



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
RICHMOND

KATHY BYRON
523 LEESVILLE ROAD
LYNCHBURG, VIRGINIA 24502

TWENTY-SECOND DISTRICT

COMMITTEE ASSIGNMENTS:
SCIENCE AND TECHNOLOGY (CHAIRMAN)
FINANCE
COMMERCE AND LABOR

TO: Joint Subcommittee Studying the Single Sales Factor
FROM: Delegate Kathy Byron (Co-Chair)
RE: November 17 Hearing – Legislative Proposals

I want to thank everyone who submitted legislative proposals for our November 17th final meeting of our study committee. Everyone's proposals and ideas will enable us to build a consensus on specific recommendations on the benefits of Virginia implementing a single sales factor in corporate income tax apportionment or an optional single sales factor program exclusively available to specific industries identified in the Commonwealth's economic development strategic plan to encourage *investment in and recovery of* Virginia industry.

As we finalize our work, it is important that we streamline our focus on the charge that was given to us outlined in the study resolutions, HJR 177 and SJR 101. While our discussions have incorporated other important tax issues pertinent to our service corporations, financial institutions, etc., gaining an understanding of how to begin broader implementation of the single sales factor through an optional program for manufacturers is, in my judgment, the best path forward.

To help us focus our attention on concepts that can be blended together into a bi-partisan supported legislative proposal, I have taken the liberty of asking the manufacturers for ideas that are consistent with other Virginia and competing states' programs that will address this joint subcommittee's concerns about equity, performance and cost.

Equity

TAX reported in its September 30, 2008 report to us that manufacturers paid 31% (\$129.9 million) of all corporate income taxes in 2004 and 35% (\$307.9) in 2007. Ernst & Young's report, "Taxes Paid by Virginia Manufacturers" stated that manufacturers paid \$44 million in corporate income taxes in 2003 and the industry shoulders an effective tax rate significantly greater than all other business sectors. Finally, our Joint Legislative Audit & Review Commission reported in its 2006 report, "Impact of Regulations on Virginia's Manufacturing Sector" that 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" (Senate Document Number 18). The point is that the best economic studies available in the Commonwealth, perhaps the country, tell us that the Virginia tax structure for Virginia manufacturers is not equitable and, if we are to remain a competitive state, we must act now.

Performance

Many have expressed concerns about the economic models that we have debated over the last few months. Will the single sales factor incentivize business to consolidate, retain or relocate within the Commonwealth?

DISTRICT: (434) 582-1592 • FAX: (434) 582-1591 • RICHMOND: (804) 696-1022 • E-MAIL: KATHY@KATHYBYRON.COM

Personally, I am convinced that the Goolesbee methodology and Dr. Fletcher Mangum's Virginia study was accurate. I think that the industry makes a compelling argument that nearly 20 states have already pursued. Therefore, I have asked the manufacturers to consider the following "hybrid" approach to my original bill. This "hybrid" contains performance and predictability elements that should address some or all of the concerns raised at the previous hearings.

"Virginia SSF Hybrid Model"

- Optional for manufacturers only. We will continue to evaluate service and other "strategic sectors" for future years.
- Require companies to elect SSF for a "minimum stay" of 2 years (similar to UT). This addresses the TAX concerns about predictability of income and management.
- Require "performance assurance" from companies through wage certification. Specifically, a participant must prove that the average weekly wage of its full time employees is greater than the industry's statewide average weekly wage. This is consistent with other performance incentives and ensures that the Commonwealth is limiting the benefit of SSF to those companies that will help improve the income of workers and, subsequently, the economy of their local communities.

Cost

We should consider the approach of states like South Carolina and Georgia with a longer phase-in of the SSF elective in order reduce the economic impact on the state's corporate income tax revenue and give the program time to allow for the sales tax and personal income taxes to offset those losses (see Goolesbee & Mangum studies). Therefore, I recommend the following phase-in method over four (4) years beginning in 2010 (2 budget cycles):

- 2010 - 3 factor formula with triple-weighted sales
- 2011 - (same)
- 2012 - 3 factor formula with quadruple-weighted sales
- 2013 - 100% sales

In closing, the volatility of the corporate income tax revenue to the Commonwealth from the manufacturing industry is immense. The fundamental health of this industry is in jeopardy with the future job losses projected at over 40,000 and we have already seen over 4,000 lost this year alone!

The state has to share in the risk of doing everything within its power to make the Commonwealth the most attractive place in the U.S. to consolidate, retain and expand world-class manufacturing. The opponents of this bill are correct in their assumption, it is not a silver bullet, but it is one important step forward in preserving what we have and investing in the jobs of the future.

In fact, I believe the state of the economy has heightened the need for Virginia to implement this change now. As other states are actively addressing measures to stimulate job creation for economic recovery, additional states are making decisions to implement SSF. Virginia cannot afford to be the last in line, putting jobs at risk.

The "Virginia SSF Hybrid Model" may not be the perfect solution, but it is a solution! I think that these ideas are equitable, performance-based and low-cost or no cost. If we do nothing to help stimulate this economy and this sector, we have far more to lose than if we passed this bill. I will do my best to get the industry half way; I hope that you can make the leap with me. I look forward to your thoughts and input as we finalize our work.

