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Governor McDonnell Proposes to Reinstate Section 199 Domestic Production Deduction

VMA applauds Governor's leadership

RICHMOND, VA - Governor Bob McDonnell announced yesterday that he has proposed an amendment to the biennial budget passed by the General Assembly to reinstate an important tax deduction for Virginia employers. Virginia law previously allowed companies to claim the federal Internal Revenue Code (IRC) Section 199 Domestic Production Activity Deduction (DPD). 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. The 2010 General Assembly proposed to gradually phase out the deduction by 2014 in the budget legislation passed on March 14. The elimination of the deduction would result in an estimated \$30 million tax increase on Virginia employers annually.

Speaking about the amendment to keep the deduction in place the Governor noted, "We must take every step possible to keep employers in Virginia. States that allow businesses to take a Domestic Production Activity Deduction gain a major advantage over competitors both here and abroad. Many states have chosen not to allow job-creators to take this deduction; Virginia should not be one of them. I am asking the General Assembly to agree to our amendment allowing deductions of up to 6% of income attributable to domestic production activities. This is a pro-job creation amendment that will help keep employers in the Commonwealth, encourage businesses to locate in Virginia and give us a further advantage over other states."

The Virginia Manufacturers Association (VMA) formed the Virginia Domestic Production Coalition with other affected parties, including the Associated Builders and Contractors – Virginia Chapter, Virginia Chamber of Commerce, Virginia Coal Association, Virginia Homebuilders Association, Virginia Production Alliance and the Roanoke Regional Chamber of Commerce. Commenting on the Governor's proposal, Brett Vassey, VMA President & CEO, stated, "The Board of the VMA and the Virginia Domestic Production Coalition applaud the Governor's leadership in this area to ensure the companies in Virginia that domestic production and jobs are a priority for the Commonwealth."

VMA Chairman of the Board, David Moore of Universal Leaf Tobacco Company, stated "Predictability in tax policy is important to future investments in the Commonwealth, and we are most appreciative of the Governor's recognition of this fact."

In preparation for the April 21st veto session and the debate which will most likely surround the Governor's proposed budget amendments, the VMA and its allies continue efforts to gain support for this proposal to protect and preserve the Domestic Production Activity Deduction.