

The Complexities of Tax Reform

Kenneth R. "Ken" Plum

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The oft-suggested solution to Virginia's budgetary shortfalls is tax reform. Governor Warner spoke about tax reform in his campaign and as recently as the end of the annual General Assembly session a couple of weeks ago. A General Assembly committee studied tax reform for several years but never produced a final report. A group of academicians wrote a report on tax reform, but it was relegated to the bookshelf.

Agreement exists across the political spectrum for the need for reform, but there is a wide range of opinions on the problem and the direction for reform. A Richmond area State Senator with a strong business background described the problem as he sees it in a recent Richmond Times Dispatch editorial (www.timesdispatch.com/editorials, 3/5/03): "Virginia annually collects about \$7.1 billion in income taxes and \$2.3 billion in sales taxes, the two primary sources of general fund revenue. But less than 30 percent of the people (those with family incomes of \$50,000 or more) pay 80 percent of these taxes. Since those who consume many state services pay little or no taxes, demand tends to be unlimited."

The Virginia Organizing Project (www.virginia-organizing.org), a non-profit group devoted among other things to "the elimination of the extremes of wealth and poverty, in a progressive system based on the ability to pay" states the problem differently. They point out that the lowest fifth of Virginia's population pays 10.4 percent of their income in state and local taxes while in contrast the top one percent pays only 4.9 percent. According to their analysis, Virginia levies the fourth highest income tax on single-parent families of three with income of 125 percent of the poverty level among the 42 states with income taxes. Such families would be entirely exempt from the income tax in 18 states and 11 provide refundable tax credits to them.

In a study that is now more than a year old, Professor John L. Knapp of the University of Virginia found that "the tax burden in Virginia is low." According to the tax numbers he was using prior to the impact of the car tax cut, Virginia's tax burden was 92 percent of the U.S. average. Virginia ranked 43rd in the nation in a ranking from the highest to the lowest state. In relation to its neighboring states, Virginia's tax burden is below all except Tennessee. ("The Virginia Newsletter," Vol. 78, No. 1, January 2002.)

Of course, most everyone believes his or her taxes are too high. And while most of us fortunately do not depend on government programs for our very existence, we do expect our children and grandchildren to be able to go to very good schools. We want snow removed instantly, potholes filled expeditiously, and roads and transit expanded to meet demand. We expect to be safe in our homes and in the community. We want clean air and water. All of which costs money.

To meet societal needs and core services of government we can reform taxes. But for every reform cut there will be an increase, and ultimately the increases will exceed the cuts if budgets are to be balanced. Deciding whose tax bill will go up and whose will go down will require strong leadership and the development of a public consensus. That's but one complexity of tax reform; future columns will address other difficulties in the process.