



News Release
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For Immediate Release
March 17, 2010

Legislature Fixes Budget Deficit Without a Tax Increase?
~Virginia Domestic Production Coalition Appeals to Governor McDonnell for Relief ~

RICHMOND, VA – The General Assembly adjourned the 2010 Regular Session on Sunday (March 14, 2010) after only a one day extension. Budget Conferees and House Leadership claimed victory with a vote on HB 30 that passed the House 73-23 and the Senate 34-6. The adopted budget closed the \$4.2 billion revenue shortfall facing the Commonwealth. Unfortunately, buried deep in HB 30 is an [income tax increase on industrial businesses valued at an estimated \\$10 million in 2010, \\$20 million in 2011, \\$20 million in 2012, \\$25 million in 2013 and \\$30 million in 2014](#) and each year after.

Businesses affected by this tax increase will be in manufacturing, construction, engineering or architectural services, software development, mining, film production and similar industries. The income tax increase will apply to C corporations, S corporations, partnerships and individuals. The VMA estimates that this income tax increase will cost 6,400 Virginia jobs over the biennium.

David Gum, President & CEO, National Fruit Product Co., stated, “To pay any tax increase, I will have to take money from my capital budget, which will delay my ability to reinvest in my facility, secure jobs and compete during this economic recovery.”

HB 30 freezes the Section 199 Domestic Production Deduction (DPD) for qualified income at 2/3 of the Federal allowance in 2010 for purposes of conforming to the Internal Revenue Code (IRC). The effect of this language is to freeze the DPD at 6% for 2010 only. The DPD has been Virginia law since 2005 when Congress enacted the tax statute to remedy a World Trade Organization dispute regarding extraterritorial income taxation for domestic companies. The intent of the DPD is to keep domestic production activities in this country and make [U.S. industry more competitive against OECD trading partners](#), where U.S. companies pay the second highest income tax among the competing countries. A point of contention is that the DPD was scheduled to increase to 9% in 2010; therefore, some have argued that the 2/3 allowable deduction in 2010, as proscribed in HB 30, does not technically represent a tax increase in tax year 2010 only.

Unfortunately, the HB 30 does increase the income tax on domestic industrial businesses for qualified domestic production activities by 3% in 2010, 6% in each year 2011-2012, 7.5% in 2013 and 9% in 2014 and beyond. **The Virginia Manufacturers Association's Board voted today to request the Governor to outright reject codifying any income tax change beyond this biennium budget, thus, strike the 2013-2014 year language in its entirety.** The VMA Board acknowledged that the financial challenges of the industry are also being experienced by governments at all levels. **The VMA Board also voted to request restoration of the Section 199 DPD at least at current levels through 2012 with full restoration in the next biennium.**

If one were to calculate the tax increase against the IRC 9% deduction for only 2010-2012, the estimated total tax increase is valued at \$75 million.

The public policy decision involved in this income tax increase also expands beyond the tax itself. How will Virginia continue to rank as the “#1 State for Business” when it fails to pass IRC conformity legislation entirely, so it imbeds an income tax increase in a budget bill where little debate or sunshine will ever reach the issue? One has to remember that SB 545, which restored the full Section 199 DPD, passed the Senate 40-0 and HB 614 passed the House Finance Committee 19-1, but both bills were bottled up in the House Appropriations Committee and never acted upon. This action alone represents for many the fiscal maneuvering in Washington, D.C. today that is inspiring a grass roots reaction to Congressional actions across this country. Companies, partnerships and individuals that depend upon the DPD and stable tax policies to create and retain jobs will have diminished trust in Virginia if this measure passes, and it will hurt the Commonwealth's reputation in economic development.

Peter Harris, President & CEO, Cadence, commented, “Our company manufactures world-class medical devices and cutting components.” Harris went on to say, “Virginia should invest appropriately in its economic development programs, but not at the expense of taxing its existing advanced technology businesses.”

The VMA and the “Virginia Domestic Production Coalition” will appeal to Governor McDonnell to help maintain Virginia's competitiveness, support domestic production jobs, and not raise income taxes on Virginia industry.