, M&T and MC taxes; keep the localities whole that levy these taxes today so that their budgets are not impacted; produce better economic growth; and do this in a “revenue neutral” manner.

We hope this updated report will continue to generate a serious discussion on tax restructuring. The Thomas Jefferson Institute is ready and anxious to participate in that discussion using this study and our dynamic tax/spending model (Virginia STAMP) to assist our public, private and non-profit sector leaders in crafting a better tax system than we have today.

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**Rebecca Donatelli:** President, Campaign Solutions/Connell Donatelli

**James W. Dyke Jr:** Sr. Advisor, McGuireWoods Consulting and former VA Secretary of Education

**B. Keith Fulton:** VP for Mid-Atlantic Region, Verizon.

**John Hager:** Former Lt. Governor of Virginia.

**Robert L. Hartwell:** President, Hartwell Capitol Consulting.

**Alan I. Kirshner:** Chairman and CEO of Markel Corporation.

**Joseph Ragan:** Founder and President of Joe Ragan's Coffee.

**John Rust:** Former State Delegate and Partner, Rust and Rust law firm.

**John Ryan:** Former Senior Counsel and Director of Gov't Affairs for Bristol Myers Squibb.

**Robert W. Shinn:** President of Public Affairs, Capitol Results

**Dr. Robert F. Turner:** Law professor at the University of Virginia at Charlottesville.





*“... a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities.”*

*Thomas Jefferson, 1801*

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