

Virginia State and Local Taxes on Manufacturers

Preliminary Study Results

A Multi-Phase Study Prepared for the Virginia Manufacturers Association

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Industry's Advocate

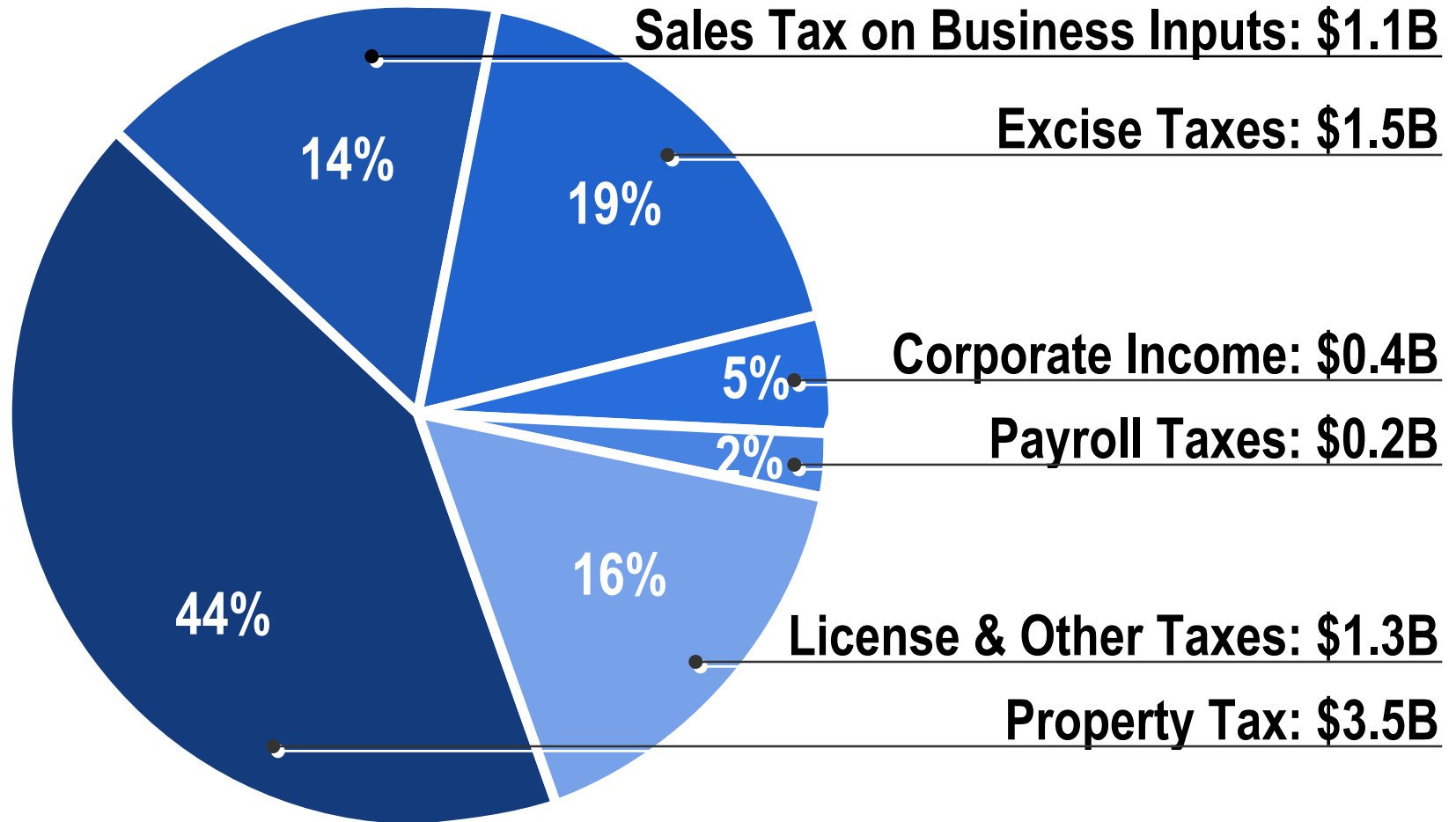
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Virginia General Business Taxes, FY2003

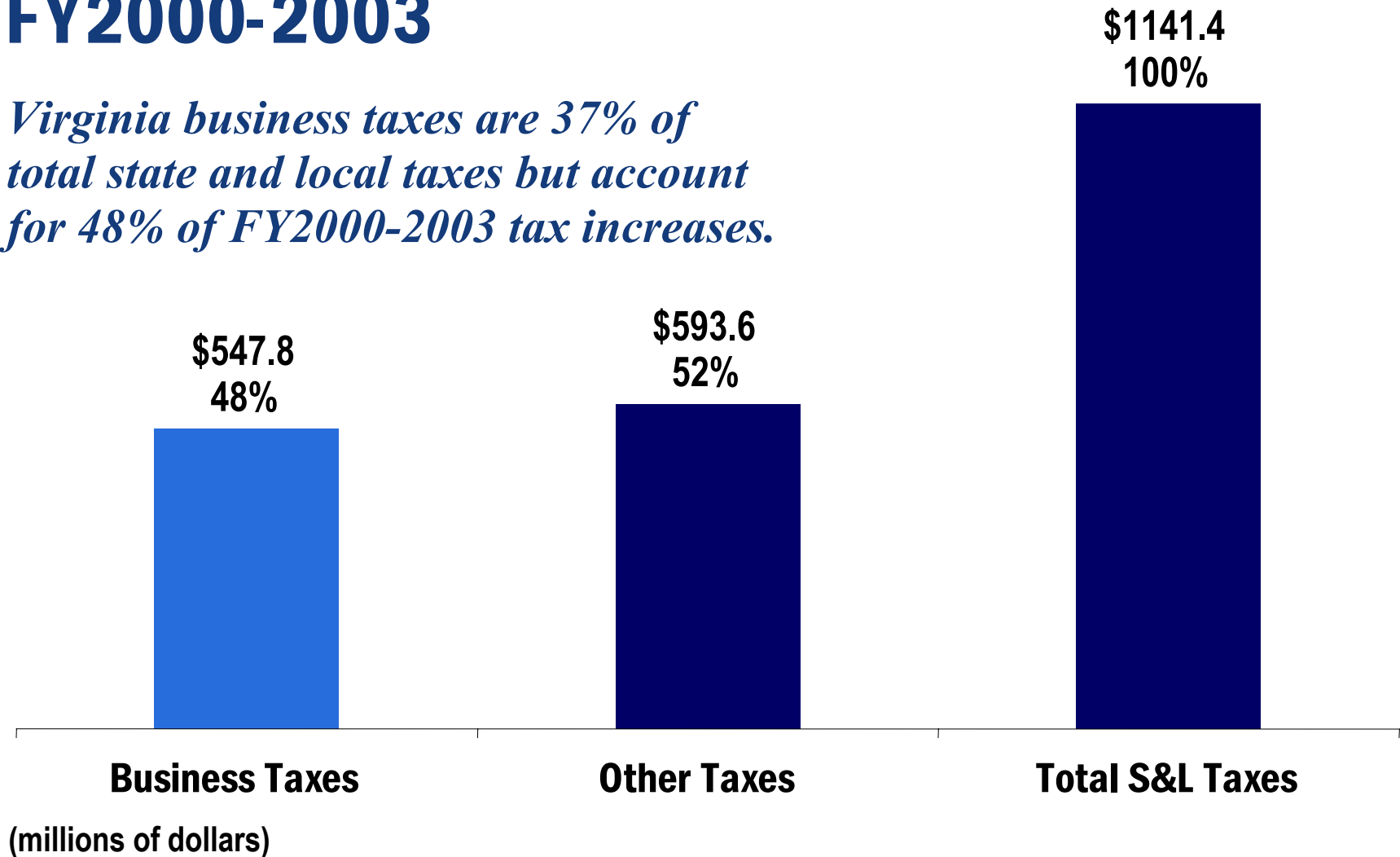
- **Businesses paid \$8.0 billion** in Virginia state and local taxes in FY03, 37% of total state and local taxes.
- **State and local taxes include:** property taxes, sales and excise taxes on business inputs, corporate income and franchise, gross receipts (utility consumption, insurance, BPOL) and payroll taxes.
- **Estimates do not include:** withholding taxes, sales taxes on final sales of goods and services, or taxes paid on pass-through business income.
- **Property taxes** account for 44% of state and local business taxes, corporate income taxes account for 5%.

Distribution of VA Business Taxes – \$8.0b



Business Share of VA Tax Increases: FY2000-2003

Virginia business taxes are 37% of total state and local taxes but account for 48% of FY2000-2003 tax increases.

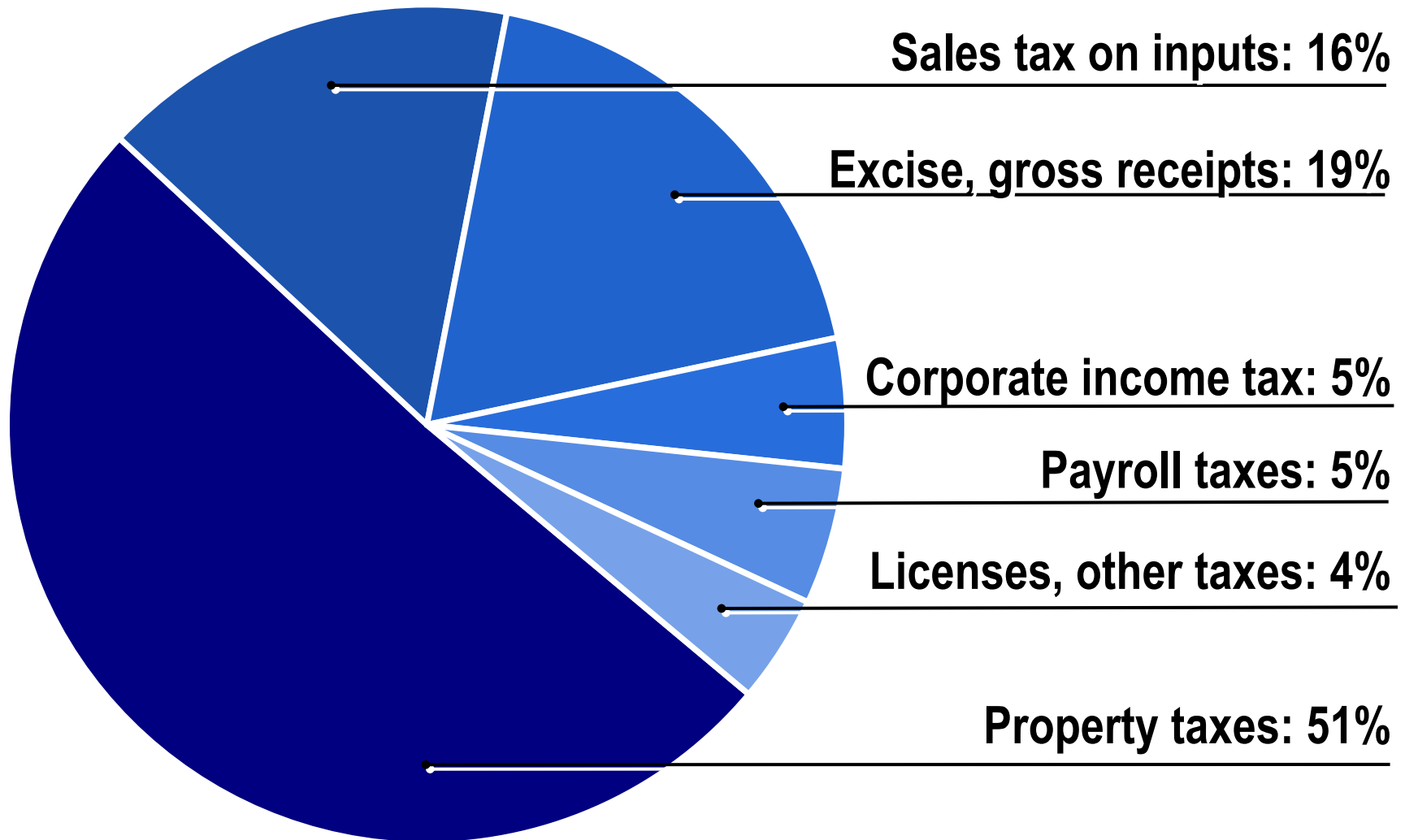


VA State & Local Tax on Manufacturers, FY2003

Virginia Tax	Durable	Non-Durable	Total
Property tax	\$172.3	\$273.7	\$446.0
Sales tax on inputs	71.9	68.5	140.4
Excise, gross receipts tax	66.8	97.3	164.1
Corporate income	15.1	29.6	44.7
Payroll tax	23.6	20.8	44.4
License and other	11.2	26.2	37.4
Total Business Tax	\$360.9	\$516.1	\$877.0

(millions of dollars)

Composition of Tax Paid by VA Manufacturers



The Regional Manufacturing Industry

The table below presents industry employment by state to illustrate the relative size of Virginia's manufacturing industry.

Industry	AL	GA	KY	NC	SC	VA
Non-Durable Manufacturing	169,766	257,830	103,482	313,560	145,460	141,700
Chemicals, Pharmaceuticals	750	2,742	375	14,042	3,526	3,377
Food Manufacturing	38,491	73,487	28,387	54,280	18,539	39,320
Tobacco Manufacturing	-	-	2,329	14,359	-	8,269
Durable Manufacturing,	170,247	208,839	170,097	308,702	138,441	174,089
Lumber, Pulp, Paper	59,547	76,536	32,095	69,144	33,155	47,798
Transportation Equip.	29,928	49,024	44,032	37,431	25,752	41,828
Total Manufacturing	340,013	466,669	273,579	622,262	283,901	315,789

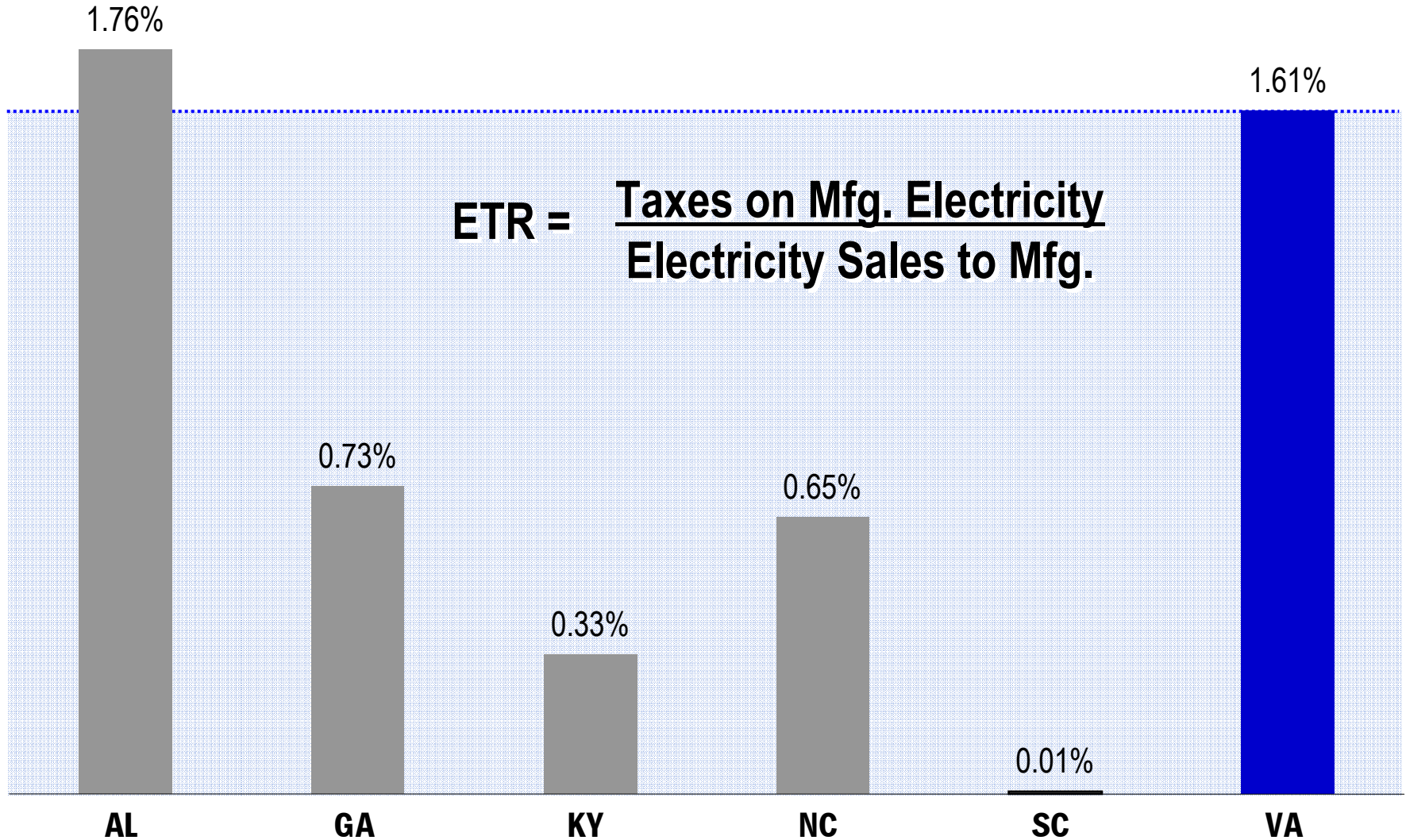
2003 Fees – Relative to Corporate Income Tax

Virginia fees are a significant manufacturing business cost. If these fees were added to corporate income taxes paid by manufacturing corporations, they would represent a 29% increase in the tax rate.

State	Estimated Permit Fees*	Effective Increase
Alabama	\$8.8	18%
Georgia	17.7	20%
Kentucky	1.6	1%
North Carolina	14.4	8%
S. Carolina	4.7	19%
Virginia	\$12.9	29%

*paid by manufacturers (millions of dollars)

2003 ETR on Manufacturer's Electricity



VA's 2004 General Business Tax Changes

VA blended tax reform (increased reliance on consumption taxes) with the need to address short-run budget deficits and longer-run structural deficits (the car tax problem).

- **Tax legislation increased taxes by \$500 million a year**, concentrated on consumption: sales tax rate increase of one-half percent and cigarette tax increase. Business pays 35% (\$140m/yr.) of sales tax increase – manufacturers pay about **\$26 million/yr.**
- **Disallowance of deductions** for intangible expenses and interest paid to related companies -- **\$22 million/yr** paid by manufacturers.
- **Increased sales tax on business inputs** from loss of exemption for TPP purchased by public service companies (combined with sales tax surcharge on utilities sales) **–\$47 million/yr.**
- **Non-statutory business tax increases** are projected to replenish the Unemployment trust fund – the current state forecast shows required contributions will triple by 2006, \$180 in FY2004 and a **\$400 million increase over three years.**

2004 business tax increases total \$389 million