

HJR 177/SJR 101 - Joint Subcommittee studying Benefits of Adopting a Single Sales Factor for Corporate Income Tax Purposes

(<http://dls.virginia.gov/ssf.htm>)

November 17, 2008

Opening Remarks

Co-chair Walter Stosch presided over the final meeting, which was held in Richmond, of the joint subcommittee studying the benefits of adopting a single sales factor for corporate income tax purposes. He began by thanking everyone for the presentations that had been made and for the ongoing interest in the topic. He reminded everyone it was the final meeting and that he was looking forward to the ideas and discussion to follow. The senator then asked Mark Vucci, staff to the study, to review for the joint subcommittee questions that need to be considered with regard to the single sales factor formula.

Single Sales Factor Considerations

Mr. Vucci provided the joint subcommittee the following questions to consider:

- To whom should it apply? All corporations or only manufacturers?
- Who is a manufacturer?
- If adopted, should there be a delayed effective date?
- If adopted, should it be conditioned on job growth, capital investment or other economic performance measure?
- If it is not adopted, should a grant program be established to reward manufacturers that increase/retain employees or make capital investments? (If yes, what is the grant amount and which year is the baseline?)

Joint Subcommittee Members' Suggestions

Delegate Albert Pollard--

Prior to the meeting, Delegate Pollard had distributed a memorandum in which he shared his thoughts on the topic. He began by saying it should not be a question of whether something needs to be done to aid business and manufacturing in Virginia but rather what should be done. He then expressed concern about the lack of performance numbers associated with the tax relief provided by the adoption of the single sales factor formula and suggested that some relief with regard to the machinery and tools tax may be a better way to help more businesses. Next, he suggested conformity with the Federal Code regarding bonus depreciation which would offer immediate tax relief for companies making investments in Virginia. The memorandum concluded with the following statement:

"In summary, Virginia needs to maintain a tax code that is business friendly and encourages the core economic activity of manufacturing and intellectual property investments. Given unlimited resources, changing to a Single Sales Factor Formula would have beneficial impacts in that regard. However, since we do not have unlimited resources, I am strongly inclined to look at other sources of tax relief which would have equal relief for companies but would likely have far greater positive economic benefits for the Commonwealth."

Delegate Kathy Byron--

Co-chair Byron had also sent out a memorandum before the meeting in which she proposed a "Virginia Single Sales Factor Hybrid Model." Its major components are as follows:

- Optional and for manufacturers only
- Require companies to elect SSF for a "minimum stay" of two years
- Require "performance assurance" from manufacturers through wage certification
- Phase in over four years beginning in 2010 (2010 and 2011 - 3 factor formula with triple-weighted sales; 2012 - 3 factor formula with quadruple-weighted sales; and 2013 and thereafter - 100% sales).

Subcommittee Members' Comments

In general, most of the subcommittee members favored the adoption of a single sales factor formula. Many think the tax liability on manufacturers is inequitable and the single sales factor would alleviate that. Those companies that are headquartered in Virginia are hit particularly hard when they have lots of property and payroll here. It was suggested that while the single sales factor may not completely save all the manufacturing jobs, it will help slow the rate of loss of those jobs. Another member believes adopting the single sales factor will not result in a revenue loss but will actually increase revenues over a five to ten year period.

Some members were not convinced that the single sales factor will produce the economic benefit that everyone desires and therefore prefer more targeted economic development initiatives. Concern was also expressed about the current economy and having no way of knowing when it might improve.

There was some discussion concerning whether the entire corporate income tax needed to be examined rather than this small segment of it. There was a suggestion that either a JLARC study or a joint subcommittee study would be the way to undertake such an examination.

Options Discussed

The options for action discussed can be summarized as follows:

1. Recommend the entire corporate income tax structure be studied;
2. Look at other tax relief for business (machinery & tools; BPOL);
3. Use the money some other way to help business (credits; grants);
4. Hybrid Single Sales Factor; and
5. Protect businesses headquartered in Virginia.

Recommendation of the Joint Subcommittee

After much discussion, a majority of the joint subcommittee agreed to recommend the adoption of Co-chair Byron's proposal for the Virginia Single Sales Factor Hybrid. They also agreed that other areas of business needed to be evaluated over time.