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Virginia's Hidden Budget Revealed

New Report Shows Many Obscure, Unreported Tax Provisions cost Virginia over \$2.5 Billion; Greater Oversight Needed.

A host of mostly unknown and unreported tax expenditure programs are draining the state's revenue by more than \$2.5 billion each year, according to new analysis by The Commonwealth Institute. Yet despite their large costs, Virginia does not regularly evaluate or report on them.

"When it comes to the spending side of the budget, Virginia regularly reviews the performance of programs in deciding how much money to provide," says Michael Cassidy, Executive Director of The Commonwealth Institute. "Yet these programs, which also affect the state budget, essentially get baked into the tax code, go on auto-pilot and their performance and cost effectiveness are almost never evaluated."

The report, *A Drop in the Bucket? Assessing the High Costs of Virginia Tax Expenditures*, provides for the first time a comprehensive look at various tax exemptions, exclusions, deferrals, credits, or preferential rates that are baked into Virginia's tax code. The report shows:

- Tax expenditures are costly and growing. They currently cost Virginia more than \$2.5 billion a year, which is a 40 percent increase between 2006 and 2009.
- Currently, there are more than 60 tax expenditure programs on the books.
- 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.

The report also calls on the state to regularly produce a comprehensive report on these costly provisions.

“Over the last two years, more than \$7 billion has been cut from the state budget, but few tax expenditures have been cut or even evaluated,” said Cassidy. “Virginia has a serious revenue problem that needs a revenue solution. As the ‘best managed state’ in the country, we can do a better job examining the performance of these programs and evaluating the whole picture of Virginia’s finances; not just the spending side.”

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