VIRGINIA MANUFACTURING DEVELOPMENT COMMISSION

Executive Summary of the 2013 Interim Activity and Work of the Virginia Manufacturing Development Commission

Pursuant to the powers and duties authorized under § 30-276 of the Code of Virginia, the Manufacturing Development Commission held five meetings during the 2013 interim.

Tax Restructuring

The main focus of the Commission in 2013 was a study of potential changes to Virginia's tax code with the aim of promoting job growth and economic expansion. House Joint Resolution No. 755 (2013) called for the Virginia Municipal League, the Virginia Association of Counties, the Manufacturing Development Commission, and the Small Business Commission to evaluate and develop a plan for a major tax restructuring that would provide for the elimination of Virginia's local business, professional, and occupational license (BPOL), machinery and tools, and merchants' capital taxes. While House Joint Resolution No. 755 did not pass, the subject matter it encompassed was subsequently referred to the Manufacturing Development and Small Business Commissions for study. House Joint Resolution No. 755 included three charges: (i) evaluate the Thomas Jefferson Institute for Public Policy's Virginia State Tax Analysis Modeling Program (STAMP), (ii) evaluate lowering and broadening the state sales tax, eliminating lower personal income tax brackets, eliminating the BPOL, machinery and tools, and merchants' capital taxes and consider other tax restructuring plans to accomplish these ends, and (iii) ensure that any proposed restructuring plan would be mutually beneficial to small businesses, the manufacturing sector, local government, and the Commonwealth. Senator Frank W. Wagner served as chairman for the joint meetings of the Commission and Senator Frank M. Ruff, Jr. served as vice chairman.

The Commissions learned that local revenues continue to decline in part due to the fall in real property taxes. With regard to local business taxes, for fiscal year 2012 on a statewide basis the BPOL tax generated $683.4 million, the machinery and tools tax generated $204.6 million, and the merchants' capital tax generated $11.4 million. There was general agreement that any tax restructuring would have to include as an element one or more replacement sources of revenue for these three local taxes.

The Commissions studied the results from the Thomas Jefferson Institute for Public Policy's STAMP model, which is a dynamic model that forecasts changes in employment, capital investment, and economic growth that result from changes in a state's mix of taxes. In undertaking its study, the Thomas Jefferson Institute had as central objectives (i) establishing a more fair tax structure, (ii) eliminating "job-killing" taxes, and (iii) encouraging economic growth. In general, the Institute's modeling constants centered on three major policy initiatives, reducing Virginia's personal income taxes; eliminating the local BPOL, machinery and tools, and merchants' capital taxes; and broadening Virginia's retail sales tax to include services. The additional revenues generated from broadening the retail sales tax base would be collected by the Commonwealth and returned to localities monthly to replace the revenues foregone from the elimination of the local BPOL, machinery and tools, and merchants' capital taxes.

One scenario modeled by the Thomas Jefferson Institute for Public Policy would eliminate Virginia's 2 percent and 3 percent individual income tax brackets, reduce the tax rate on individual income between $5,000 and $17,000 from 5 percent to 4.55 percent, reduce the tax rate on individual income in excess of $17,000 from 5.75 percent to 5 percent, and extend Virginia's retail sales tax to services excluding health care related services and business-to-business sales of services. Under this scenario the STAMP model forecasted the creation of 79,000 jobs, $287 million in new capital investment, and an increase of $2.85 billion in real disposable income and $8.4 billion in real gross domestic product. However, the Commonwealth Institute for Fiscal Analysis expressed concern that the STAMP model's additional revenue and job growth projections are too positive and localities are heavily reliant on the BPOL, machinery and tools, and merchants' capital taxes. The Commonwealth Institute for Fiscal Analysis also suggested it would not be politically viable to extend the retail sales tax to certain services.

The joint Commissions also heard testimony with regard to the 2013 tax restructuring enacted by the North Carolina General Assembly. The objectives/end results of the tax restructuring were the broadening of the corporate and individual income tax bases through the repeal of many income tax preferences, lower corporate and individual income tax rates, the broadening of the retail sales tax base through the extension of the retail sales tax to selected services, a reduction in overall individual income and corporate income taxes paid and an increase in overall retail sales taxes paid, the repeal of the estate tax, and tax simplification.

The North Carolina Fiscal Research Division estimated the net revenue impact of the tax restructuring at ($2.4) billion for the five-year period between Fiscal Year 2014 and Fiscal Year 2018. The state's corporate income tax revenues are expected to decrease by a total of ($1.3) billion over the five-year period while individual income tax revenues are expected to decrease by a total of ($2.2) billion. Finally, North Carolina's revenues from its retail sales tax are expected to increase by a total of $1.9 billion over the five years.

Standards of Learning

During the interim the Commissions were also provided an update on career and technical education in the Commonwealth. Statewide over 50,000 students are coming out of high school with some type of industrial certification. Virginia has 10 Regional

Education Centers that focus on career and technical education. Career and technical education courses are driven by industry needs, and, therefore, course subject matter changes on average every 3 to 5 years. Annually, 50 to 70 career and technical education courses are updated. Currently, beginning with 8th grade and at the end of the 9th, 10th, and 11th grades, students must participate in an exercise to identify a prospective academic or career path plan. Beginning with the 2013-2014 academic year and starting with 9th grade classes, students pursuing a Standard Diploma must have some kind of career credential in order to graduate.

First-time ninth graders pursuing a Standard Diploma must earn the following number of verified credits in: English (2), Mathematics (1), Laboratory Science (1), History and Social Sciences (1), and Student Selected Test (1). For the Student Selected Test verified credit, students may utilize additional tests for earning verified credit (SOL alternative) in computer science, technology, career and technical education, economics or other areas as prescribed by the Board of Education. In addition, students who complete a career and technical education program sequence and are conferred with a certification or an occupational competency credential from a recognized industry, or trade or professional association, or who acquire a professional license in a career and technical education field from the Commonwealth may substitute the certification, competency credential, or license for (a) the Student Selected verified credit and (b) either a Science or History and Social Sciences verified credit when the certification, license, or credential confers more than one verified credit.

Legislation

The joint Commissions did not endorse any specific legislative proposals for the 2014 Session of the General Assembly. This was primarily because it was felt more time was needed to study the issues and materials presented in 2013.