

Single Sales Factor Apportionment and Virginia

*Presentation to the Joint Subcommittee Studying
the Benefits of Adopting a Single Sales Factor
October 21, 2008*





Manufacturing still Critical to VA's Economy – Economic Impact

- Large economic impact: VEDP determined that manufacturing has a \$172 billion impact on VA's economy.
- Provides jobs: in 2007 manufacturing provided 286,579 jobs in VA – 8% of total employment
- Pays high wages: on average VA manufacturing jobs paid \$48,516/yr. in 2007 – 5% above the statewide average

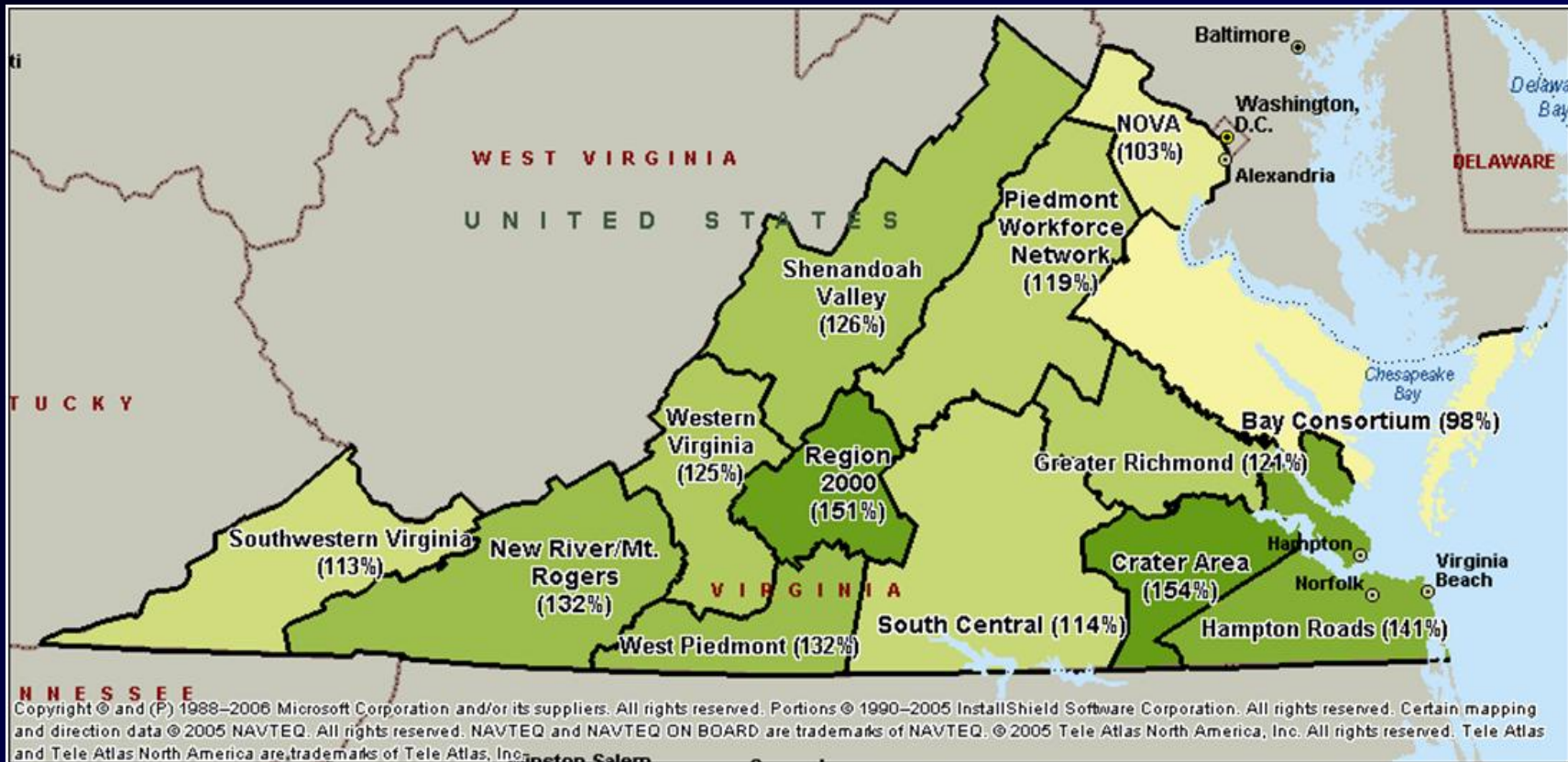


Larger Impact at Regional Level – Manuf. as % of Regional Employment





Larger Impact at Regional Level – Manuf. as % of Regional Wage



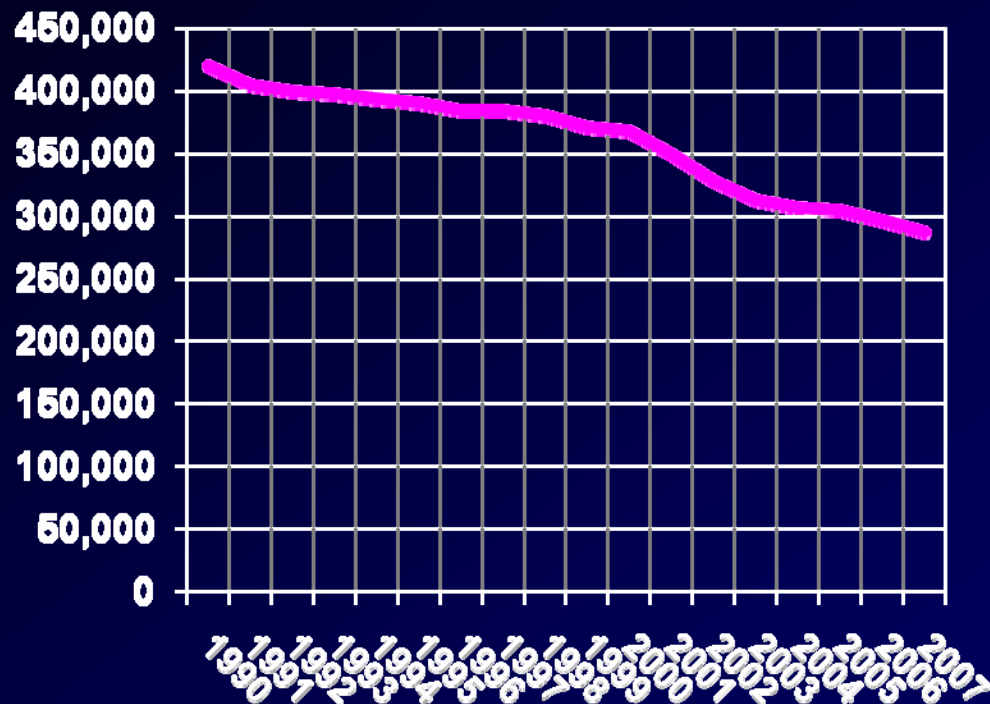


Manufacturing still Critical to VA's Economy – Tax Revenue

- **Large tax contribution:** According to 2005 Ernst & Young study, effective state and local tax rate on VA Manufacturing is:
 - **2.2 times higher than on *Professional Services***
 - **1.9 times higher than on *Information, Data, and Computer Services***
 - **1.5 times higher than on *Agriculture and Forestry***
 - **1.4 times higher than on *Retail***



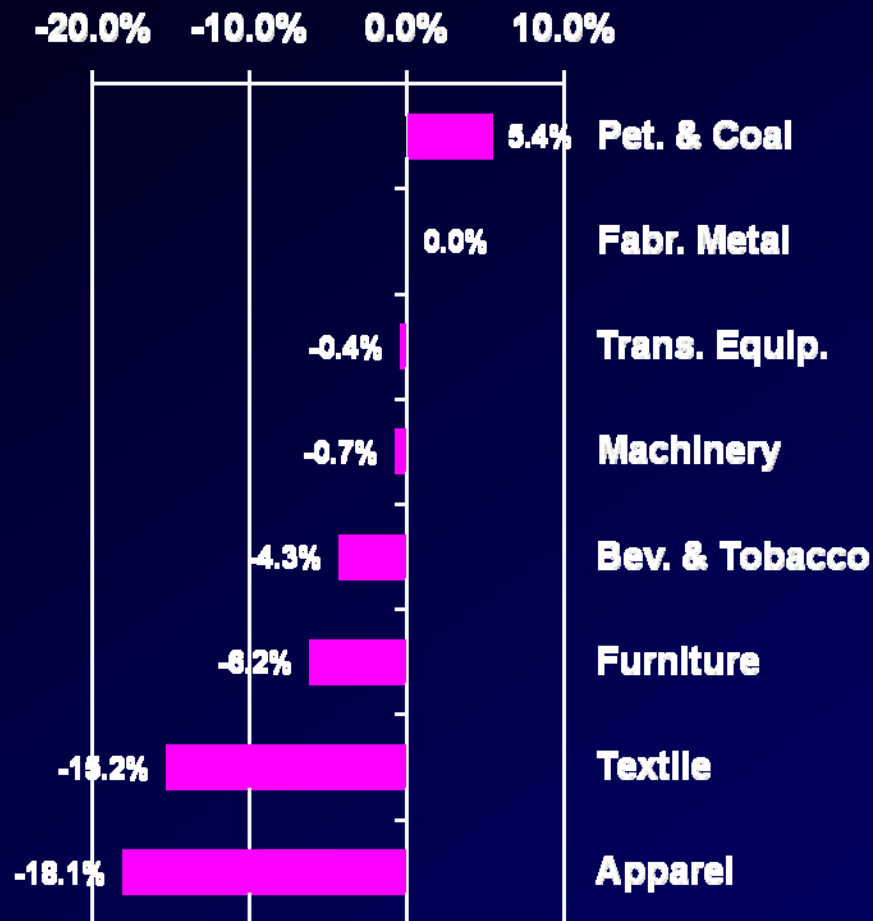
Manufacturing has Experienced Significant Employment Losses



- Between 1990 and 2007, VA manufacturing employment fell 32%
- Between 2000 and 2007, manufacturing employment fell 22%
- Steepest declines occurred in 2001, 2002, and 2003



But Some Sectors Continue to Hold their Own



- Between 2001 and 2007:

- Fabr. Metal: 0.0% CAGR
- Trans. Equip.: -0.4% CAGR
- Machinery: -0.7% CAGR

- Largest declines in non-durables:

- Tobacco: -4.3% CAGR
- Textile: -15.2% CAGR
- Apparel: -18.1% CAGR



Why the Interest in Single Sales Factor Apportionment?

- **Removes the current disincentive on increasing VA employment and investment**
- **Encourages “export” companies that have a disproportionately high economic impact on VA**
- **Shifts some of the corporate tax burden to firms that are located primarily out of state**
- **Keeps VA competitive with other states**



National Trend towards Higher Sales Factor

- **In 1978, 5 states had a sales factor of 50% or greater. By 2008, 36 states had a sales factor of 50% or greater.**
- **Just between 2007 and 2008, 10 states increased their sales factor weight.**
- **Just between 2007 and 2008, the number of states offering at least an optional single sales factor increased from 11 to 15.**



Empirical Evidence on Single Sales Factor Apportionment

- **Some earlier studies have been overly simplistic:**
 - **Single state case studies – may not generalize**
 - **Fail to control for other factors – implicitly assume that apportionment formula only factor that affects changes in employment**
 - **Based on data from early 2000's – biased by strong national downturn in manufacturing employment**



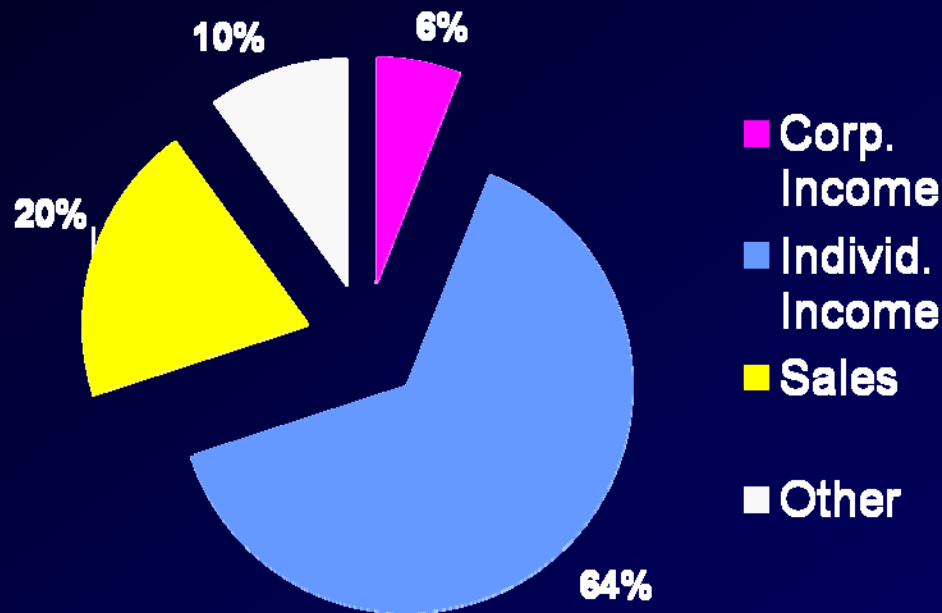
Empirical Evidence on Single Sales Factor Apportionment (cont.)

- **Most comprehensive analysis to date is Goolsbee and Maydew (2000):**
 - **Employed a 50 state analysis based on 20 years of data**
 - **Used multivariate regression to control for simultaneous effect of multiple factors on employment**
 - **Found that moving from a 50% to 100% sales factor increased manufacturing employment by 3.5% and non-manufacturing employment by 1.3% within three years**



What would Single Sales Factor Apportionment mean for VA?

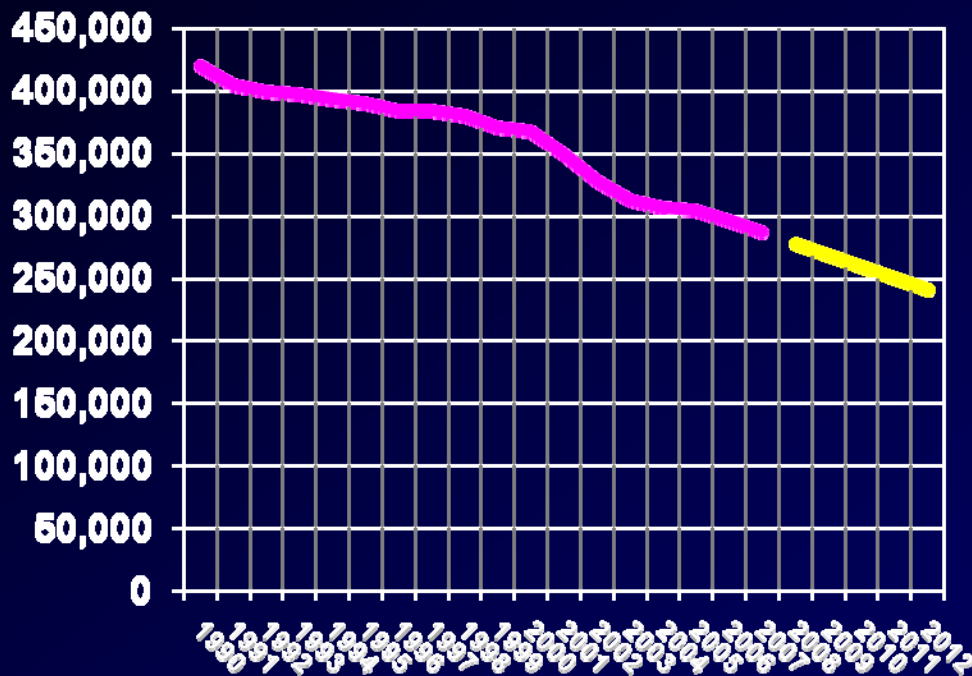
Sources of State Tax Revenue



- Losses in manufacturing employment affect all tax streams, not just corporate income tax
- 64% of state tax revenue comes from personal income tax
- 20% from sales and use tax
- 6% from corporate income tax



Lost Manufacturing Jobs Translate into Lost Tax Revenue



- Based on current trends, VA manuf. employment could decline from 286,579 in 2007 to 241,173 in 2012 (a 16% drop)
- Equals a loss of 45,406 manufacturing jobs



Lost Manufacturing Jobs Translate into Lost Tax Revenue (cont.)

- **Based on IMPLAN analysis, those 45,406 lost jobs would drive a \$396 million loss in state tax revenue:**
 - **\$70 million decline in business taxes**
 - **\$160 million decline in individual taxes**
 - **\$166 million decline in sales and use tax**



Single Sales Factor Apportionment **Mitigates that Loss**

- **According to Goolsbee/Maydew findings, moving to singles sales factor could shave 3.5% off that anticipated 16% decline in manufacturing employment by 2012**
- **That avoids the loss of 8,441 manufacturing jobs**



Single Sales Factor Apportionment **Mitigates that Loss**

- **Saving those 8,441 manufacturing jobs restores \$75 million in annual state tax revenue:**
 - **\$13 million in business taxes**
 - **\$30 million in individual taxes**
 - **\$32 million in sales and use tax**



To Summarize

- **Manufacturing remains a critical component of VA's economy, particularly in the Southwest, Valley, Southern Virginia, and Hampton Roads.**
- **Manufacturing is associated with above average economic impact, above average wages, and above average tax revenue.**
- **Although manuf. has experienced significant employment losses, certain sectors, particularly in durable good manufacture, continue to hold their own.**



To Summarize (cont.)

- **Single sales factor apportionment removes the disincentive on increasing VA employment and investment.**
- **There is a pronounced national trend toward adoption of single sales factor apportionment.**
- **Analysis indicates that adoption of single sales factor apportionment could reduce future losses in manufacturing employment by 3.5%.**



To Summarize (cont.)

- **Based on current trends, VA could loose an additional 45,406 manufacturing jobs by 2012. That translates into a loss of \$396 million in state tax revenue.**
- **Adoption of single sales factor apportionment could reduce that job loss by 8,441, restoring \$75 million in annual state tax revenue.**

Thank You

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