

Revenue

The future of Virginia’s economy depends on our investment in education, health care, and infrastructure that families and businesses rely on. But our system for raising the resources we need to meet these ongoing public needs was designed for an economy that just doesn’t exist anymore.



Photo: Payton Chung

Because Virginia’s tax brackets haven’t been updated in 30 years and still reflect income levels from the late 1980s, there is a growing gap between our revenues and our needs. Compounding the problem, consumer and business purchasing patterns have changed such that much of today’s spending on services isn’t taxed at all. And the addition of loopholes and other tax breaks have made it possible for many corporations to pay nothing in income tax. As a result, the state has faced budget shortfalls in periods of both economic expansion and recession over the last decade. And, it has become harder and harder to make the critical investments we need to help working families today and to build toward the future.

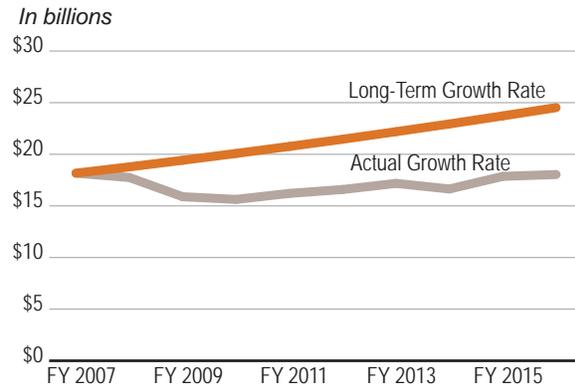
Lawmakers are going to have to grapple with the underlying problems in our current revenue system to make sure we have the resources to support our schools and communities.

Although most recent experience shows a lack of willingness to commit to serious public investments, it is possible to work together to address important needs. It’s happened before. In 2004, a common commitment to do what was needed for Virginia’s K-12 schools resulted in a significant boost in revenue to support adequate funding for classrooms and students across the state.

It’s time to work together again, for the sake of our communities, families, and businesses.

Off the Path

Actual general fund revenue vs general fund revenue at long-term growth rate, FY2007 - FY2016 (adjusted for inflation).



Note: Assumes growth based on compound annual growth rate between FY1990 and FY2007

Sources: TCI analysis of Virginia Secretary of Finance data and CPI data from BLS



Reform Virginia's tax code for today's economy

In Virginia's upside-down tax system, an average family pays a higher share of their income to state and local taxes than the wealthiest do. Lawmakers used to update the state's income tax brackets every three to four years on average to reflect changes in income

and inflation. However, the last update occurred in 1987. As a result, Virginia's top tax rate still kicks in at just \$17,000. Median household income was \$30,000 in 1987, while today it is around \$61,000.

Without periodic updates, more and more hardworking families become subject to the top marginal tax rate. In effect, regular

families now pay more toward the costs of public services than they did in the past. That's out of balance. Strengthening the state earned income tax credit by making it refundable would provide a boost to working families and address some of this imbalance. And by modernizing Virginia's tax brackets, we can bring our tax system into the 21st century.

Tools

Strengthen the state's earned income tax credit to help working families.

Too many of Virginia's families are struggling to make ends meet. At the same time, they're paying a higher share of their income to state and local taxes than the wealthiest. A refundable state earned income tax credit helps families, boosts earnings, and provides opportunity for the next generation of Virginians.

Update the state income tax rate structure so average Virginians don't pay the same rate as millionaires.

Modernizing the brackets, instituting a new top rate, and creating a mechanism to automatically adjust the rates in response to inflation would make Virginia's income tax system fairer now and in the future.

A cleaned-up tax code that works for all

Over the years, powerful special interests have lobbied lawmakers to create more tax breaks and loopholes that only benefit the select few. In the past, Virginia's corporate income tax was a larger revenue source for investments in our communities. However, large corporations with accountants and tax attorneys have been able to use loopholes and gimmicks to avoid paying their fair share. Today, many corporations

pay no corporate income tax at all. As a result, average families are working hard, paying more, and struggling to make ends meet, and we can't meet our commitments to schools and other public services across our communities.

At the same time, our economy has changed, especially when it comes to what we are buying. As consumer spending has shifted from buying goods to buying services, sales tax revenues aren't providing the resources needed to fund important

priorities. Because many services are not subject to sales tax, Virginia has an uneven playing field between businesses that primarily sell retail goods and those that specialize in services.

Cleaning up our tax code by eliminating wasteful handouts and modernizing the state sales tax will allow us to make the investments necessary for thriving communities.

Tools

Attach sunset provisions to tax breaks.

Wealthy and powerful interests have successfully lobbied for tax loopholes and other giveaways. Many of these provisions aren't regularly monitored and remain in the tax code indefinitely. We can create a fairer and more transparent tax code by phasing out wasteful and ineffective tax breaks.

Modernize the state sales tax to reflect a changing economy.

People's spending habits have changed, and our tax system hasn't. The result is an uneven playing field between different types of businesses and a sales tax system that isn't keeping pace with consumer spending.

If Virginia were to tax all feasibly-taxable services, sales tax revenues could increase substantially, raising more money for public investments.

Close corporate tax loopholes, including single-sales factor apportionment and the use of "nowhere income."

Large manufacturers are allowed to choose the tax system they'd prefer, while evidence tells us the promised jobs from this tax break are unlikely to materialize. Meanwhile multi-state corporations are able to shift profits to other states to avoid paying taxes. As a result, too many corporations aren't paying their fair share toward the investments that benefit all Virginians.