



Review of Virginia's Corporate Income Tax System

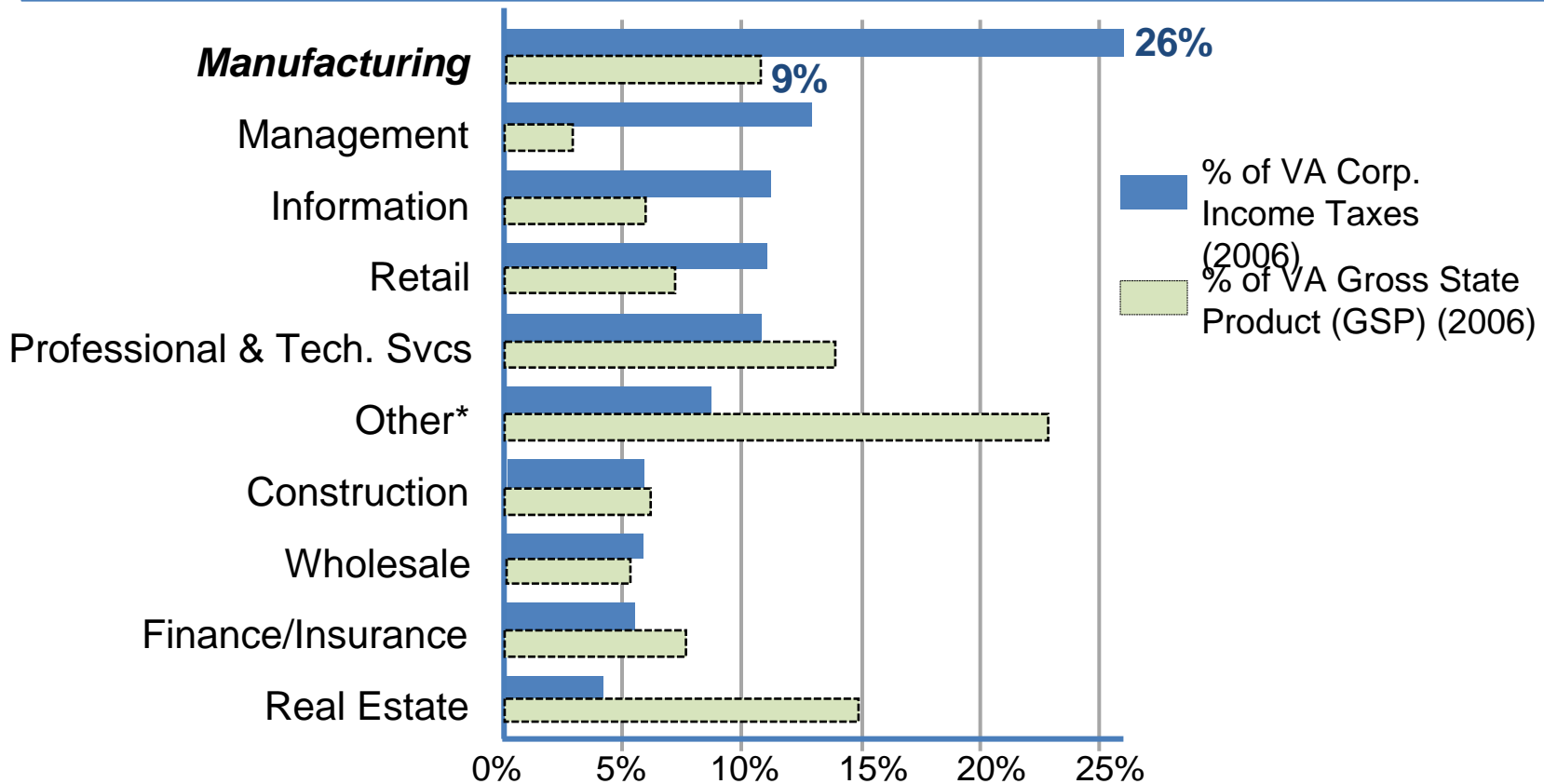
Manufacturing Development Commission

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Key Findings

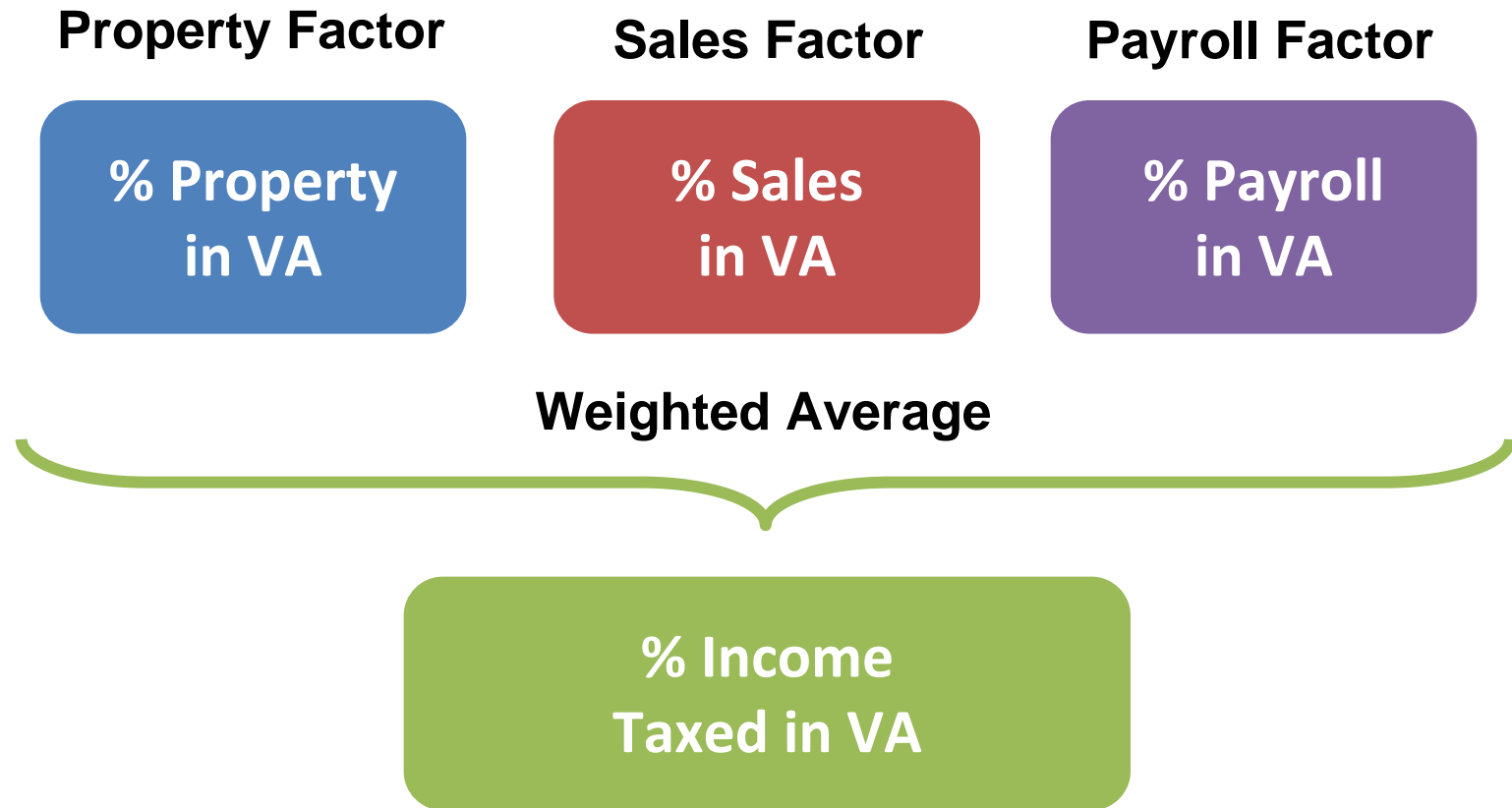
- VA corporate income tax (CIT) largely consistent with other states
- CIT generally has limited impact on economic development, but can differentiate comparable states
- Several targeted changes could be made to improve CIT system and address stakeholder concerns
- Major restructuring options exist but may not be warranted

Industry Share of VA CIT Often Differs From Share of GSP



Other*: Transportation, Administrative/Waste Svcs., Health Care/Social Svcs., Utilities, Accommodations/Food, Mining, Educational Svcs., Arts & Entertainment, Forestry/Fishing.

Share of Income Taxed in VA Can Vary by Industry Based on Property/Payroll Intensity



Single Sales Factor Available to VA Manufacturers Starting in 2011

- Goal: slow job losses (23% reduction between 1989-2007)
- Penalties imposed if employment declines, unlike other states
 - Applied to entire tax benefit of using SSF, even for small job losses
 - Benefits only manufacturers that expand or maintain job level
- Incompatible with declining industry
- Unlikely to be used due to uncertainty

Option: prorate SSF penalties based on size of employment decrease (similar to Coalfield Employment Enhancement Credit)

Use of Single Sales Factor Method Optional in VA

- Designed to avoid any increase in tax liability
- Complicates filing for State and corporations
 - Must calculate tax liability using 2 methods
- Use is mandatory in most states (17 of 20)
- More costly to the State than mandatory use (+\$33M in 2006)

Option: make use of single sales factor method mandatory

VA Offers Numerous Corporate Income Tax Credits

- Many aimed at creating jobs
- VA credits often limited compared to competitor states
 - Jobs tax credit less generous
 - No R&D or capital investment tax credit

Options: (1) increase amount of certain economic development tax credits (major business facility, worker retraining)

(2) offer R&D and/or capital investment tax credit

(3) make credits refundable