Dear Colleague:

For almost two years, I have worked as your Governor to restore Virginia's fiscal integrity and economic strength. Toward that end, we have closed budget shortfalls totaling approximately $6 billion and instituted the most sweeping reforms of state government in a generation. State employees have been full partners in our efforts to achieve these important reforms. We have also made public education a priority, instituting innovative new ideas in areas ranging from pre-kindergarten instruction to workforce training.

Today in Richmond, I will be announcing a plan for tax fairness that builds on our record of reforming state government and providing new economic opportunities for our people. I want you to have this information as I make the public announcement.

Tax reform has been the subject of numerous studies and blue-ribbon commissions over the years but, unfortunately, little has happened to achieve the goal of a fairer tax code. Our plan will change that. It achieves three principal goals:

- **Tax fairness for working people.** Under our plan, 65 percent of all Virginians will pay less taxes than they do now. Most families will see their tax bills drop because we propose to lower their income tax burden by expanding the lower tax brackets, increasing the personal exemption to $1,000, the standard deduction to $4,000 for single filers and $8,000 for married filers. We will also complete the phase-out of the car tax over the next two budgets, lower the sales tax on food, and eliminate the estate tax for working farms and closely held businesses.

- **Meeting our commitments to education.** This plan ensures that Virginia will have the revenue it needs to properly fund the state's commitment to education through the Standards of Quality and to reverse funding declines for higher education. Our plan provides an additional $855 million to public education and higher education. Without this additional funding, we will be unable to meet the demands of growing enrollment, and localities will face continuing pressure to raise real estate taxes.

- **Preserving the fiscal integrity of Virginia.** Virginia faces a $1.2 billion shortfall in its budget for the next two years. Moreover, our projections as well as those done by General Assembly committees show that even with an economic recovery, Virginia will face continuing budget shortfalls through the end of the decade. Without the revenues provided for under this plan, we will only be able to close the shortfall through unprecedented cuts in services to Virginians in education, health care and vital human services. Without this plan, Virginia may well lose its coveted AAA bond rating, which saves taxpayers millions of dollars each year in reduced borrowing costs. Virginia has held this rating since 1938, longer than any other state.
The tax reform plan we are announcing today lowers the overall tax burden on two-thirds of Virginians but still generates additional revenue for the Commonwealth. It includes a 22.5 cent per pack increase in the cigarette tax and a one cent increase in the sales tax, and it restores fairness and balance to the income tax by lowering taxes for all filers on the first $20,000 of income and creating a new 6.25 percent bracket for tax filers with taxable incomes over $100,000, which is less than 8 percent of all filers. In addition, our plan eliminates a common tax loophole for corporations and gives localities limited new taxing authority to impose excise taxes on cigarettes.

I expect that Virginia will have a healthy debate over tax reform when the General Assembly convenes next January. As this debate gets underway, I believe that the opponents of our plan have an obligation to explain how they would fully fund public education and state government's other core commitments, while also preserving our AAA bond rating. My plan will achieve tax fairness for working families and meet existing obligations in public education and other important state services. It is the right plan for Virginia.

If you are interested in obtaining a copy of our plan, please feel free to visit my website at www.governor.virginia.gov or call us toll-free at 1-888-TAX-REFM.

Thanks for your attention to this important issue. I hope you and your family have a happy holiday season.

Sincerely,

Mark Warner