



VIRGINIA MANUFACTURING TAXATION FACT GUIDE

Brett A. Vassey
President & CEO

Virginia Manufacturers Association

www.vamanufacturers.com

Key Findings

- The General Assembly of Virginia finds that modern business infrastructure allows businesses to locate their administrative or manufacturing facilities with minimal regard to the location of markets or the transportation of raw materials and finished goods, and that the economic vitality of the Commonwealth would be enhanced if such facilities were established in Virginia... (Virginia § 58.1-439 T).
- By 2000, when Virginia's double-weighted sales factor became effective, most states imposing an income tax gave at least 50% of the weight in their apportionment formula to the sales factor. But today, another policy consideration is influencing the choices in selecting a state income tax apportionment formula – economic development." (Source: VA Department of Taxation, Virginia's Apportionment Formula, August 25, 2005).
- The proportion of the state and local tax burden borne by Virginia manufacturing is "higher than its proportional percentage of the State's economy in terms of employment, the number of firms, and total gross state product." (Source: Joint Legislative Audit and Review Commission, "Impact of Regulations on Virginia's Manufacturing Sector," Senate Document Number 18, Commonwealth of Virginia, 2006).

MFG. ECONOMIC IMPACT

Based on Calendar Year (CY) 2005 employment data, Virginia's manufacturing sector supports:

- 1,015,971 jobs
 - 303,829 direct jobs
 - 712,142 additional jobs
- \$172.0 billion in annual economic output
 - \$85.8 billion direct output
 - \$86.2 billion additional output
- Based on direct and indirect jobs, 27 percent of total employment in Virginia for 2005 was related to the manufacturing sector

Based on CY 2005 employment data, Virginia's manufacturing sector, its supporting industries, and its employees generate:

- \$6.3 billion in tax revenue
 - \$3.5 billion in state tax revenue, including sales and income taxes
 - \$2.8 billion in local tax revenue
 - \$2.4 billion in property taxes
 - \$400 million in sales taxes

Leading sectors for supported jobs include:

- Retail Trade (68,631 jobs)
- Agriculture, Forestry, and Fishing (59,335 jobs)
- Health and Social Services (55,202 jobs)
- Personal and Other Services (54,076 jobs)
- Professional, Scientific, and Technical Services (53,844 jobs)
- Accommodation and Food Services (50,576 jobs)
- Transportation and Warehousing (38,902 jobs)
- Wholesale Trade (36,104 jobs)
- Administrative and Waste Services (31,036 jobs)

MFG. ECONOMIC IMPACT

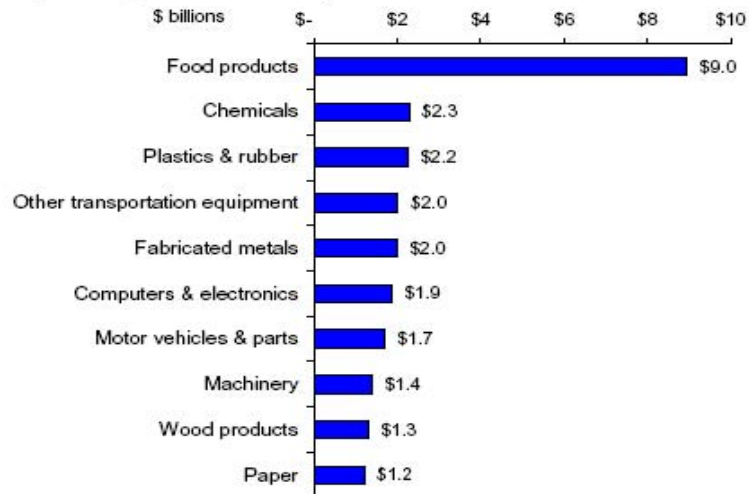
Gross State Product: 2004 – 2006 = *(\$-3.8 Billion)*

Facts About Virginia Manufacturing

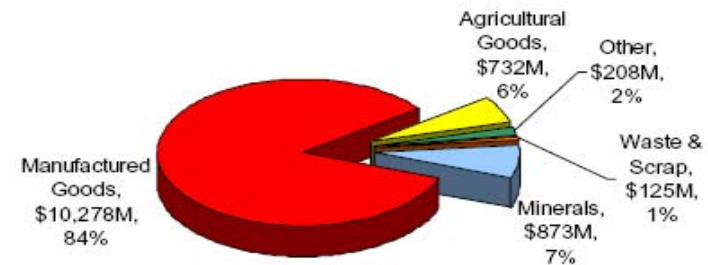
Manufacturing Employment and Wages	
Employees, December 2007	285,500
Manufacturing businesses, 2005	6,120
Average annual manufacturing wages*, 2007	\$45,473
Average annual state wages*, 2007	\$44,041
*Wages do not include benefits as data is not available by state	

Manufacturing Share of Virginia, 2006	
Manufacturing Growth in Virginia (2001-2006)	-7.8%
Virginia GDP, \$ billions	\$369.7
Manufacturing share of Virginia, \$ billions	\$34.2
Manufacturing share of Virginia GDP, %	9.3%

Top 10 Virginia Manufacturing Sectors 2004



Bulk of VA Exports are Manufactured Goods 2005^a,
\$ millions,
as a percent of total merchandise exports



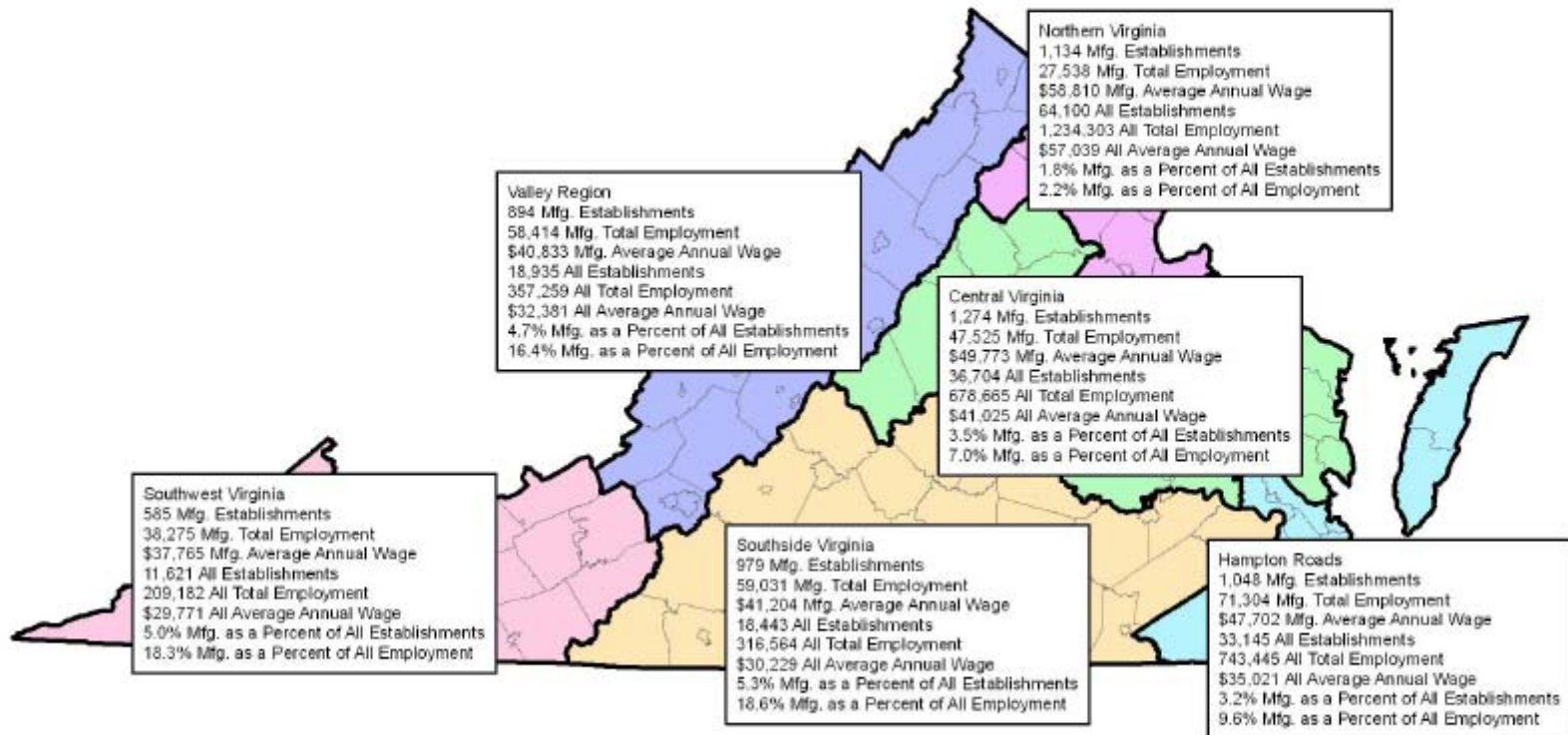
Virginia Total 2005 Exports: \$12.2 billion

Sources: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, U.S. Census Bureau and Commerce Department

^a/ Service exports data are not available by state.

MFG. ECONOMIC IMPACT

**Map 1
Manufacturing Overview**



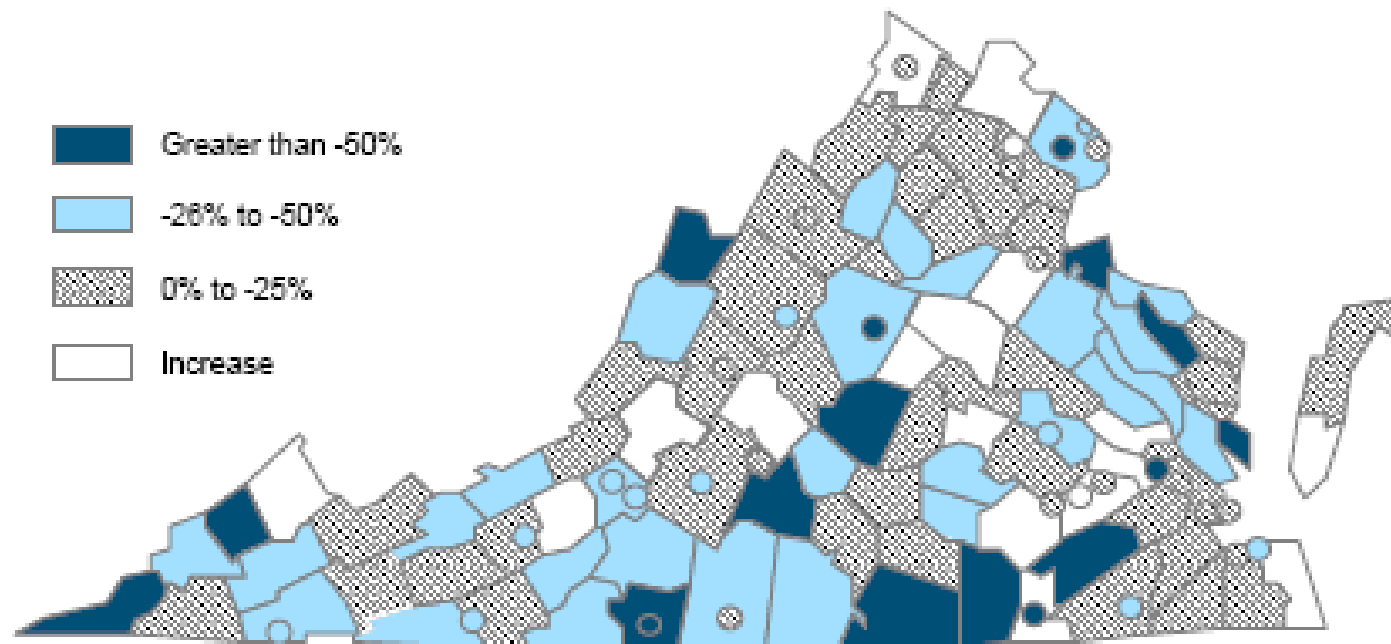
Source: Virginia Employment Commission - Quarterly Census of Employment and Wages, annualized data (2005Q2-2006Q1)

JOB & WAGE DATA

JOBS: 1990 – 2007 = **(-118,944)**

WAGES: 1990 – 2006 = **+82.1%**

Figure 2: Most Virginia Localities Lost Manufacturing Jobs Between 1997 and 2004

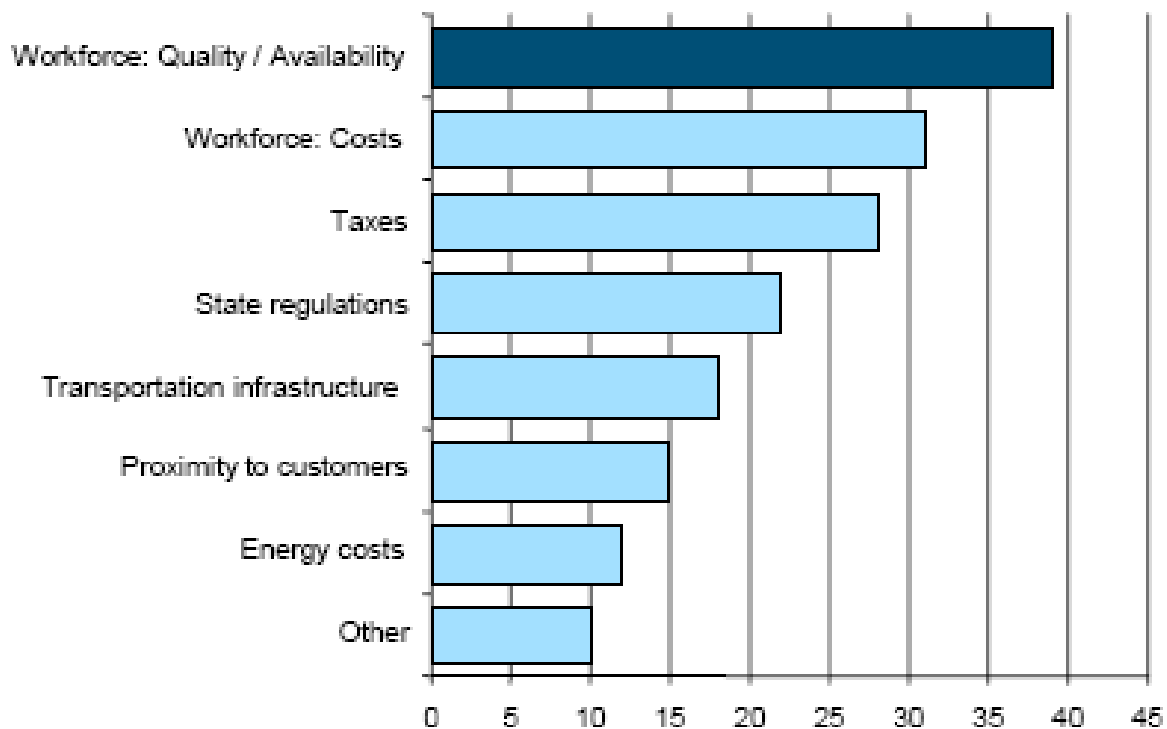


Source: Quarterly Census of Employment and Wages, 1997, 2004, U.S. Bureau of Labor Statistics.

Source: VEC, VA Manufacturing Report, February 2008.

ECONOMIC DEVELOPMENT

Figure 31: Workforce Has the Biggest Impact on Whether to Stay in Virginia, Open a New Facility, or Close an Existing Facility



Note: Sixty-one companies answered the question, but were asked to select multiple factors. This resulted in 175 total factors being identified by companies.

Source: JLARC survey of Virginia manufacturers, 2006.

ECONOMIC DEVELOPMENT

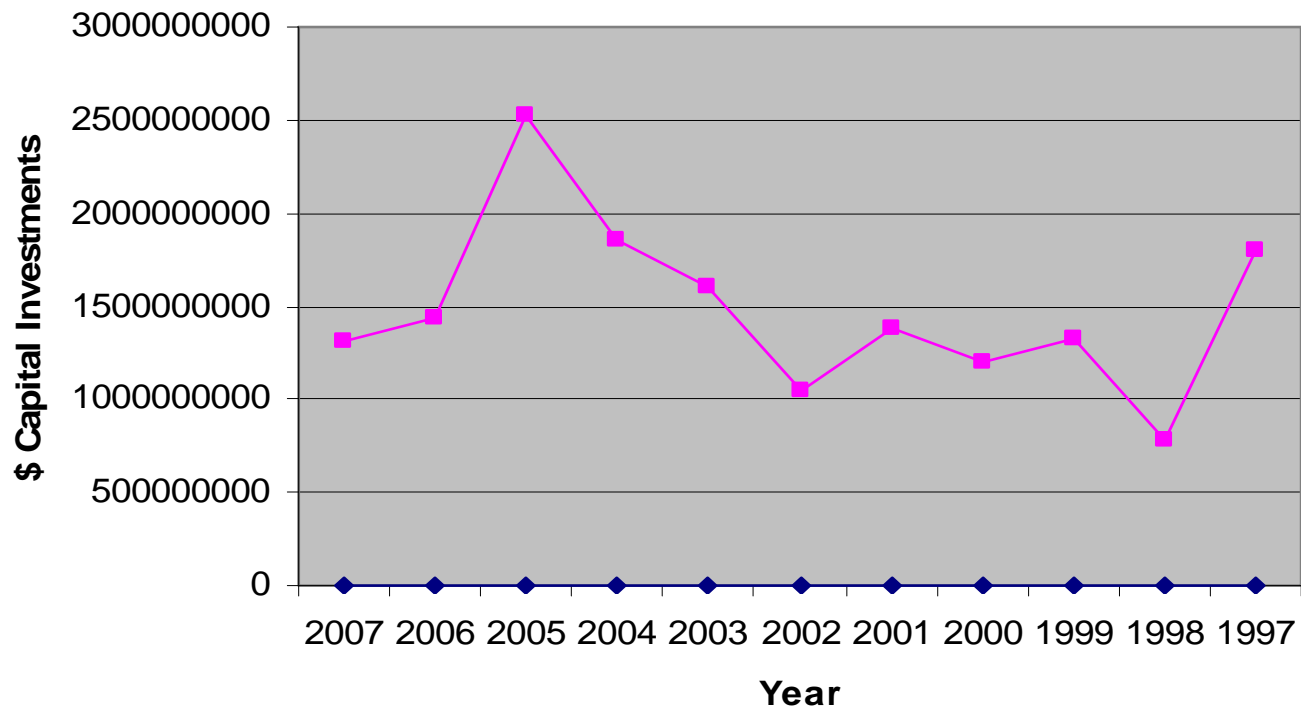
VA Manufacturing Job Announcements Are **Down 44%** Since 2005!



ECONOMIC DEVELOPMENT

*VA Manufacturing Capital Investment Announcements Are
Down 49% since 2005!*

VEDP Manufacturing Announcements (1997-2007)



State Manufacturing Scorecard

VA Rank = 16

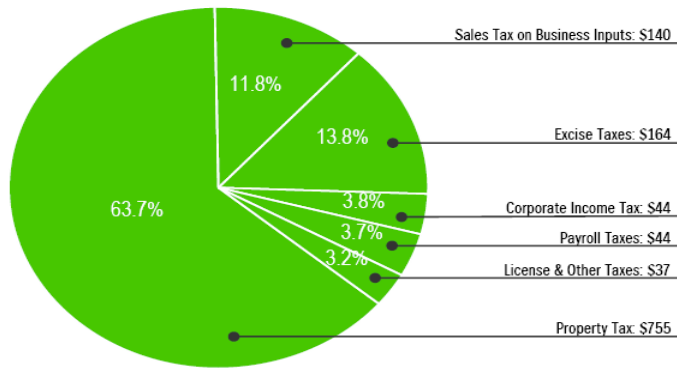
VA Rank in “*Growth in Value-Added Manufacturing*”

50

TAXATION

Manufacturing Has *Highest Effective Tax Rate* Among Other Sectors and Competing Southern States

Figure 3
Composition of Virginia Taxes on Manufacturers (\$1.2 billion, FY2003)
(Millions)



Source: Ernst & Young estimates

Figure 6
Effective Virginia State and Local Tax Rates on All Industries,
Measured by Value-Added,
FY2003

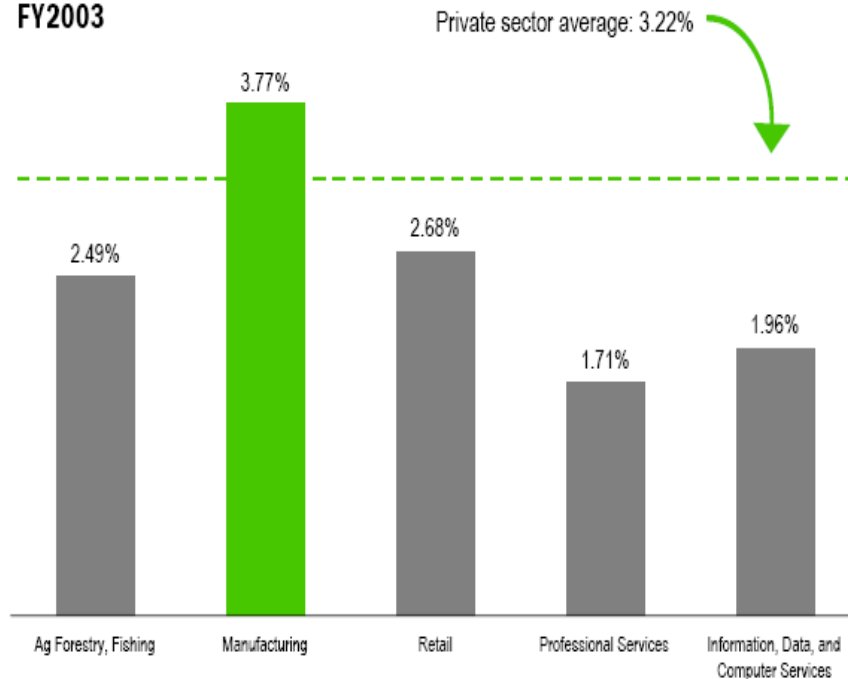
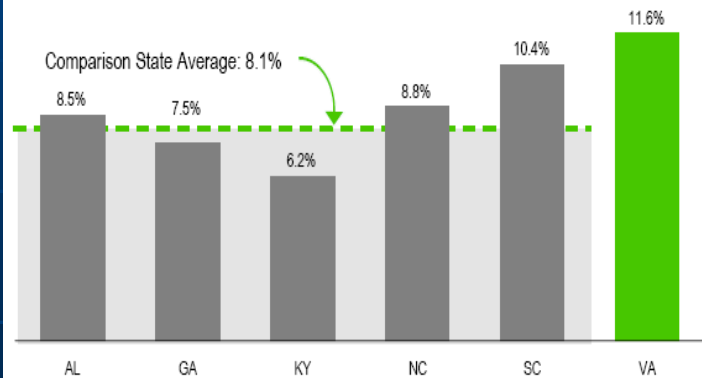


Figure 7
Effective State and Local Tax Rates on Manufacturers,
Measured by Industry Property Income, FY2003



⁵ Value added is a measure of the economic contribution of labor and property located in a state. In concept, an industry's value added is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, a state's value added is often considered the state counterpart of the nation's gross domestic product (GDP). In practice, value added estimates are measured as the sum of the costs incurred and incomes earned in the production of GDP. Note that value added also includes the non-corporate taxes paid by firms in an industry as a cost incurred in production of GDP.

TAXATION

Annual Mfg. Tax Compliance Costs = (\$113 - \$201 million)

Table 18: Taxes Applicable to Virginia Manufacturers and Associated Compliance Costs

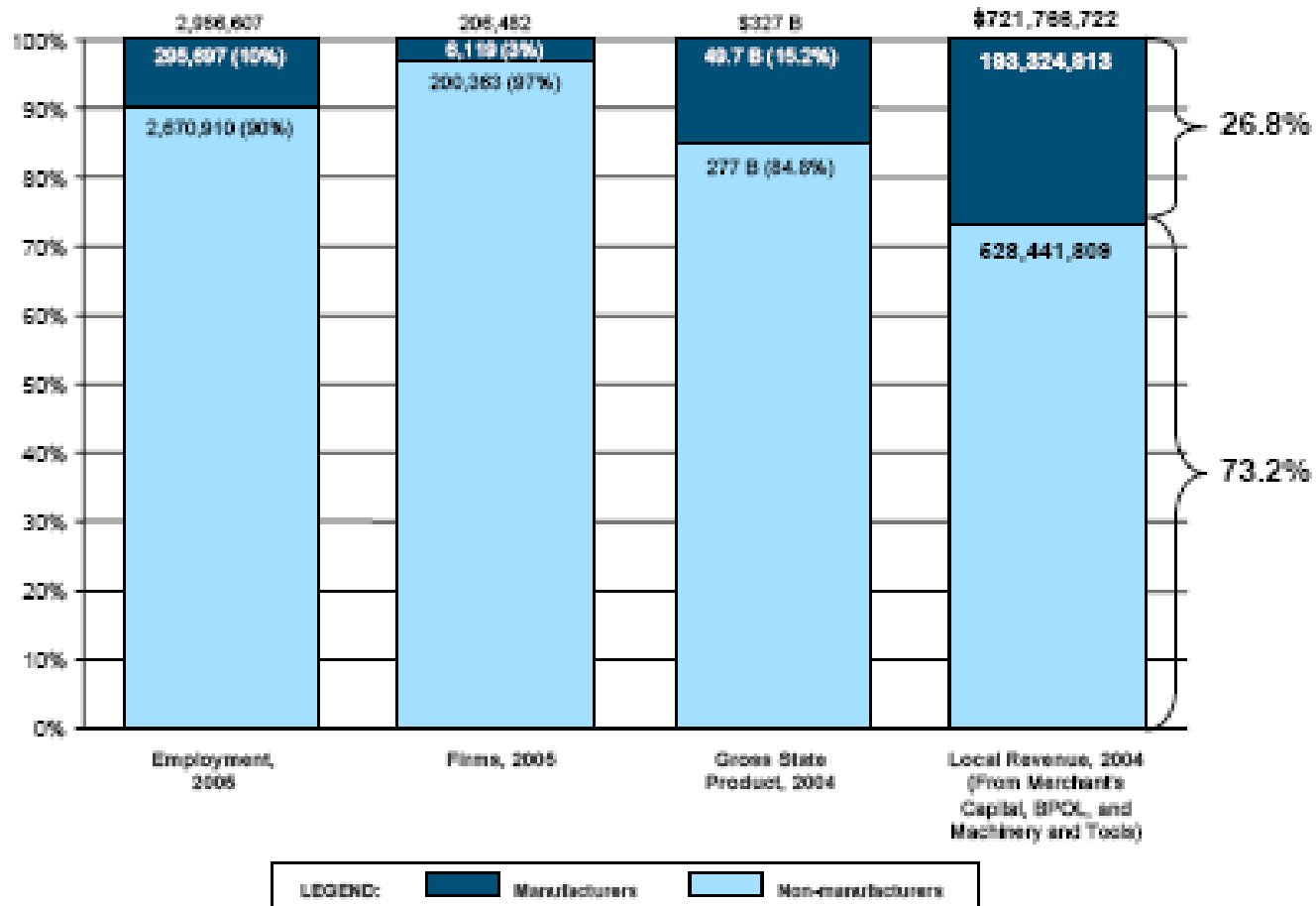
	Type of Tax	Compliance Cost Definition	Examples of Activities Included
State and Federal Taxes	Payroll Taxes	State and federal employee income withholding, as well as remittance of Social Security, Medicare, unemployment insurance, and other payroll taxes.	<ul style="list-style-type: none"> • Sending out W-2s and VA-6s (annual report to employee of withholding) • Determining withholding amount • Filling out tax forms • Remitting forms and payments to the government • Recordkeeping done specifically for tax compliance
	Corporate Income Taxes	Paying applicable State and federal taxes on a company's income.	<ul style="list-style-type: none"> • Determining tax liability • Filling out tax forms • Remitting payments to the government • Financial recordkeeping specifically for tax compliance
State and Local Taxes	Sales and Use Tax	Remitting use taxes and verifying non-payment or obtaining refunds for sales tax on exempted purchases.	<ul style="list-style-type: none"> • Keeping records of purchases • Determining which items are exempt from sales tax • Remitting use taxes to the State
	Machinery and Tools Tax	Identifying which tangible property is "used directly" in manufacturing, and remitting the required tax to the appropriate local government.	<ul style="list-style-type: none"> • Keeping records of property • Determining which items are subject to the tax and which are not • Determining tax liability • Filling out forms for the machinery and tools tax • Remitting taxes to localities
	Real Property Tax	Challenging property value assessments, and remitting the required tax to the appropriate local government.	<ul style="list-style-type: none"> • Providing documentation in support of physical or economic obsolescence • Challenging classification of property as real property • Remitting taxes to localities

Source: JLARC analysis of agency documentation and academic literature.

TAXATION

Manufacturers Pay **27% of Local Business Taxes**

Figure 24: Manufacturers' Share of Local Business Taxes Is Higher Than Other Measures



Source: JLARC analysis of Weldon-Cooper Center and U.S. Census data.

TAXATION

Manufacturers Pay 35% of Total Corporate Income Taxes

Virginia's Apportionment Formula

taxable year 2003 returns was used. Comparable estimates based on the 2003 and 2006 taxable years are presented below, along with the total corporate revenue for the fiscal year in which most of the taxable year payments were collected.³³

<u>Alternatives (amounts in \$ millions)</u>	<u>TY 2003</u>	<u>TY 2006</u>	<u>Change</u>
Mandatory Single Sales for All Corporations	(37.4) ³⁴	(47.4)	27%
Optional Single Sales for All Corporations	(65.6)	(122.7)	87%
Mandatory Single Sales for Manufacturers	(25.4)	(33.9)	33%
Optional Single Sales for Manufacturers	(36.0) ³⁵	(64.7)	80%
<u>Most Closely Related Fiscal Year</u>	<u>FY 2004</u>	<u>FY 2007</u>	
Total Corporate Income Tax Revenue	425.7	879.6	107%
Manufacturers' Corp. Income Tax Revenue	129.9	307.9	137%
Manufacturers' Percent of Total Corp. Tax	31%	35%	

Source: VA Department of Taxation, VA Apportionment Formula, September 2008.

Competitiveness

Over 19 States Have Instituted a Single Sales Factor (SSF) for Corporate Income Tax Apportionment

Sales Factor Weight In Apportionment Formula		
Sales factor only	18	CO, CT, GA, IL, IN, IA, LA, MA, MD, ME, MI, MN (81% - 100% by 2014), NE, NY, OR (only years after 2005), SC ^[1] (only years after 2006), TX, WI
"Optional" Sales Factor Only	1	MO
"Optional" Double-Weighted Sales Factor	1	UT
Three factors, sales weighted more than 50%	3	PA (70%), OH ^[2] (60%); FL (80%)
Three factors, sales weighted 50%	14	AZ, AR, CA, ID, KY, NH, NJ, NM, NC, OK, TN, VT, VA, WV
Three factors, equally weighted	12	AL, AK, DE, DC, HI, KS, MO, MS, MT, ND, RI, UT
No income tax imposed	4	NV, SD, WA, WY

Cost-Benefit of Mfg. SSF Elective

- **Single Sales Factor Benefit = \$75 million**
 - Moving to a Single Sales Factor Elective for Manufacturing Saves the Commonwealth \$75 million in Revenue and Will Reduce the Loss of 8,441 Manufacturing Jobs

- **Single Sales Factor Cost = \$36 million - \$64.7 million**
 - **TAX 2005 Study**
 - Manufacturing Elective = NA
 - All Industries = \$37.5 million

 - **TAX HB 1514 – 2008 Fiscal Impact Statement**
 - Manufacturing Elective = \$36 million (minimum)

 - **TAX 2008 SSF Study Committee Study**
 - Manufacturing Elective = \$36 million - \$64.7 million (2003/2007)

Source: Dr. Fletcher Mangum, *The Effect of Moving to a Single Factor Sales Apportionment Formula in Virginia*, October 2008.

SUMMARY COMMENTS

- **Doing nothing may cost \$396 million in state and local revenue by 2012**
- **The General Assembly can no longer afford to do nothing**
 - *Adoption of single sales factor apportionment could reduce that job loss by 8,441, restoring \$75 million in annual state tax revenue*
- **The sector's overall performance has declined in the last seven years**
 - *Virginia ranked dead last in Growth in Value-added Manufacturing in 2007*
 - *Economic development announcements are down*
 - *VA could lose an additional 45,406 manufacturing jobs by 2012*
- **SSF is not a "silver bullet"**
 - *It must be considered as one important step in overall manufacturing competitiveness, but it will affect investment behavior*
- **SSF's cost-benefit requires the consideration of the manufacturing sector's substantial impact on its suppliers and their total impact on the Commonwealth**
 - *Focusing solely on the reduction in corporate income taxes misses 94% of the point*
 - *1 million jobs, 27% of local business taxes and 35% of state corporate income taxes depend upon the success of 6,000 factories*
 - *Virginia's effective tax rate is not competitive with peer southern states and some are among the 26 other states ahead of Virginia in addressing this issue*
- **Manufacturers have demonstrated that they have invested in their workforce and capital investment is slowing**
 - *Wages are up 82% and outperform all other sectors combined*
 - *Every \$45,473 that a company cannot reinvest in its workforce, capital and innovation costs one full-time job*
 - *Manufacturing SSF elective equates to investing in 792 – 1,422 jobs by 2012*