

## ***Debate Over Tax Reform***

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Everyone agrees that the two most powerful positions in Virginia state government are the Governor and the Speaker of the House of Delegates, although some would dispute the order in which I listed them. The Governor as chief executive officer runs the business of state government. The Speaker of the House of Delegates runs the 100-member House through making committee assignments and controlling debate on the floor. No one in the State Senate has comparable power. The Governor cannot succeed himself; the Speaker can return to the House of Delegates as many times as the voters re-elect him and as many times as Speaker as the majority caucus is willing to re-elect him.

Now these two powerful figures are on a collision course as debate in the 2004 session of the General Assembly focuses on tax reform.

On October 31, 2003, Speaker of the House William Howell made a speech to the Virginia Chamber of Commerce Board of Directors in which he "urge(s) Governor Warner to abandon any plans to increase the overall tax burden when he submits his tax reform recommendations after the November 4 General Assembly elections." Throughout the speech Speaker Howell emphasized his perspective that "we cannot tax our way back to prosperity and fiscal strength. In fact, increasing the tax burden on working families and businesses is exactly the wrong policy for promoting economic growth."

The Speaker reasoned that Virginia's "old, antiquated and agrarian tax code," as some refer to it, produced unparalleled revenues during the 1990's. The recent decline in state revenues happened when our economy stopped growing. "The tax code that worked so well just a few years ago did not suddenly become dysfunctional," he told the Chamber Board.

"Raising taxes would obviously make it easy to balance Virginia's budget – in the short-term," he said. "But, the price of that short-term benefit will be long-term detriment to our state's economy and revenue growth."

Last week Governor Mark Warner weighed in with his long-promised tax reform package, Commonwealth of Opportunity Tax Reform Plan. To the relief of many of us, it is bold and comprehensive. It has three objectives: make the tax system in Virginia fairer, preserve Virginia's fiscal integrity, and raise revenues necessary to support core services of government, most especially quality public schools.

Amazingly, an estimated 65 percent of taxpayers will pay less in their overall state tax burden under the Governor's proposal while the plan will raise approximately \$500 million a year in new revenue. In contrast to the views of the Speaker, the Governor said that "reforming the tax code will help strengthen Virginia's economic competitiveness and ability to create jobs."

The principal features of Governor Warner's plan include lowering the income tax for most Virginians by raising the personal exemption and standard deductions and by raising the bottom brackets. Persons with taxable income over \$100,000, or about eight percent of taxpayers, would have a tax increase with a new 6.25 percent bracket. Everyone would pay less sales tax on food with the current rate of 4 percent being reduced to 2.5 percent with all the money going to localities. The sales tax on all other purchases that are currently taxed would go from 4.5 percent to 5.5 percent. The car tax would be completely eliminated by 2008. The state cigarette tax, now the lowest in the country at 2.5 cents, would be raised to 25 cents, and localities would be allowed to add another 50 cents tax. Other features close corporate loopholes, eliminate the estate tax over ten million dollars, and give a tax break to military families.

Additional revenue would primarily go to fund existing commitments in education, health care and transportation.

Speaker Howell will be naming at least four new members to the House Finance Committee that must pass any revisions to the tax code. His selections for membership on that Committee will be an early indication of the reception the Governor's plan will receive. Fortunately, no one is saying publicly that the plan is dead on arrival. For while the Governor is under the gun to get his plan passed, the Republican majority in the General Assembly must also demonstrate that it can govern responsibly. Clearly something needs to be done to get the state's fiscal house in order. It will be very, very interesting legislative session possibly going beyond the usual adjournment date. Follow it right here in this column each week.

To review the Governor's proposal, go to [www.governor.virginia.gov](http://www.governor.virginia.gov) and the Speaker's speech at [www.vachamber.com](http://www.vachamber.com). To make your views known on the issue, write to me at [kenplum@aol.com](mailto:kenplum@aol.com).