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Sweeping overhaul of tax system proposed

By Kara Glascoe, Capital News Service
01/29/2004

Del. Allen Louderback, R-Luray, has proposed a sweeping overhaul of Virginia's tax system, including a key proposal few politicians have dared to raise: extending the state sales tax to services ranging from haircuts to legal representation.

"Our economy has changed," Louderback said. "We've moved away from being a heavy-agrarian, retail-based economy. We've gone into a heavy [dependency] on services."

Yet the state has ignored this shift by applying its sales tax only to goods. For example, the sales tax applies to detergent bought at the supermarket but not to dry-cleaning or commercial laundry services, Louderback noted.

He finds it "incomprehensible" that the state taxes groceries "but leaves the frivolous service of a tattoo parlor tax-free as a bird."

"We have to have a balance," said Louderback, a businessman who has served in the House since 2000.

To strike that balance, he has proposed House Bill 108 -- a plan he calls Tax Reform and Income Modification, or TRIM.

Besides expanding the sales tax to services, TRIM would:

Lower the sales tax from 4.5 cents to 4 cents on a \$1 purchase.

Abolish the sales tax on food.

Exempt Virginians' first \$15,000 of income from the state income tax.

Create a slightly higher tax bracket for incomes above \$50,000.

Eliminate the business and professional tax on gross receipts.

Virginia currently charges the same income tax rate on incomes above \$17,000. "I don't think people at that level [should] be taxed at the highest tax bracket," Louderback said.

Under his bill, he estimates that about 1.3 million Virginians would not have to file income tax returns. Louderback said he wants to make the entire tax system simpler.

"My whole philosophy was to streamline it, simplify it, make it more fair and really get true reform," he said.

TRIM is one of several tax-reform packages being considered by the General Assembly.

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Louderback said TRIM is revenue-neutral: It's not a guise to generate more tax revenues. He said the plans by Warner and Chicester are smokescreens to raise taxes overall.

He anticipates opposition from businesses and professions that would have to collect sales tax under TRIM. But Louderback said it's only fair to tax services, which often represent luxuries, not necessities.

He said the sales tax should apply to skilled services such as plumbing, professional services like legal assistance, personal services like health and beauty salons, and amusement services such as green fees to play golf.

When such businesses sell products, they collect a sales tax, Louderback noted. "The service side ... is just another part" of the business and should also be taxed.

Some tax reform groups believe the sales tax should be levied on services. That's the position of the Virginia Organizing Project, which says the current tax system is unfair to low-income people.

The project's Web site says the system is obsolete because "we tax products but not services."

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