A drop in the bucket?

Assessing the high cost of Virginia Tax Expenditures

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The Commonwealth Institute

A drop in the bucket?

Assessing the high cost of Virginia Tax Expenditures

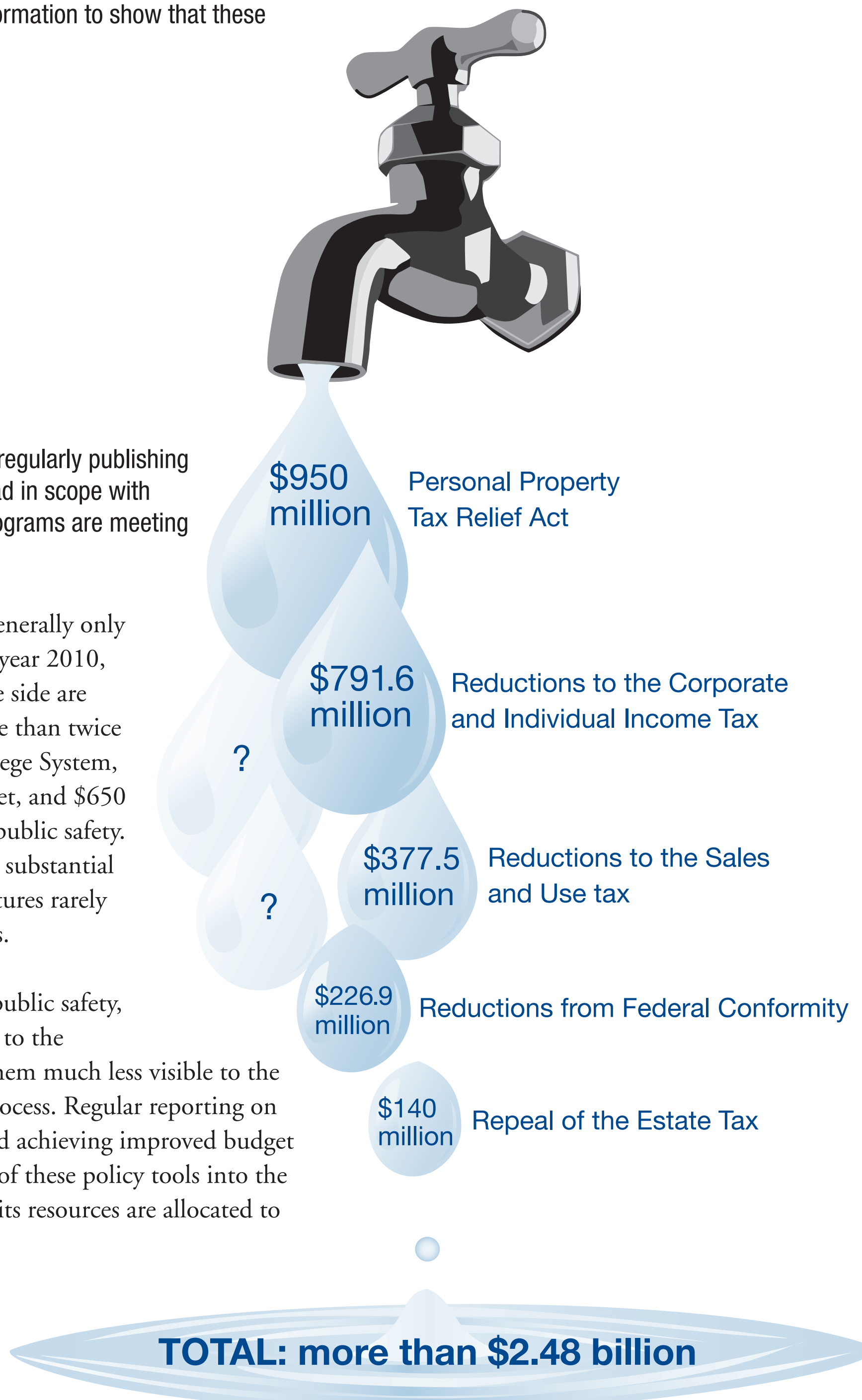
• Tax expenditures, which encompass all reductions in state revenue that occur as a result of a tax exemption, exclusion, deferral, credit, or preferential rate, cost Virginia billions in revenue.

• This report identifies more than 60 tax expenditure programs that have been created or amended in recent years and summarizes available cost information to show that these recently enacted changes cost Virginia at least $2.5 billion a year, which represents a 40 percent increase in just 4 years.

• Little evaluation of tax expenditures occurs in Virginia. The state does not regularly report on tax expenditures in any comprehensive way or subject proposed new expenditures to standard criteria that might determine whether adopting one is good policy.

• At a time of significant fiscal crisis, it is more important than ever to improve transparency in this area.

• Virginia can take a significant step forward in this area by regularly publishing a tax expenditure report that is accessible to the public, broad in scope with detailed information, and with an analysis of whether the programs are meeting stated goals.



Though there are two components to Virginia's budget, generally only the spending side receives the public's attention. In fiscal year 2010, the costs from recent changes to the state's tax expenditure side are estimated to total at least $2.5 billion dollars. That is more than twice the total appropriations for the Virginia Community College System, equal to about three-quarters of the state's Medicaid budget, and $650 million more than the general fund operating budget for public safety. Health care, public safety, and education spending receive substantial scrutiny. Yet Virginia's expensive collection of tax expenditures rarely enter the budget debate or the program evaluation process.

Unlike public investment in most core programs such as public safety, education, or health care, tax expenditures are not subject to the annual and biennial appropriations process. This makes them much less visible to the public and to policymakers, complicating the oversight process. Regular reporting on Virginia's tax expenditure programs is a critical step toward achieving improved budget transparency and accountability. By incorporating review of these policy tools into the budget process, the Commonwealth can help ensure that its resources are allocated to best serve the needs and demands of its citizens.

To begin meaningful dialogue on this issue, The Commonwealth Institute created this report to

The Hidden Budget
Cost of Recently Enacted Tax Expenditures
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
State Tax Expenditures	(2,179.0)	(2,341.9)	(2,259.1)
State Impact of Federal Tax Expenditures	(192.8)	(193.2)	(226.9)
Total Reductions	**($2,371.8)**	**($2,535.1)**	**($2,486.0)**

Source: Virginia Department of Taxation

identify both what is known and unknown about tax expenditures in Virginia. The goal is to shed light on tax expenditure programs recently added to the books and to estimate the impact on Virginia's budget using publicly available data from the Department of Taxation on recent tax policy changes that have reduced state revenues. This is not an exhaustive list of the state's tax expenditures and it focuses on just recently enacted changes (those enacted since 1985) and one key aspect of their existence: cost. In order to fully evaluate the merits of each program, the costs need to be paired with information on each program's objectives and key performance measures. This more comprehensive approach would best be undertaken by the state since it has access to the level of data necessary to fully review the whole array of tax expenditures.

Virginia currently undertakes two modest reviews of various tax expenditures. The first is an annual report of corporate tax preferences and the second is a periodic evaluation of exemptions to the state's retail sales and use tax. The state's current approach is far too limited in scope and needs to be expanded to comprehensively cover reductions in all of the Commonwealth's key revenue streams. For example, by only reviewing corporate tax preferences, the state is looking at less than 10 percent of recently enacted tax expenditures.

Given the Commonwealth's current fiscal challenges, it is more important than ever for policymakers to examine the state's tax expenditure programs with the same level of scrutiny applied to its appropriations.

About The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of state public policies with particular attention to the impacts on low- and moderate-income persons. Our products inform state economic, fiscal, and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. To learn more about how you or your organization can support The Commonwealth Institute, please visit www.thecommonwealthinstitute.org or call us at 804-643-2474, ext. 112.

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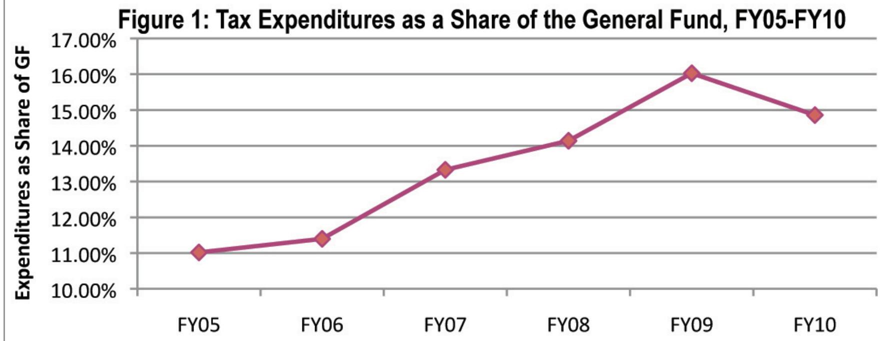
Tax Expenditures: An Overview

Recently Enacted Tax Expenditures Are a Growing Share of the General Fund



Note: FY09 and FY10 are estimates.
Source: The Virginia Department of Taxation

Tax expenditures, typically defined as a reduction in state revenue that occurs as a result of a tax exemption, exclusion, deferral, credit, or preferential rate, often aim to encourage certain behaviors or activities such as saving for retirement, obtaining higher education, contributing to charitable organizations, or owning a home. Because they result in revenue foregone, however, such expenditures should be subject to the same level of scrutiny as appropriated spending.

Virginia allocates billions annually through tax expenditures. Instead of the government delivering direct services to certain taxpayers or sending them a check, these taxpayers simply pay less in taxes. Both cost the state real dollars. Just like appropriations, tax expenditures require either higher taxes elsewhere or reductions in spending in order to balance the state budget.

Tax expenditures operate like entitlements because most are not subject to annual appropriations. This means that once a tax expenditure is inserted into the tax code, it basically operates on autopilot. Typically, there are no cost limits restricting usage of the policy tool, which allows it to expand without explicit authorization. The tax credit, deduction, exemption, or special rate is extended to any business or individual that meets the eligibility criteria. Unlike direct spending on programs, when a tax cut costs more than expected, taking action to rein in costs can be difficult.

For example, in 1999 Virginia enacted the Land Preservation Tax Credit that allows taxpayers who place their property in a preservation structure to claim a credit on their tax returns. The program was expanded in 2002 to make these credits tradable (i.e., to the extent that a credit might exceed a taxpayer's liability, the taxpayer can sell the credit to another taxpayer). The costs of the program skyrocketed from $2.2 million in 2001 to more than $80 million in 2006 (a 3,500 percent increase). For this and other reasons, the General Assembly placed a "cap" on the program to limit the expenditures from the general fund to $100 million a year in 2006. But the costs continued to exceed this cap because a large number of credits had already been "booked" before the cap was enacted. For example, the program cost the state an estimated $200 million in 2008.

Virginia has enacted a number of tax expenditures in recent years. This report draws attention to these particular tax policy changes and their costs, but also calls on Virginia to provide more insight into this critical and costly fiscal policy area.

Virginia's recently enacted tax expenditures total at least $2 billion and have been increasing in recent years (see Figure 1). Between 2006 and 2009, they increased more than 30 percent as a portion of the state's general fund.

Five tax expenditures in particular account for about 80 percent of the total cost of the Commonwealth's recently enacted tax expenditures (see Figure 2).

• The most expensive is the Personal Property Tax Relief Act, which cost $950 million and accounts for 41 percent of the total.
• The subtraction for individuals age 65 or older reduces the state's income tax revenues by around $270 million per year.
• The reduction in the sales tax on food began in 2005 and will cost $250 million in 2010.
• The repeal of the estate tax costs $140 million per year.
• Finally, the Land Preservation Tax Credit will cost $120 million in 2010.

The remaining recently enacted tax expenditures account for just 20 percent of the total cost, and average roughly $10 million a program. A number of tax expenditure programs are associated with a cost of less than $100,000 per year — and these small programs are not included in this report.

Of the $2.48 billion identified in recent state tax expenditures in fiscal year 2010, roughly 24 percent of this amount is

Spending by any other name

Tax Expenditures vs. Appropriations

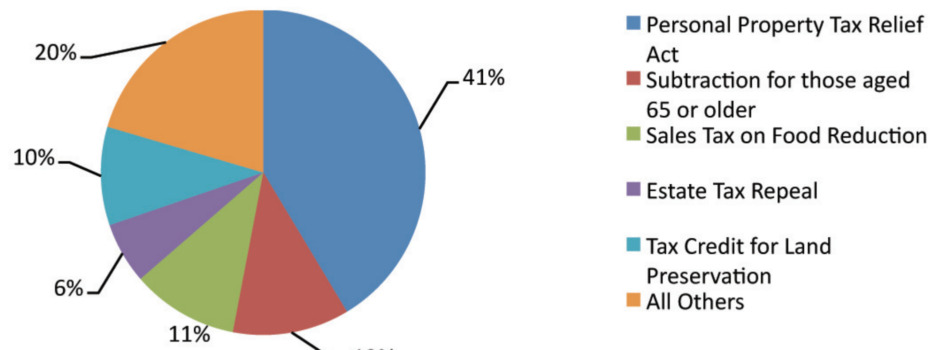
• A **tax expenditure** refers to a revenue loss that results from special provisions in the state's tax code.

• An **appropriation** refers to legislation that authorizes state spending on a specific purpose.

Both tax expenditures and appropriations are designed to accomplish specific social or economic goals. Both cost the state real dollars.

5 Recent Tax Expenditures Account for 80 Percent of Total Cost

Figure 2: Recent Tax Expenditure Cost Estimates By Program, FY2009



Source: Virginia Department of Taxation

attributable to tax preferences solely for individuals, less than 4 percent goes to providing relief solely to business. The remaining 72 percent is attributable to tax preferences that are available to either businesses or individuals. Because many businesses are organized as something other than a corporation (i.e. sole proprietorship, partnership, S Corp, etc.), many file their taxes as individuals. Without individual return-level information from the Department of Taxation, it is impossible to determine what share of the $1.6 billion in recent tax preferences go to individuals and families versus businesses.

Tax expenditures are much less visible than direct spending. This makes it more difficult for policymakers, advocates, and even everyday citizens to become involved in the oversight and review process. Although measuring tax expenditures is not an easy undertaking, a number of states (and the federal government) publish regular reports of tax expenditures. These reports typically list all of the policies deemed to be "tax expenditures" and, most importantly, estimate the revenue loss associated with their existence. This information helps illuminate the true cost of the policy tool and can help in determining whether it is bringing about its intended results.

Currently, Virginia does not publish a comprehensive tax expenditure report. The state has begun to phase in reporting of the exemptions relating to the retail sales and use tax, but this will not be complete until 2011. In addition, the state's annual report on corporate tax preferences includes only a fraction of the deductions and exemptions available to Virginia businesses.

Virginia boasts a strong record of financial management and government performance. In 2008, the Commonwealth received a grade of A- in the "Grading the States" report published by the Pew Center on the States. The report highlights the state's achievement in using information to bolster performance: "Virginia proves that tracking data — and holding employees accountable for outcomes — can work wondrous efficiencies." Through additional tracking efforts to better measure and evaluate the performance of tax expenditures, the Commonwealth can help maintain its high rankings.

Tax Expenditure Impacts

Without a comprehensive state-sponsored review of tax expenditures, much remains unknown about how these policy tools affect the Commonwealth. It is unclear exactly which expenditures exist, how much they cost, who benefits from them, and whether they are fulfilling their intended purpose. Despite all of these unknowns, this report highlights what is known about recent tax expenditures in Virginia — and it provides one key piece of the puzzle by summarizing all available cost data published by the Department of Taxation.

The recently enacted tax expenditures included in this report reduce Virginia's revenues by at least $2.5 billion each fiscal year. Figures 3A, B, and C illustrate the fiscal impact of state tax expenditure programs for fiscal years 2008-2010. The programs listed are categorized by the revenue stream they reduce, and are ranked by estimated fiscal impact in 2010. (For descriptions of these programs, see Appendix A.) Programs with an annual fiscal impact of less than $100,000 are excluded from this list, as are those programs for which the Department of Taxation does not keep revenue reduction estimates. Similarly, Figure 4 illustrates the fiscal impact of known recent federal tax expenditures that reduce Virginia's state revenues.

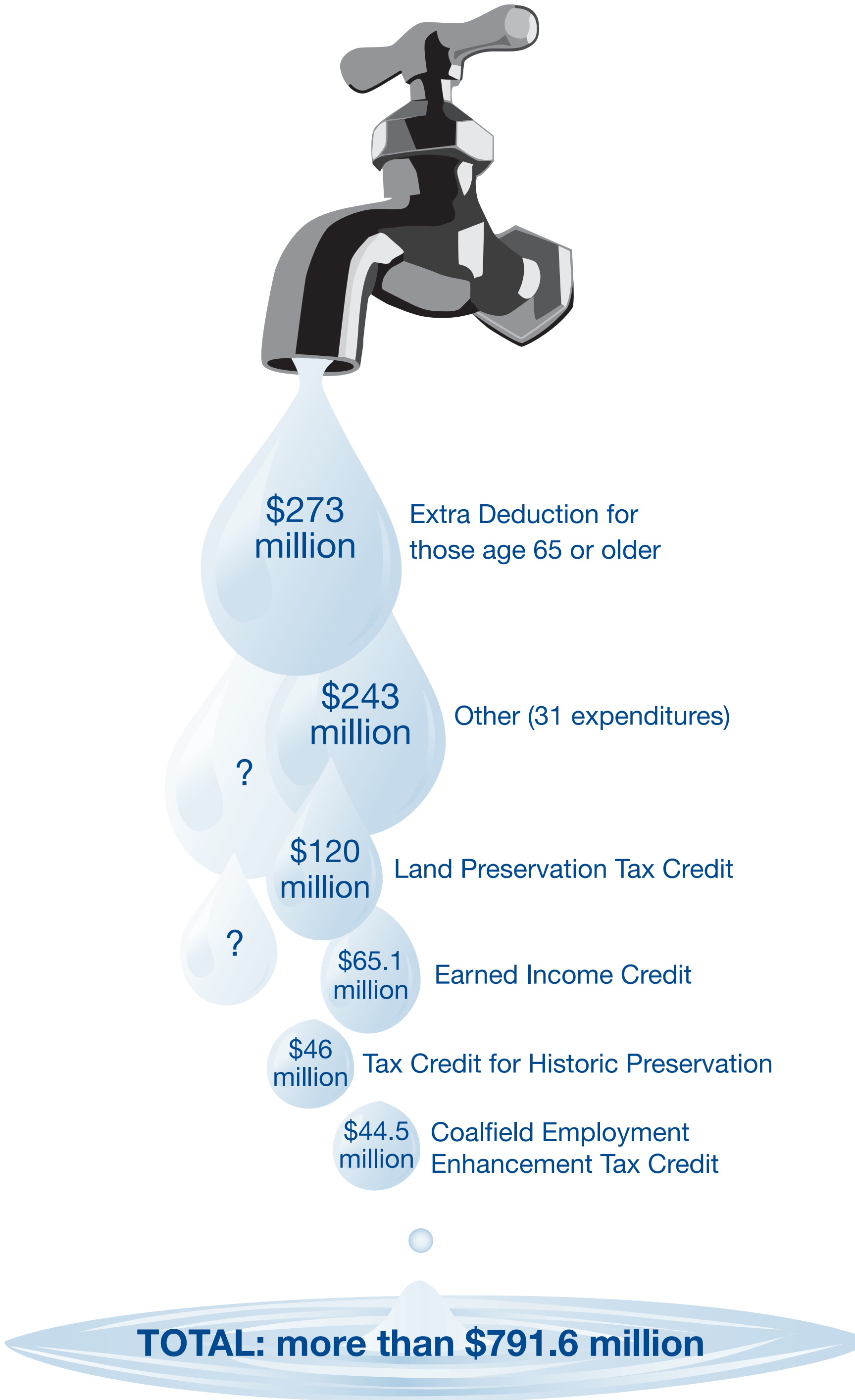
The bulk of Virginia's recent tax expenditures reduce two key streams of general fund revenue: The income tax (both individual and corporate) and the retail sales and use tax. These tax sources account for roughly 91 percent of expected general fund revenue in the 2008-2010 biennium.

Estimated Reductions to the Income Tax

In 2010, recently enacted or amended tax expenditures related to the state income tax are estimated to cost the Commonwealth more than $790 million dollars based on available cost data. Figure 3A lists these expenditures according to their fiscal impact. While the largest number of expenditures (roughly 35 of the 52 state programs included in this report) reduce this revenue stream, in dollar terms, less than 40 percent of the total estimated annual cost of Virginia's tax expenditures is attributable to these programs.

The most expensive recent expenditure relating to the income tax is the Deduction for Individuals Age 65 and Older. This provision currently provides a credit of up to $12,000 for taxpayers 65 and over. In 2004, the General Assembly decided that this tax exemption, then costing about $300 million a year, was too costly for the state. The legislature enacted provisions to means-test this provision so that the credit is reduced dollar for dollar for adjusted federal adjusted gross income above $50,000 in an attempt to lower the cost to the state. Yet because the legislature chose to grandfather in those individuals who were eligible to receive the full amount prior to 2004, the cost of the deduction remains around $270 million a year.

Another set of recently enacted tax policy changes that have substantially reduced state income tax revenues are the 2004 and 2007 increases to the personal exemption, standard deduction, and filing threshold. While the recent increases in these provisions are estimated to reduce revenues by over $83 million in 2010, the total cost for them is larger. For example, in fiscal year 2008, the Department of Taxation reported over $5.7 billion in standard deductions claimed by Virginia taxpayers. Because this report focuses on recent reductions to state revenues for which reliable estimates of cost exist, just the 2004 and 2007 increases for the personal exemption, standard deduction, and filing threshold are included.



Recent State Tax Expenditures Reduce Personal and Corporate Income Tax Revenue

Figure 3A: Summary of Available* Cost Estimates for State Tax Expenditures
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Programs Reducing Income Tax Revenues:			
Subtraction for those aged 65 or older	(264.8)	(267.2)	(273.0)
Tax Credit for Land Preservation	(200.0)	(225.0)	(120.0)
Increases to Personal Exemption, Filing Threshold, Standard Deduction	(69.2)	(83.0)	(83.3)
Earned Income Credit	(62.4)	(63.7)	(65.1)
Tax Credit for Historic Rehabilitation	(46.0)	(46.0)	(46.0)
Coalfield Employment Enhancement Tax Credits	(44.5)	(44.5)	(44.5)
Tax Credit for Individuals and Families Below the Poverty Level	(31.0)	(34.0)	(37.3)
Subtraction for Unemployment Benefits	(20.0)	(20.0)	(20.0)
Subtraction for Military Wages -- Up to $15,000	(12.4)	(14.1)	(16.1)
Double Weighting of Sales Tax in Corporate Income Tax	(15.0)	(15.0)	(15.0)
Enterprise Zone -- General and Investment Tax Credits	(10.0)	(10.0)	(10.0)
Major Business Facility Job Tax Credit	(8.0)	(8.0)	(8.0)
Deduction for Long Term Health Care Insurance	(7.0)	(7.0)	(7.0)
Credit for Long-Term Care Insurance	(5.2)	(5.7)	(6.2)
Credit for Cigarettes Manufactured and Exported	(6.0)	(6.0)	(6.0)
Subtraction for Federal and State Employees -- Up to $15,000	(4.4)	(4.8)	(5.3)
Neighborhood Assistance Tax Credit	(5.0)	(5.0)	(5.0)
Subtraction for Contributions to Prepaid Tuition Plan; Ded. for Savings Trust	(4.2)	(4.2)	(4.2)
Subtraction of Disability Income	(4.0)	(4.0)	(4.0)
Neighborhood Assistance to $12 million	(4.0)	(4.0)	(4.0)
Tax Credit for Equity and Subordinated Debt Investments	(3.0)	(3.0)	(3.0)
Interest Equalization	(2.9)	(2.9)	(2.9)
Subtraction for Income from Tobacco Settlement Payments	(1.7)	(1.7)	(1.7)
Tax Credit for Taxes Paid to Other States	(1.2)	(1.2)	(1.3)
Tax Credit for Purchase of Equipment to Process Recyclable Materials	(1.0)	(1.0)	(1.0)
Tax Credit for Agricultural Best Management Practices	(0.5)	(0.5)	(0.5)
Tax Credit for Contributions to Political Candidates	(0.4)	(0.4)	(0.4)
Conservation Tillage Credit	(0.2)	(0.2)	(0.2)
Tax Credit for Providing VHDA Low-Income Housing	(0.2)	(0.2)	(0.2)
Tax Credit for Advanced Technology Pesticide & Fertilizer Equip.	(0.1)	(0.1)	(0.1)
Tax Credit for Purchase of Vehicle Emission Equipment	(0.1)	(0.1)	(0.1)
Tax Credit for Taxes Paid to a Foreign Country on Retirement Income	(0.1)	(0.1)	(0.1)
Tax Credit for Purchase of Waste Motor Oil Burning Equipment	(0.1)	(0.1)	(0.1)
Total Reductions	**($834.5)**	**($882.8)**	**($791.6)**

***Available** means that there is publicly available cost estimate information from the Department of Taxation.

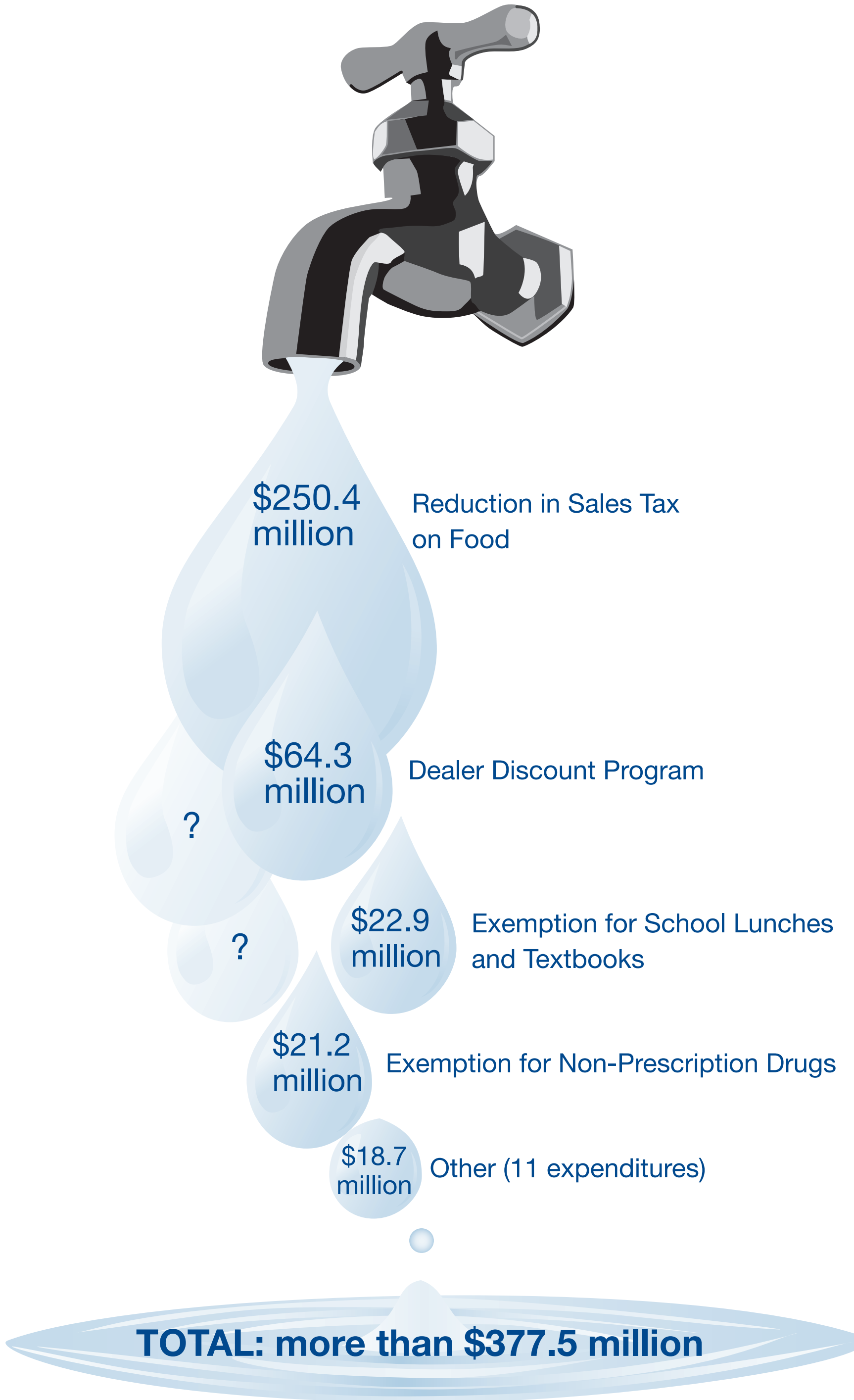
Source: VA Department of Taxation, October 2007.

Estimated Reductions to the State Sales and Use Tax

The 14 recently enacted or amended tax expenditures related to the state retail sales and use tax will cost Virginia over $377 million in 2010 based on available cost data. Figure 3B lists these expenditures. The 2010 cost of these sales tax expenditures is approximately 17 percent of the total cost of the state's tax expenditures in 2010.

The Commonwealth's four most expensive recent tax expenditure programs related to the sales and use tax are not uncommon. For instance, the state's reduction in the sales tax on food is estimated to cost the state $250 million in 2010. Virginia is one of seven states that have reduced the sales tax levied on food for home consumption. In fact, an additional 31 states and the District of Columbia exempt food altogether from their sales taxes. Of those states that tax food at the full state sales tax rate, five offer credits or rebates to help offset the effect on certain households. Only two states tax food for home consumption at the full rate without providing any sort of relief for low-income households.

Virginia's second most expensive recent reduction to the sales tax is its dealer discount program, which costs an estimated $64.3 million per year. This program allows retailers to keep a portion of the state sales tax they collect from the consumer in an effort to offset compliance costs. Of the 26 states that provide compensation, 13 put a ceiling on the amount any individual store or chain can receive. Virginia's program operates without any restriction as to how large a discount a business may receive in a given month or year. This factor contributes significantly to the program's cost. Virginia ranks sixth in the nation for the total dollar amount "skimmed" from state sales tax revenues by the dealer discount program.



Recent State Tax Expenditures Reduce Sales and Use Tax Revenue

Figure 3B: Summary of Available* Cost Estimates for State Tax Expenditures
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Programs Reducing Sales Tax Revenues:			
Reduced Sales Tax on Food	(236.9)	(244.3)	(250.4)
Dealer Discount Program	(64.3)	(64.3)	(64.3)
Sales Tax Exemption for School Lunches and Textbooks	(21.1)	(22.0)	(22.9)
Sales Tax Exemption for Non-prescription Drugs	(18.9)	(20.0)	(21.2)
Exemption for Nonprofits	(5.1)	(5.1)	(5.1)
Back to School Sales Tax Holiday	(2.6)	(2.8)	(2.8)
Sales Tax Exemption for Purchase of Internet Service Equipment	(2.6)	(2.6)	(2.6)
Tax Credit for Retaliatory Tax on Insurance Companies	(2.4)	(2.4)	(2.4)
Sales Tax Exemption -- For Profit Hospital Drug Samples	(1.9)	(1.9)	(1.9)
Sales Tax Holiday for Emergency Preparedness	(1.5)	(1.6)	(1.7)
Sales Tax Exemption for Optometrists & Medical Practitioners	(1.6)	(1.6)	(1.6)
Sales Tax Exemption -- Public Transportation	(0.3)	(0.3)	(0.3)
Sales Tax Exemption for Free Book Distribution	(0.1)	(0.1)	(0.1)
Sales Tax Exemption for Veterinary Meds	(0.1)	(0.1)	(0.1)
Sales Tax Holiday for Energy Efficiency	(0.1)	(0.1)	(0.1)
Total Reductions	**($359.5)**	**($369.2)**	**($377.5)**

Note: The tax credit for retaliatory tax on insurance companies does not relate to the retail sales and use tax, but for the purpose of this analysis, is grouped with this set of expenditures.

***Available** means that there is publicly available cost estimate information from the Department of Taxation.

Source: VA Department of Taxation, October 2007.

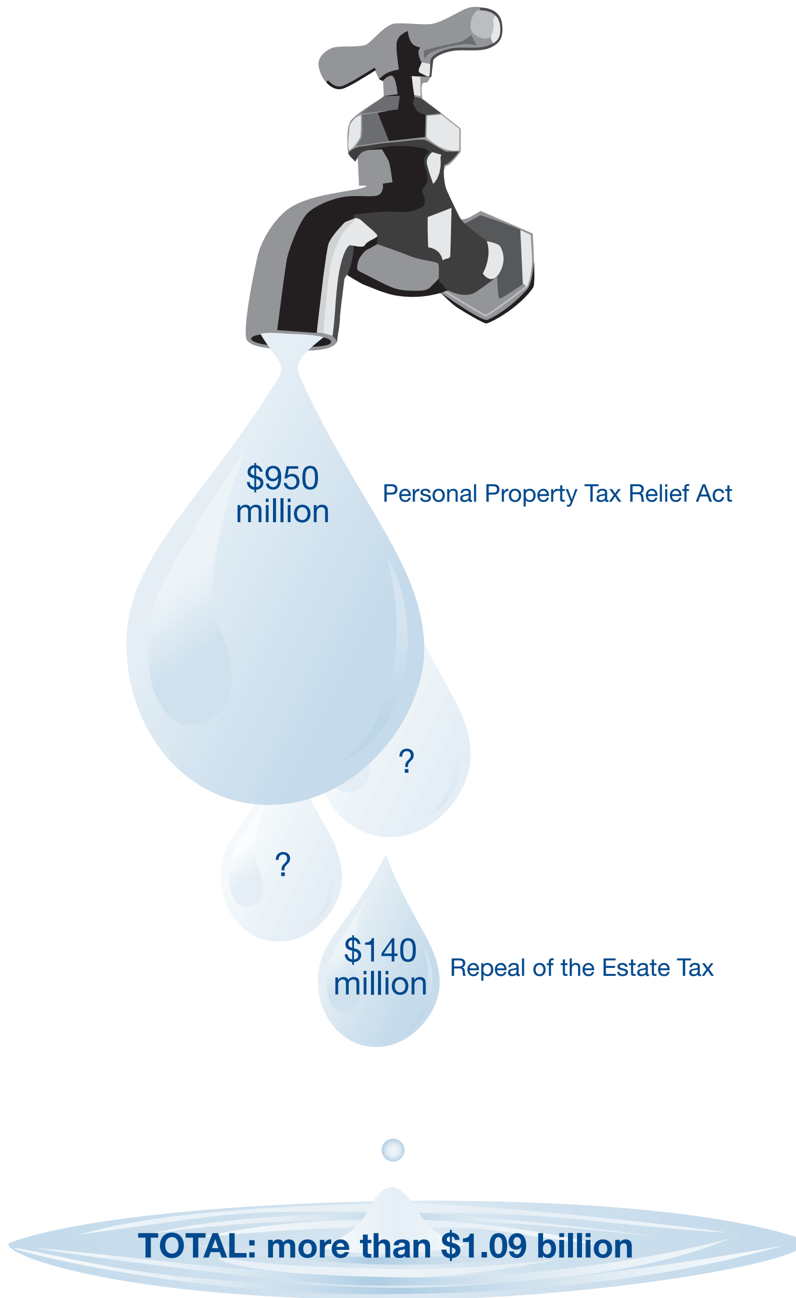
[**Given the significant budget cuts Virginia faces, evaluating tax expenditures is critical.**]

Estimated Reductions to Other State Revenues

The remaining $1 billion in identified recent tax expenditure costs for 2010 come from two tax expenditure programs that reduce other revenue sources. In fact, the single largest tax expenditure included in this analysis is not a reduction to either the sales or income tax. Figure 3C illustrates the cost of these programs.

The Personal Property Tax Relief Act (PPTRA) reduces the general fund by roughly $950 million every year. The rollback of the car tax under PPTRA reduced local revenues substantially and in exchange, the state now subsidizes a portion of localities' foregone revenues. In this respect, the general fund revenues that go toward reimbursing localities for their rollback of the car tax are a type of implicit tax expenditure — and the most expensive one on the books.

Virginia's elimination of the estate tax in 2006 reduces the general fund by an additional $140 million per year. At the time of its elimination, Virginia's estate tax only applied to estates valued at more than $2 million.



State Tax Expenditures Reduce or Eliminate Other Revenues

Figure 3C: Summary of Available* Cost Estimates for State Tax Expenditures
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Programs Reducing Other Revenues:			
Personal Property Tax Relief Act ("Car Tax")	(950.0)	(950.0)	(950.0)
Estate Tax Repeal	(35.0)	(140.0)	(140.0)
Total Reductions	**($985.0)**	**($1,090.0)**	**($1,090.0)**

***Available** means that there is publicly available cost estimate information from the Department of Taxation.

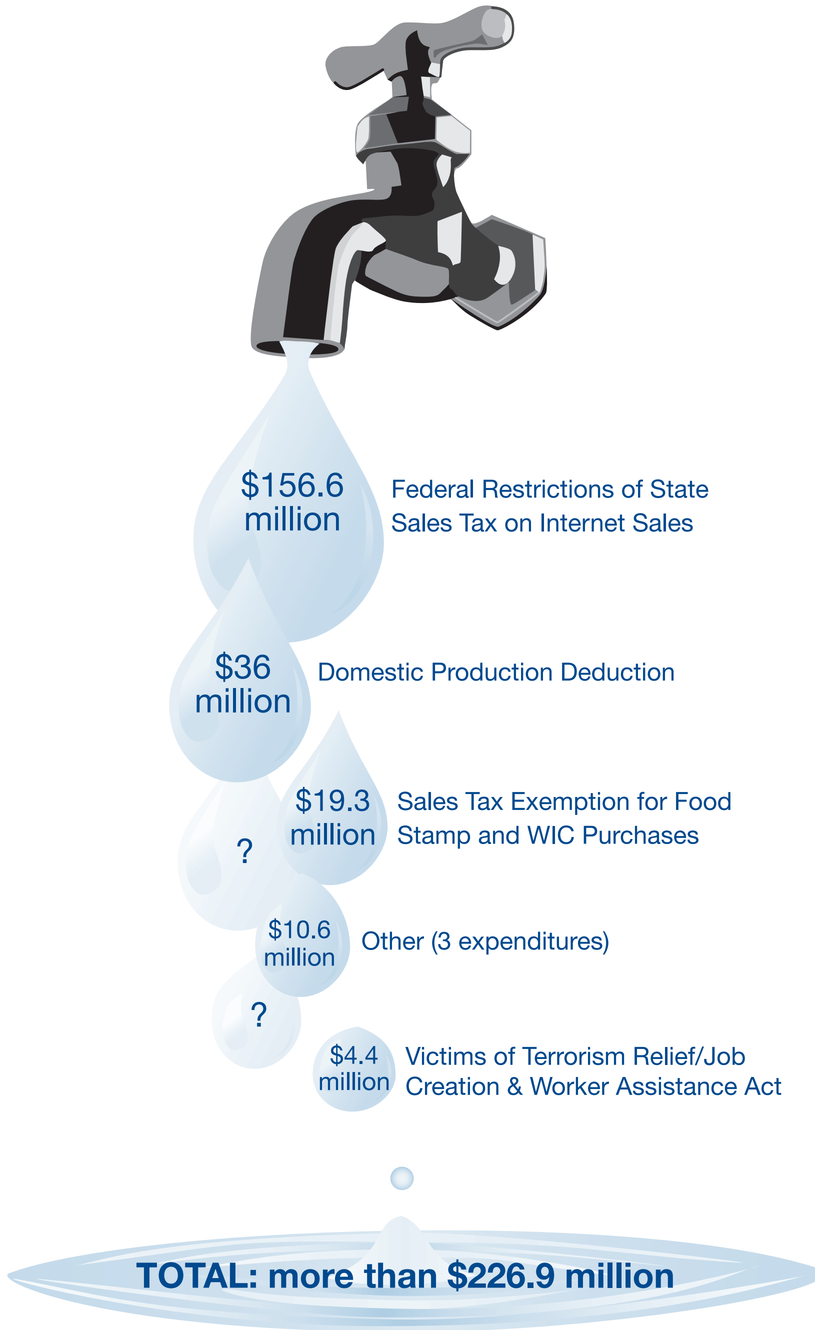
Source: VA Department of Taxation, October 2007.

The Personal Property Tax Relief Act reduces the general fund by roughly $950 million every year.

The Impact to Virginia of Federal Tax Changes

Recent changes in federal policy have resulted in a decline in Virginia revenues as well. In fiscal year 2008, this loss was estimated to be nearly $193 million. As shown in Figure 4, in fiscal year 2010, it is estimated to be closer to $227 million.

The reductions in state revenue that flow from changes in federal tax policy affect both the state's income tax and its sales and use tax.



Reductions to the Income Tax

Those programs that reduce income tax revenues are the result of the state conforming to federal tax provisions. The concept of conformity basically boils down to Virginia piggybacking off the federal tax code. In other words, when the federal government enacts a new deduction or exemption, it may automatically create a tax expenditure at the state level — meaning that while conformity may simplify compliance, it comes at a cost to the state budget.

States can do something about this, however. If conformity with a specific federal tax provision is deemed either inappropriate or too costly, states may choose to "decouple" from that specific provision. Breaking the link between a state's tax code and a federal provision is not unusual. In recent years, more than 30 states, including Virginia, have taken similar actions to avoid a revenue loss arising from the "bonus depreciation" tax provision of previous federal tax bills. A comprehensive tax expenditure report that fully examines the effect of federal tax policy on states would be vital to determining if and where it makes the most sense for Virginia to decouple from the federal code.

Reductions to the Sales and Use Tax

The federal policy changes that affect the sales tax are a result of federal law dictating what states can and cannot tax. For example, the Food Security Act of 1985 prohibited states from taxing food stamp purchases as a condition of participation in the program. Similarly, the School Lunch and Child Nutrition Amendment of 1986 prohibited states from taxing WIC purchases.

Additionally, the failure of Congress to authorize states to comprehensively tax sales made over the Internet by remote sellers will cost Virginia an estimated $156 million in fiscal year 2010.

Federal Tax Provisions Reduce State Revenue

Figure 4: Summary of Cost Estimates for Selected Federal Tax Provisions
(in millions of dollars)

Program	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Reductions to the Income Tax:			
Domestic Production Deduction	(22.4)	(36.0)	(36.0)
Working Families Tax Relief Act / American Jobs Creation Act of 2004	(8.6)	(8.6)	(8.6)
Victims of Terrorism Relief / Job Creation & Worker Assistance Act	(4.4)	(4.4)	(4.4)
Major Congressional Acts of 2006, including the Tax Increase Prevention and Reconciliation Act, Pension Protection Act, and Tax Relief and Health Care	(1.2)	(0.8)	(3.3)
Job & Growth Tax Relief and Reconciliation Act / Military Family Tax Relief Act	1.3	1.3	1.3
Reductions to the Sales Tax:			
Federal Restrictions on State Sales Tax on Internet Sales	(140.4)	(126.3)	(156.6)
Sales Tax Exemption for Food Stamp and WIC Purchases	(17.1)	(18.4)	(19.3)
Total Reductions	**($192.8)**	**($193.2)**	**($226.9)**

Source: VA Department of Taxation and the Center on Budget and Policy Priorities, 2009.

The Impact on Virginia Localities

The cost of tax relief programs

Just like the state and federal government, Virginia's localities also harness the tax expenditure policy tool to achieve desired public purposes. Localities have limited taxing authority under the state's constitution, thus there are fewer tax expenditure programs they can pursue.

One type of tax expenditure program localities have been authorized to extend is property tax relief for the elderly, disabled, or both the elderly and disabled. These property tax relief programs were in place in 84 counties, 65 towns, and 38 cities during tax year 2008. Figure 5 shows the reported loss of revenue related to the existence of these property tax relief programs in 2007.

Tax Expenditures and Virginia Localities

Figure 5: Estimated Cost of Local Elderly and Disabled Property Tax Relief Programs
(in millions of dollars)

Virginia Localities	Cost
Cities (32)	(33.4)
Towns (46)	(0.6)
Counties (72)	(102.0)
Total Reductions	**($135.9)**

Note: These estimates are for those localities that reported data for 2007.
Source: Weldon Cooper Center for Public Service, Virginia Local Tax Rates 2008

A number of other tax expenditure programs operate at the local level in Virginia — many of which are economic development incentives. Examples of these tax preferences include:
- exemptions to the business/professional/occupational license tax
- enterprise zone development programs
- technology zone incentives.

Unfortunately, information regarding the cost of these programs is not widely available across a significant number of Virginia localities.

The Need for Performance Measures

Given that Virginia's recent tax expenditures cost the state as much in reduced revenue as some of the Commonwealth's key areas of public spending, along with Virginia's recognition for and commitment to superior financial management, it makes sense that these policy tools should be subjected to the same level of scrutiny applied to the state's direct spending.

This report pulls together publicly available data on the cost of a set of tax expenditure programs recently created or amended in Virginia. This is not an exhaustive list of the programs that reduce state revenues, rather it includes all of those expenditure programs for which the Department of Taxation maintains cost data. More importantly, this report provides just one piece of the information that should be contained in an optimal tax expenditure report: Program cost. In order to put this cost information in perspective, it is necessary to examine the objectives and key outcome metrics of each program. Other states, such as Oregon, Minnesota, and Connecticut, incorporate a thorough approach to their tax expenditure reporting efforts, and serve as a model for an improved Virginia reporting process. "The Makings of a Useful Report" (see right) illustrates some key features of a comprehensive tax expenditure report.

The Makings of a Useful Report

Features of a Comprehensive State Tax Expenditure Report

Accessibility: The report should be published annually, incorporated into the budget process, and available on the Internet.

Scope: The report should include all tax expenditures related to all taxes — this includes implicit and explicit expenditures, those that may affect only a few taxpayers or have a low cost, and those that affect local government.

Detail: The report should include the cost of each expenditure and its estimated future cost, a description of each expenditure, the relevant legal citation, and information on the taxpayers who benefit from each expenditure.

Analysis: The report should classify tax expenditures using the same categories as direct spending, state the purpose of each and evaluate the extent to which the purpose has been accomplished, and analyze the distribution of benefits by income level and size of business.

Source: The Center on Budget and Policy Priorities, 2009.

Tax expenditures are put in place to accomplish specific social goals. These purposes may be extremely straightforward or very complicated and hard to evaluate. For example, the sales tax holiday for energy efficient appliances aims to incentivize the purchase of home appliances that require less energy. The Enterprise Zone investment credit aims to promote economic development by reducing the tax liability of businesses that generate income within targeted geographic locations. Measuring the number of energy-efficient appliances sold within a four-day period requires less sophisticated analysis than determining whether tax incentives for economic development actually spurred sustainable business investment. Yet both are equally important to ensure that Virginia's resources are allocated effectively.

In order to make judgments about whether tax expenditures are achieving their goals, those underlying goals should be made explicit. Sometimes the rationale behind a particular expenditure may not be immediately obvious (especially to a concerned taxpayer who is unfamiliar with the state's tax code or a program's legislative history). When policymakers and the public lack information about the reasons why particular programs are in place, it is impossible to have a healthy debate about whether they should be continued or how they can be improved. This sentiment rings true for all public investments, but especially the tax expenditures that so frequently escape regular examination.

Goals should be linked to data on how the tax expenditure is performing. If a tax credit is put in place to encourage saving for a child's education, it is important to determine that such savings increase as a result of the credit's existence. It is also important to compare the estimated costs of the program to the estimated benefits. This comparison can help reveal whether use of a tax preference is the most cost-effective way to achieve the desired outcome. Including performance measures in a tax expenditure report is vital to enhancing accountability.

A key component of any tax expenditure analysis is a review of who benefits. Some tax preferences benefit the majority of taxpayers, while others benefit a very small group —as small as an industry or even a specific corporation. Virginia businesses classified as manufacturers, for example, are eligible for a number of tax breaks at the state and local level (see "Spotlight on: Manufacturers" to the left).

Currently, the Department of Taxation does not publish the breakdown of filers who claim a particular credit or deduction by taxpayer type. While some preferences are restricted to certain types of taxpayers, three-quarters of the at least $2.5 billion in estimated tax expenditures for 2009 are not restricted to specific taxpayers. This means that policymakers and the public do not know how these programs are affecting Virginia's families and businesses. This makes an analysis of the effectiveness, and the equity implications, of these policy tools nearly impossible.

Spotlight on: Manufacturers

Tax Preferences Available to Virginia's Manufacturers

Businesses that are classified as manufacturers in Virginia are eligible to receive a series of breaks from the state's tax code. Below are some examples of the preferences given to this sector of the Commonwealth's economy:

Retail Sales and Use Tax Exemptions: Industrial Materials and Machinery and Tools, Certified Pollution Control Equipment and Facilities, Semiconductor Manufacturing, Railroad Rolling Stock, Agricultural and Seafood Manufacturing

Local Tax Preferences: Intangible Personal Property, Machinery and Tools Tax Rate, Local Option Exemption for Equipment Used by Farmers to Manufacture Industrial Ethanol, Local Option Exemption for Generating and Cogenerating Equipment Used for Energy Conversion, BPOL Tax Exemption

Local Tax Incentives: Local Enterprise Zone Development Program, Local Technology Zone Incentives, Multi-County Transportation Improvement Districts

In addition to reporting on what type and how many taxpayers receive each credit and the size of the benefit they receive, it is especially important to analyze how the benefits are distributed by income level. Often a tax expenditure is cast in a positive light by describing it as providing low-income tax relief or small business tax relief. In reality, that expenditure may not actually achieve this end, and may even disproportionately benefit other groups of taxpayers. For instance, Virginia provides tax incentives for the purchase of long-term care insurance in an effort to produce savings through the Medicaid program. Yet research has shown that more than half of all private long-term care insurance policyholders have incomes in excess of $50,000, which raises questions as to whether this is the most effective investment of state dollars in the health care system. By including distributional analysis in a tax expenditure report, policymakers and the public have a better understanding of who actually benefits.

Virginia has made some progress in developing a framework for the review of tax expenditures. However, the state has a long way to go in terms of putting that framework into practice. During the 2004 General Assembly session, legislation was passed that created a House Finance Subcommittee on Income and Sales Tax Preferences. The subcommittee met four times, heard testimony, and based upon their findings, offered a set of recommendations to evaluate proposed tax expenditures (see "The Virginia General Assembly and Tax Expenditures" below). The recommendations offered are both appropriate and thorough — and if used as intended would greatly assist policymakers in weeding out tax preferences that are too costly or ineffective. Unfortunately, the General Assembly has yet to formally incorporate these criteria into their decision-making when it comes to evaluating new tax policy changes and tax expenditure programs.

A 2008 bill illustrates this disconnect. The bill aimed to change the way that corporate income tax liability is calculated for the state's manufacturers by adopting what is called a single-sales factor. The General Assembly did not pass this measure in 2008, but instead, voted to study the issue. The study commission met several times and heard testimony that addressed aspects of the criteria offered by the subcommittee, but the commission's recommendation to adopt the tax policy change in the 2009 legislative session did not explicitly use the criteria. Despite an estimated fiscal impact of roughly $30 million per year, the General Assembly passed an amended version of the single-sales factor bill without any clear consideration of the tax expenditure criteria offered by the 2004 special subcommittee.

The Virginia General Assembly and Tax Expenditures

Recommendations of the House Finance Special Subcommittee, 2004

In 2004, the Virginia House of Delegates Subcommittee on Finance studied preferences in the sales and income taxes and developed criteria for granting future tax preferences. The subcommittee's recommended criteria for any new tax expenditure stated that:

1. It has been clearly established that it is not administratively feasible to provide the amount of the preference as an appropriation.

2. It has been clearly established which taxpayers will benefit from the tax preference, by what total amount, and that all similarly situated taxpayers are treated equitably.

3. The effectiveness of the preference is measurable or the preference is for a limited time.

4. If the first three have been satisfied, then one of the following must be clearly established to justify the tax preference:

a. That the tax preference is necessary to the structural integrity of a particular tax

b. That, without the tax preference, the Commonwealth would be placed at a competitive disadvantage compared to other states, and would thereby suffer substantial economic loss

c. That the tax preference is the only feasible way to carry out an essential and overriding public policy of the Commonwealth.

Conclusion

Virginia allocates more than $2 billion dollars in state resources each year through a series of recent exemptions, exclusions, tax deferrals, credits, and preferential rates. These recent tax expenditures, unlike appropriations, operate under very little review and are subject to far less scrutiny.

If Virginia is serious about maintaining its reputation for exceptional financial management, it is crucial that the goal of budget transparency refer not only to the appropriations side of the budget, but the tax expenditure side, too.

While this report sheds light on the size and scope of the Commonwealth's current tax expenditure programs using publicly available information from the Department of Taxation, this endeavor would best be undertaken by the state. An ideal tax expenditure report for the Commonwealth would be accessible to both policymakers and the public and would include not only cost estimates, but both program objectives and performance measures, and a detailed distributional analysis of the benefits of each program.

Appendix A: Descriptions of Recent Tax Expenditures

NOTE: The tax expenditures included in this report (and referenced specifically in Figure 3A, 3B, and 3C) are described briefly below. They are categorized by the revenue stream they affect, and are in descending order based on their anticipated cost in fiscal year 2010, as estimated by the Virginia Department of Taxation. This is not an exhaustive list of Virginia's tax expenditure programs — it includes only those programs for which the Department of Taxation publishes annual cost data and that exceed $100,000 in annual cost.

For more information on any of the programs listed below, please refer to the appropriate Code of Virginia citation listed in each description.

Tax Expenditures Reducing the Income Tax

- Subtraction for those aged 65 or older and 62-64
  Code Citation: § 58.1-322 D(5)
  Date enacted or last amended: 2004
  What it is: This deduction applies to individuals 65 and older.
  Who can claim it: Virginia taxpayers 65 and older.
  What it's worth: The maximum subtraction that can be claimed is $12,000. For single filers with adjusted federal adjusted gross income (AFAGI) of at least $50,000, the subtraction is reduced on a dollar-for-dollar basis for every dollar more than $50,000. For married filers with AFAGI over $75,000, each individual's subtraction is reduced on a dollar-for-dollar basis for every dollar over $75,000.
  Fiscal year 2010 cost estimate: $273 million.

- Tax Credit for Land Preservation (LPC)
  Code Citation: § 58.1-512
  Date enacted or last amended: 2009
  What it is: This credit is available to taxpayers who convey land to a public or private agency for conservation or preservation purposes. The credits are issued on a first-come, first-serve basis, subject to an annual cap.
  Who can claim it: Individuals and corporations.
  What it's worth: The maximum credit allowed is $50,000 in 2009 and 2010, and $100,000 in 2011 and beyond.
  Refundable: No.
  Carry-forward: Yes, credits may be carried forward for 5-7 years, or transferred for a fee of 2 percent.
  Fiscal Year 2010 estimate of cost: $120 million.

- Virginia Earned Income Credit
  Code Citation: § 58.1-339.8 B(2)
  Date enacted or last amended: 2005
  What it is: This credit may be claimed by those taxpayers who are eligible for the federal earned income tax credit (EITC).
  Who can claim it: Individuals.
  What it's worth: The credit's value is equal to 20 percent of the federal credit.
  Refundable: No.
  Carry-forward: No, credit in excess of the state tax liability cannot be carried forward.
  Fiscal Year 2010 estimate of cost: $65.1 million.

- Tax Credit for Historic Rehabilitation
  Code Citation: § 58.1-339.2
  Date enacted or last amended: 1999
  What it is: This credit may be claimed when historic rehabilitation projects cost at least 50 percent of the assessed value of the building prior to the renovation. Renovation work must be approved by the Virginia Department of Historic Resources.
  Who can claim it: Individuals.
  What it's worth: The credit is equal to 25 percent of rehabilitation project expenses and may not exceed the taxpayer's tax liability.
  Refundable: No.
  Carry-forward: Yes, any unused credit may be carried forward for 10 years.
  Fiscal Year 2010 estimate of cost: $46 million.

- Virginia Coalfield Employment Enhancement Tax Credits & 2006 Allocation
  Code Citation: § 58.1-439.2
  Date enacted or last amended: 2000
  What it is: This credit may be claimed by individuals, estates, trusts, and corporations that have an economic ownership interest in coal mined in Virginia.
  Who can claim it: Individuals and corporations.
  Fiscal Year 2010 estimate of cost: $44.5 million.

- Tax Credit for Individuals and Families Below the Poverty Level (CLI)
  Code Citation: § 58.1-339.8 B(1)
  Date enacted or last amended: 2000
  What it is: This credit may be claimed by families with Virginia adjusted gross income below the federal poverty guidelines. Who can claim it: Individuals.
  What it's worth: The maximum credit equals $300 for each personal and dependent exemption claimed on the Virginia return. Refundable: No.
  Carry-forward: No, credits in excess of the year's tax liability may not be carried forward.
  Fiscal Year 2010 estimate of cost: $37.3 million.

- Increase Personal Exemption to $900
  Code Citation: § 58.1-322 D(2a)
  Date enacted or last amended: 2004
  What it is: This tax policy change increased the value of the personal exemption.
  Who can claim it: Individuals.
  What it's worth: This exemption is equal to $900 for each personal exemption allowable to the taxpayer for federal income tax purposes.

Fiscal Year 2010 estimate of cost: $29.8 million.

- Increase Filing Thresholds & Personal Exemption
Code Citation: § 58.1-321
Date enacted or last amended: 2007
What it is: This tax policy change raised the state income tax filing threshold to $11,950 for individuals and $23,900 for couples. It also increased the personal exemption to $930.
Who can claim it: Individuals.
What it's worth: The filing threshold is $11,950 for individuals and $23,900 for couples. The personal exemption increased to $930.
Fiscal Year 2010 estimate of cost: $26.9 million.

- Increase Standard Deduction
Code Citation: § 58.1-321
Date enacted or last amended: 2004
What it is: This tax policy change increased the value of the standard deduction.
Who can claim it: Individuals.
What it's worth: The standard deduction was increased to $4,000 for single filers and married filers filing separately, and $8,000 for married filers filing jointly.
Fiscal Year 2010 estimate of cost: $21.3 million.

- Subtraction for Unemployment Benefits
Code Citation: § 58.1-322 C(25)
Date enacted or last amended: 1999
What it is: This subtraction applies to an individual's unemployment insurance benefits.
What it's worth: This subtraction equals the amount of unemployment insurance benefits received in the taxable year. The Virginia subtraction is equal to the federal subtraction.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $20 million.

- Subtraction for Military Wages — Up to $15,000
Code Citation: § 58.1-322 C(23)
Date enacted or last amended: 1999
What it is: This subtraction applies to basic pay for military service personnel on extended active duty for periods of more than 90 days.
What it's worth: The subtraction is equal to $15,000. For basic pay that exceeds $15,000, the subtraction is reduced on a dollar-for-dollar basis.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $16.1 million.

- Double Weighting of Sales Tax in Corporate Income Tax
Code Citation: § 58.1-408
Date enacted or last amended: 1999
What it is: This tax policy change altered the way that Virginia calculates the corporate income tax liability of businesses operating within the Commonwealth. The formula includes a factor for payroll, property, and sales. This change doubled the weight assigned to a corporation's in-state sales.
Who can claim it: This change affects corporations.
Fiscal Year 2010 estimate of cost: $15 million.

- Major business facility job tax credit
Code Citation: § 58.1-439
Date enacted or last amended: 1994
What it is: This credit applies to companies (except for the retail trade business) that create at least 100 new full-time jobs as the result of establishing a new or expanding an existing major business facility. For employers operating in Enterprise Zones, the requirement is reduced to the creation of 50 new full-time jobs.
Who can claim it: Companies operating with the Commonwealth.
What it's worth: The value of the credit is equal to $1,000 per qualified full-time employee in excess of the required 100 and is applied in one-third increments over three years.
Refundable: No.
Carry-forward: Yes, the allowable credit may not exceed the taxpayer's tax liability, but may be carried forward for 10 years.
Fiscal Year 2010 estimate of cost: $8 million.

- Deduction for Long-Term Health Care Insurance
Code Citation: § 58.1-322 D(10)
Date enacted or last amended: 1999
What it is: This deduction applies to long-term health care insurance premiums, so long as the taxpayer has not claimed a deduction for federal income tax purposes, or a credit under §59.1-399.11.
What it's worth: This deduction equals the amount paid annually in premiums for long-term health care insurance.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $7 million.

- Credit for Long-Term Care Insurance
Code Citation: § 58.1-339.11 (A)
Date enacted or last amended: 2006
What it is: Individuals who purchase long-term care insurance are eligible for a credit equal to 15 percent of the amount paid in premiums during the taxable year.
Who can claim it: Individuals.
What it's worth: The amount of the credit equals 15 percent of the amount paid by the individual in long-term care insurance premiums for long-term care insurance coverage during the taxable year.
Refundable: No.
Carry-forward: Yes, if the credit exceeds the individual's tax liability, it may be carried forward for five years.
Fiscal Year 2010 estimate of cost: $6.2 million.

- Credit for Cigarettes Manufactured and Exported
Code Citation: § 58.1-439.12:01
Date enacted or last amended: 2004
What it is: This credit is available to corporations that manufacture cigarettes in Virginia and export them to a foreign country. Who can claim it: Corporations.
What it's worth: The credit is calculated per 1,000 cigarettes and is dependent upon the current year export volume. A cap of $6 million in total credits is allowed each year.
Fiscal Year 2010 estimate of cost: $6 million.

- Subtraction Federal and State Employees — Up to $15,000
Code Citation: § 58.1-322 C(24)
Date enacted or last amended: 1999
What it is: This subtraction applies to the first $15,000 of salary for each federal and state employee whose total annual salary from all employment is $15,000 or less.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $5.3 million.

- Increase Filing Threshold
Code Citation: § 58.1-321
Date enacted or last amended: 2004
What it is: This tax policy change increased the filing threshold.
Who can claim it: Individuals.
What it's worth: The filing threshold was increased to $7,000 for single filers, $14,000 for married filing jointly, and $7,000 for married filing separately.
Fiscal Year 2010 estimate of cost: $5.3 million.

- Neighborhood Assistance Tax Credit
Code Citation: § 63.2-2003
Date enacted or last amended: 1997
What it is: This credit may be claimed by businesses contributing to approved Neighborhood Assistance Programs. An eligible contribution includes cash,

stock, goods, real estate, rent/lease of nonprofit's facility, and limited health care, professional, and contracting services of at least $1,000, but no more than $437,500.
Who can claim it: Businesses and individuals.
What it's worth: The credit's value equals 40 percent of the contribution: the minimum credit issued is $400, and the maximum credit allowed is $175,000 in a single tax year. This same credit is extended to individuals who contribute directly to NAP organizations in the form of cash or marketable securities.
Who can claim it: Businesses and individuals.
Refundable: No.
Carry-forward: Yes, any unused credit may be carried forward for five years.
Fiscal Year 2010 estimate of cost: $5 million.

- Subtraction for Contributions to Prepaid Tuition Plans
Code Citation: § 58.1-322 C(20)
Date enacted or last amended: 1998
What it is: This subtraction allows individuals who make contributions to a Virginia prepaid tuition contract or a savings trust account to reduce their taxable income by up to $2,000 each year.
Who can claim it: Individuals.
Carry-forward: Yes, if contributions to a contract exceed $2,000, any excess amount may be carried forward until the entire amount has been deducted. Individuals 70 or over may deduct their entire contribution in a given year.
Fiscal Year 2010 estimate of cost: $4.2 million

- Subtraction for Disability Income
Code Citation: § 58.1-322 C(4b)
Date enacted or last amended: 2000
What it is: This subtraction applies to up to $20,000 of disability income. This subtraction cannot be claimed if the taxpayer is claiming the Age Deduction for Taxpayers Age 62 and Over.
Who can claim it: Individuals.
What it's worth: This subtraction equals up to $20,000 for taxpayers who do not claim the Age Deduction for Taxpayers Age 62 and Over.
Fiscal Year 2010 estimate of cost: $4 million

- Tax Credit for Equity and Subordinated Debt Investments
Code Citation: § 58.1-339.4
Date enacted or last amended: 1998
What it is: This credit is available to taxpayers making a qualified investment in the form of "equity" or "subordinated debt" in a pre-qualified small business venture. Equity is common or preferred stock in a corporation, interest in a limited partnership, or a membership in a limited liability company. Subordinated debt is indebtedness of a corporation, general or limited partnership, or limited liability company that a) requires no repayment of principal for first three years after issuance, b) is not guaranteed by any other person or secured by any assets of the issuer or any other person and c) is subordinated to all indebtedness and obligations owned by the issuer to nationally or state-chartered banking or savings and loan institutions. A qualified business is a corporation, general or limited partnership or limited liability company that 1) has its principal office or facility operations in Virginia, 2) engages in its business activities primarily within the Commonwealth, 3) has annual gross receipts of $3 million or less in the most recent fiscal year, and 4) has not obtained more than $3 million in aggregate cash proceeds from the issuance of its equity or debt investments.
Who can claim it: Individuals and businesses.
What it's worth: The credit's value equals one half of the qualified investments made during the taxable year. If total annual requests are more than $3 million, the Department of Taxation prorates the credit for each taxpayer. The amount a taxpayer may claim per year cannot exceed $50,000, or the taxpayer's income tax liability.
Refundable: No.
Carry forward: Yes, unused credits may be carried forward for 15 years.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $3 million.

- Interest Equalization
Code Citation: § 58.1-15
Date enacted or last amended: 1999
What it is: This policy requires the state to pay an "overpayment rate" of 2 percent above the interest rates established in IRC §6621 to noncorporate taxpayers on refunds.
Who it effects: Individuals.
Fiscal Year 2010 estimate of cost: $2.9 million.

- Subtraction for Income from Tobacco Settlement Payments
Code Citation: § 58.1-322 C(27)
Date enacted or last amended: 2000
What it is: This subtraction applies to income received as a result of payments from the Tobacco Master Settlement Agreement, the National Tobacco Grower Settlement Trust, or the Tobacco Loss Assistance Program.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $1.7 million.

- Tax Credit for Taxes Paid to Other States
Code Citation: § 58.1-332
Date enacted or last amended: 1999
What it is: This credit attempts to address double taxation when income is generated in more than one state; however, it does not eliminate double taxation in every case. Taxpayers filing resident individual income tax returns may claim this credit for income tax paid to another state, provided that income is taxable within Virginia as well.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $1.3 million.

- Tax Credit for Purchase of Equipment to Process Recyclable Materials
Code Citation: § 58.1-439.7
Date enacted or last amended:
What it is: This credit applies to Virginia residents and manufacturing businesses that operate manufacturing facilities in Virginia that produce tangible personal property items from recyclable materials. The facility must be engaged in the manufacture, production, processing, or compounding of tangible property for sale. The credit's value is equal to 10 percent of the purchase price.
Who can claim it: Individuals and manufacturing businesses.
What it's worth: The total allowable credit may not exceed 40 percent of the claimant's tax liability.
Refundable: No.
Carry-forward: Yes, unused credits may be carried forward for 10 years.
Fiscal Year 2010 estimate of cost: $1 million.

- Tax Credit for Agricultural Best Management Practices
Code Citation: § 58.1-339.3
Date enacted or last amended: 1996
What it is: Individuals who are involved in agricultural production for market and that have a certified soil conservation plan in place to improve water quality may claim this credit. "Agricultural best practice" refers to a practice, approved by the Virginia Soil and Water Conservation Board, which will provide a significant improvement in water quality.
Who can claim it: Individuals.
What it's worth: The credit is 25 percent of the first $70,000 spent on approved agricultural best management programs. Refundable: No.

Carry-forward: Yes, unused credit may be carried forward for five years.
Fiscal Year 2010 estimate of cost: $500,000.

- Tax Credit for Contributions to Political Candidates
Code Citation: § 58.1-339.6
Date enacted or last amended: 1999
What it is: This credit may be claimed by taxpayers who made contributions to political candidates in a primary, special, or general election for local or state office.
Who can claim it: Individuals.
What it's worth: The value of the credit is equal to 50 percent of the political contributions, but cannot exceed $25 for an individual or $50 for a joint return.
Carry-forward: No, unused credits cannot be carried forward.
Fiscal Year 2010 estimate of cost: $400,000.

- Conservation Tillage Credit
Code Citation: § 58.1-334
Date enacted or last amended: 1985
Who can claim it: Individuals.
What's it worth: The value of the credit is 25 percent of conservation tillage equipment expenditures, up to a maximum of $4,000.
Refundable: No.
Carry-forward: Yes, any credit that exceeds the claimant's tax liability may be carried forward for five years.
Fiscal Year 2010 estimate of cost: $200,000.

- Tax Credit for Providing Low-Income Housing
Code Citation: § 58.1-435
Date enacted or last amended: 1990
What it is: The credit is for low-income housing units put into service that qualify for the federal low-income housing credit.
Who can claim it: Individuals and corporations.
What it's worth: The amount of this credit is a percentage of the federal credit that is determined by the State Corporation Commission.
Refundable: No.
Carry-forward: Yes, the credit can be carried forward five years.
Fiscal Year 2010 estimate of cost: $200,000

- Credit for Advanced Technology Pesticide & Fertilizer Equipment
Code Citation: § 58.1-436
Date enacted or last amended: 1990
What it is: This credit can be claimed by any corporation involved in agricultural production for market and that has an approved nutrient management plan in place.
Who can claim it: Corporate farms.
What it's worth: The amount of the credit allowed is 25 percent of all expenditures on equipment certified by the Virginia Soil and Water Conservation Board. The maximum credit allowed is $3,750.
Refundable: No
Carry-forward: Yes, credit in excess of the corporation's corporate income tax liability may be carried forward for five years.
Fiscal Year 2010 estimate of cost: $100,000.

- Tax Credit for Taxes Paid to a Foreign Country on Retirement Income
Code Citation: § 58.1-332.1
Date enacted or last amended: 1998
What it is: This credit may be claimed by individuals who are liable for income taxes to a foreign country on retirement income.
Who can claim it: Individuals.
What it's worth: The credit's value is determined by how much income tax was paid to the foreign country on income taxable in Virginia, and is adjusted using current exchange rates.
Fiscal Year 2010 estimate of cost: $100,000.

- Tax Credit for Purchase of Vehicle Emission Equipment
Code Citation: § 58.1-438.1
Date enacted or last amended: 1997
What it is: This credit may be claimed for the purchase of vehicle emissions testing equipment, clean fuel vehicles, and certain refueling equipment.
Who can claim it: Individuals and corporations.
What it's worth: The value of the credit is equal to 20 percent of the purchase or lease price for vehicle emissions testing equipment that is certified by the Department of Environmental Quality. The value of the credit for the purchase of a clean fuel vehicle equals 10 percent of the deduction allowed under federal provision, IRC Section 179A.
Refundable: No.
Carry-forward: Yes, unused credits can be carried forward for five years.
Fiscal Year 2010 estimate of cost: $100,000

- Tax Credit for Purchase of Waste Motor Oil Burning Equipment
Code Citation: § 58.1-439.10
Date enacted or last amended: 1998
What it is: Businesses (or individuals) that operate a facility for the acceptance of waste motor oil may claim this credit.
Who can claim it: Individuals and corporations.
What it's worth: The value of the credit is 50 percent of the purchase price of the equipment used to burn the waste motor oil. The total amount allowable per year is $5,000.
Refundable: No.
Carry-forward: No, unused credit cannot be carried forward.
Fiscal Year 2010 estimate of cost: $100,000

Expenditures Reducing the Virginia Sales Tax

- Sales Tax on Food- one half percent reduction
Code Citation: § 58.1-611.1
Date enacted or last amended: 2004
What it is: This tax policy change reduced the rate of tax on the sale of food purchased for human consumption by one half percent, making the total tax on food purchased for human consumption 2.5 percent.
Who it applies to: Individuals.
Fiscal Year 2010 estimate of cost: $250.4 million.

- Sales Tax Exemption for School Lunches and Textbooks
Code Citation: 58.1-609.10(8)
Date enacted or last amended: 1994
What it is: This exemption applies to school lunches that are sold and served to both students and employees of government-subsidized schools. It also applies to school textbooks provided by school boards, and textbooks sold to students attending nonprofit colleges and other institutions of learning.
Who it applies to: This exemption applies to school boards and students.
Fiscal Year 2010 estimate of cost: $22.9 million.

- Sales Tax Exemptions for Non-Prescription Drugs
Code Citation: § 58.1-609.10(14a-b)
Date enacted or last amended: 1998
What it is: Non-prescription drugs and proprietary medicines purchased for the cure, mitigation, treatment, or prevention of disease in human beings are exempt from the retail sales and use tax.
Who it applies to: This exemption applies to all consumers of non-prescription drugs: individuals, physicians, medical facilities, and all other entities.
Fiscal Year 2010 estimate of cost: $21.2 million.

- Sales Tax Exemption for Food Stamp and WIC Purchases
Code Citation: 58.1-609.10(5)
Date enacted or last amended: 1986
What it is: This exemption applies to

all food stamp and WIC purchases.
Who it applies to: This exemption affects food stamp recipients and WIC participants.
Fiscal Year 2010 estimate of cost: $19.3 million.

- Create Admin. Process for Registering Nonprofits
Code Citation: § 58.1-609.11
Date enacted or last amended: 2003
What it is: This provision allows nonprofit organizations exempt from federal income taxation to qualify for a sales and use tax exemption. In order to qualify for the exemption, the organization must have gross receipts less than $5,000 and be organized for at least one of the purposes set forth in 501(c) (3) or 501 (c) (4) of the Internal Revenue Code.
Who it applies to: Nonprofit organizations.
Fiscal Year 2010 estimate of cost: $5.1 million.

- Back to School Sales Tax Holiday (SB571)
Code Citation: § 58.1-611.2
Date enacted or last amended: 2006
What it is: This three-day period allows individuals to purchase certain school supplies under $20, and clothing and footwear priced under $100, without paying the Virginia sales tax.
Who it applies to: Individuals.
Fiscal Year 2010 estimate of cost: $2.8 million.

- Sales Tax Exemption for Purchase of Internet Service Equipment
Code Citation: §58.1-657
Date enacted or last amended: 1999
What it is: This exemption applies to the sale of production, distribution, and other equipment used to provide Internet-access services. The sales tax paid on the purchase of this equipment is recoverable by filing a refund request from the Department of Taxation.
Who can claim it: Internet service providers.
Fiscal Year 2010 estimate of cost: $2.6 million

- Sales Tax Exemption for For-Profit Hospital Drug Samples
Code Citation: § 58.1-609.10 (9)
Date enacted or last amended: 1999
What it is: This exemption applies to samples of prescription drugs and medicines distributed free of charge to authorized recipients in accordance with the federal Food, Drug, and Cosmetic Act.
Who it applies to: Hospitals.
Fiscal Year 2010 estimate of cost: $1.9 million.

- Sales Tax Holiday Emergency Preparedness
Code Citation: § 58.1-611.3
Date enacted or last amended: 2007
What it is: This seven-day sales tax holiday applies to items designated by the Department of Taxation as hurricane preparedness equipment, including: portable generators priced at $1,000 or less, and other items priced at $60 or less.
Who it applies to: Individuals.
Fiscal Year 2010 estimate of cost: $1.7 million.

- Sales Tax Exemption for Optometrists and Medical Practitioners
Code Citation: § 58.1-609.10 (9)
Date enacted or last amended: 1999
What it is: This exemption applies to medicines, drugs, and medical supplies purchased by licensed physicians, optometrists, licensed nurse practitioners, or licensed physician assistants engaged in the practice of medicine, optometry, or nursing. It also applies to medicines and drugs purchased for use or consumption by a licensed hospital, nursing home, clinic, or similar corporation.
Who it applies to: Licensed physicians, optometrists, licensed nurse practitioners, or licenses physician assistants.
Fiscal Year 2010 estimate of cost: $1.6 million.

- Sales Tax Exemption — Public Transportation HB2599
Code Citation: § 58.1-2510 (17)
Date enacted or last amended: 2005
What it is: This exemption applies to tangible personal property sold or leased to Alexandria Transit Company, Greater Lynchburg Transit Company, GRTC Transit System, or Greater Roanoke Transit Company that is owned, operated, or controlled by any county, city, or town, or any combination thereof, that provides public transportation services.
Who it applies to: Alexandria Transit Company, Greater Lynchburg Transit Company, GRTC Transit System, and Greater Roanoke Transit Company.
Fiscal Year 2010 estimate of cost: $300,000.

- Sales Tax Exemption — Veterinary Meds
Code Citation: § 58.1-609.2(1)
Date enacted or last amended: 2006
What it is: This exemption applies to commercial feeds, seeds, plants, fertilizers, livestock, medicines and drugs sold to a veterinarian, provided the goods are used or consumed directly in the care, medication, and treatment of agricultural production animals for resale or for direct use in producing an agricultural product for market.
Who it applies to: Veterinarians.
Fiscal Year 2010 estimate of cost: $100,000.

- Sales Tax Holiday Energy Efficiency
Code Citation: §58.1-609.1(18)
Date enacted or last amended: 2007
What it is: This four-day sales tax holiday applies to the purchase of products meeting the Energy Star and WaterSense qualifications that are priced at $2,500 or less for noncommercial home or personal use.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $1.7 million.

Tax Expenditures Reducing other Revenues

- Personal Property Tax Relief Act
Code Citation: § 58.1-3524
Date enacted or last amended: 1998
What it is: This legislation provides tax relief on the first $20,000 of value for qualifying vehicles.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $950 million.

- Repeal of the Estate Tax
Code Citation: 58.1-900 et seq
Date enacted or last amended: 2006
What it is: This legislation repeals the Virginia estate tax.
Who can claim it: Individuals.
Fiscal Year 2010 estimate of cost: $140 million.

- Tax Credit for Retaliatory Tax on Insurance Companies
Code Citation: § 58.1-2510
Date enacted or last amended: 2009
What it is: This credit is intended to compensate for the tax rates and costs imposed by Virginia on domestic insurance companies that exceed the premium tax rates of other states.
Who can claim it: Insurance companies.
What it's worth: The amount of the credit is equal to the retaliatory costs incurred during the tax year as a result of the difference between other states' premium tax rates and the taxes imposed by the Commonwealth.
Carry-forward: Credits in excess of liability can be carried forward for 10 years.
Fiscal Year 2010 estimate of cost: $2.4 million.