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Virginia retailers usually bristle at any suggestion to raise the state's sales tax.

They worry that such a move would temper spending among consumers who are sensitive to price increases. And it would make the competition with out-of-state retailers that don't charge sales tax — in particular, Internet merchants — that much more difficult, they argue.

State retail groups have toned down their discord, though, in response to Gov. Bob McDonnell's proposal to increase the sales tax to help pay for transportation improvements. Under the governor's plan, the 17.5-cent tax on a gallon of gasoline would go away for drivers of passenger vehicles, and the state's 5 percent sales tax would climb to 5.8 percent, with the additional revenue earmarked for road projects across the state.

The Retail Alliance, the trade group for Hampton Roads merchants, applauds the initiative as a strong step toward solving one of the region's biggest problems — traffic congestion and deteriorating roadways. The need to address the transportation "crisis" outweighs any pain a sales tax increase might cause, said Ray Mattes, president and CEO of the Norfolk-based alliance.

"No one is 100 percent happy" with the governor's proposal, Mattes said. "But we're all 100 percent happy that there is a proposal."

The spirit of compromise has surfaced from widespread frustration over the lack of progress on road projects in the past decade. Business groups are more willing now to accept some affliction than in previous attempts to craft a transportation solution.

“At the end of the day, we appreciate that someone has come up with a plan that’s

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automobile dealers railed against the idea of boosting the tax on vehicle purchases, sometimes called a “titling” tax. Tax on the cost of a car in Virginia is 3 percent, lower than the general retail sales tax, to account for the larger expense of that purchase.

Any move to raise that rate remains “a nonstarter” for those in the car-selling business, said Don Hall, president and CEO of the Virginia Automobile Dealers Association. But McDonnell’s new proposal has the auto dealers’ support, even while it includes a \$15 increase in the state’s annual registration fee for vehicles, currently \$40.75.

“It’s sort of a lesser of evils,” Hall said. Consumers are less likely to balk or change their buying decisions over the registration fee, he said, than an increase in the titling tax, which he said could add hundreds of dollars to the cost of a car.

Hall praised the governor’s efforts to spread the burden and alleviate any significant blow to a single industry. “If we all sort of share in the pain of this at some level,” it’s more likely to gain consensus, Hall said. “That’s a more palatable deal and more acceptable.”

According to the governor’s website, his proposal has received support from Norfolk Southern Corp., the state’s Realtors and multiple construction industry associations, including the Hampton Roads Utility and Heavy Contractors Association.

Not every business group, though, favors McDonnell’s approach. Truck drivers see it as unfair because it would keep the 17.5-cents-per-gallon state tax on diesel fuel.

The governor reasoned that tractor-trailers account for more wear and tear on the state’s roads and should continue to cover a portion of the money needed for improvement.

But commercial operators of diesel vehicles already pay for their heavier weight on

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"If the car is on the road, the car should pay it," O'Callaghan said. "We're not opposed that money is spent to improve and further develop the infrastructure ... as long as it's equal and people are paying their fair share."

Even within industries with trade groups that back McDonnell's idea, some business owners don't like the direction the governor is going.

Rob Nicholson, who owns three East Coast Appliance stores in Hampton Roads, said he would oppose a sales tax increase unless state or federal legislators passed a law requiring Internet retailers to remit sales tax in states where they do business.

To compete on prices with online appliance dealers that don't have to add the 5 percent Virginia sales tax, Nicholson has to absorb that amount, and an increased rate would cut further into his profit margin, he said.

"It's going to have some negative consequences for retailers like me," he said, adding that a gasoline tax seems a more logical source of funding for transportation needs. "I don't understand the lateral move" to additional sales tax.

McDonnell's transportation plan includes revenue that would come from a federal mandate for online sales tax collection, though the chance that Congress will pass such legislation remains questionable.

The Retail Alliance and its lobbying arm, the Virginia Retail Federation, hope the General Assembly will consider a provision that would help retailers offset some of the cost they would incur from a sales tax increase, Mattes said. Retailers pay credit card processors based on each transaction total, including sales tax, so a higher rate would mean higher fees.

"We would like to see some type of compensation, since we're collecting" the tax for the state, he said.

Local business leaders also would like some assurance in whatever legislation

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Some of the competing measures advocate an increase in the gasoline tax — for example, an additional 10 cents per gallon — or a method to adjust it for inflation. Others suggest designating a greater portion of the existing 5 percent sales tax for roads.

Because of the plethora of proposals, the General Assembly faces a long and winding road of debate and change before putting together a final deal to boost transportation funding, business leaders said.

But they're optimistic that it will happen this year.

"It's like making sausage," Hall said. "It ain't pretty, but it tastes pretty good at the end."

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Sales Tax

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