



THE
COMMONWEALTH
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FOR IMMEDIATE RELEASE

November 14, 2016

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Virginia Lawmakers Have Options Other than Cuts to Fix the State's Revenue Problems

RICHMOND, VA – As Virginia lawmakers gather this week to discuss how to balance the state's budget, they're likely to raise the spectre of making more cuts to important public services. But a new report by The Commonwealth Institute, a fiscal and economic research organization in Richmond, provides other options for addressing the problem without passing down the deficit to localities or undermining schools and other critical services.

"Policymakers can and should use strategies that strengthen Virginia's long-term fiscal health and avoid more damaging cuts," explains Michael Cassidy, President and CEO of The Commonwealth Institute.

Recommendations for addressing Virginia's revenue shortfall include:

- Closing special-interest corporate tax loopholes, including Virginia's failed experiment with an optional single-sales factor for manufacturers;
- Eliminating the loophole where only part of the cost of hotel rooms is taxed if it's booked through Priceline or other third-party sites; and
- Reforming tax breaks for wealthy individuals, including Virginia's neighborhood and educational improvement scholarship tax credits, which are so generous that wealthy individuals who are subject to the federal Alternative Minimum Tax or who donate appreciated securities can actually turn a profit from their "charitable" contributions.

The report also examines Virginia's longer-term challenge of general fund revenue not keeping up with the growing needs of a growing state, and how those trends impact Virginia's families and communities.

"Virginia's mental and behavioral health system is so chronically underfunded that policymakers have not been able to implement much-needed improvements to increase access to community mental health services despite bipartisan consensus that improvements are needed," says Cassidy. "And the state's still not back to pre-recession levels of support for Virginia's public schools, colleges, and universities, instead pushing down those costs onto Virginia's local communities, students, and families."

Underlying causes of Virginia's eroding revenue identified in the report include:

- Declining corporate income tax revenue as a share of the state's economy due to special tax giveaways for certain industries and corporations finding new ways to avoid paying taxes;
- Declining sales tax revenue as a share of the state's economy due to an outdated system that hasn't been updated for Virginia's modern service economy; and
- Misclassification of workers by employers, resulting in lost income tax revenue.

"In the short term, policymakers should close unfair tax loopholes rather than undermining needed support for Virginia's already hurting schools and communities. In the long term, policymakers must address the underlying challenges facing Virginia, including making real reforms to the state's outdated revenue system that prioritizes wealthy interests over the needs of Virginia's growing and modernizing economy," says Cassidy.

The full report, *Trouble in the Commonwealth*, is available at www.thecommonwealthinstitute.org

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The Commonwealth Institute for Fiscal Analysis provides credible, independent, and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.