

Complexities of Tax Reform II

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Although tax reform is supposed to be addressed in next year's General Assembly session, it does not appear that there will be very much informed debate on the issue during this election year. One problem is the complexity of the issue I addressed in a previous column; the other is the irresistible opportunity for political posturing.

The promised car tax cut will continue to be debated. With the reduction presently at 70 percent, the price tag for the state to reimburse localities is already over a billion dollars – more than twice the amount projected by Governor Gilmore. And downstate legislators are quickly losing their enthusiasm for the cut as they realize that more and more funds are flowing from the state treasury to rich Northern Virginia where there are more expensive cars and a higher car tax rate. At least five legislators from Southwest Virginia introduced bills to reduce the car tax cut because of its impact on their districts in lost state funding.

Other legislators ignored the fact that this is an election year and introduced tax measures in the past session of the General Assembly. Retired educator Delegate Flora Crittendon wanted to increase the sales tax by a half-penny for schools. Republican Senator Kevin Miller introduced two bills to increase the state gasoline tax by the rate of inflation since the last increase in 1986. Both bills would have brought more money to our region, but they died in committee.

My tobacco tax bill to increase Virginia's 2.5 cents cigarette tax, the lowest in the nation, to 52.5 cents, still less than the national average, was killed in committee. Even with that 2100 percent increase, studies by the American Lung Association indicate that there would unfortunately have been no reduction in smoking or in tobacco farming. In fact, the Lung Association supported bills that increased the tax by more than 60 cents as a way to reduce smoking.

For those who complain about the increases in government spending over the last decade there needs to be a recognition that one of the greatest drivers of that increase was Medicaid costs. And the greatest driver of increased Medicaid costs – smoking. That is why I devoted revenues from the cigarette taxes I proposed to medical costs.

No tax has been more complicated to explain or provided more opportunity for political posturing than the estate tax, or as it has been referred to most recently, the death tax. Some have stated falsely that if you have a Northern Virginia home valued above \$500,000 and some insurance paying \$200,000 to \$300,000 that your estate would be paying the 16 percent "death" tax. Actually the minimum estate in 2005 when repeal was proposed would be \$1.5 million in an unplanned estate. The rates vary from .8 percent to 16 percent with the higher rate applying to estates over \$10 million. Fewer than a thousand families would have benefited from the repeal.

With continued dialogue, strong executive leadership, and a heightened public understanding, meaningful and reasonable tax reform might take place in 2004.