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THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

Governor's Corporate Tax Cut Will Have Little Impact

By Michael Thompson

1/27/2016 -- Governor McAuliffe has proposed a quarter of one percent cut in the corporate income tax rate (from 6% to 5.75%). This puny tax cut will have a minimal impact on economic growth. Indeed, it will only create 280 new jobs in five years. We find more new jobs coming to Virginia from reading the Governor's press releases over any ten day period of time.

Virginia's economic growth is one of the weakest in the country. A truly major effort is needed if we are to confront our future in a way that creates tens of thousands of new jobs – not 280.

North Carolina's economy is growing much more rapidly than Virginia's, and it is on the road to a 3% corporate tax rate. The Governor's proposed 5.75% corporate rate is not even close to competitive.

But what is key to our southern neighbor's economic competitiveness is that North Carolina has no BPOL (gross receipts) or Machine and Tool (M&T) tax. These two taxes, both of which we have in Virginia, are a much greater hindrance to economic growth than is the corporate income tax.

The Governor aggressively campaigned across Virginia two years ago telling business groups that he would eliminate the impact of the gross receipts tax and the Machine and Tool tax. He told anyone who would listen that these two taxes were a roadblock to true economic growth. Yet he does nothing to fulfill that promise while proposing what is, in actuality, a truly miniscule corporate tax reduction that will not improve our overall economic outlook.

The Thomas Jefferson Institute ran Governor McAuliffe's corporate tax cut proposal through our dynamic tax model. This unique State Tax and Modeling Program (STAMP) is a comprehensive model of the Virginia economy, designed to capture the principal effects of state tax changes. It has been vetted at legislative commission meetings and used in previous tax cut/tax increase debates in the General Assembly. This model is unique to Virginia and has credibility. And the results show that only 280 jobs will be created over the next 5 years as a consequence of this tax cut

The Governor's corporate tax cut of ¼ of one percent is not the way to grow our economy. Here are the facts:

- The cost of a ¼ of 1% corporate income tax cut is about $32 million a year or $64 million over a two year state budget.
- A total of only 280 jobs will be created from this proposed tax cut over five years.

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Yet, there is a plan, designed by the Jefferson Institute and supported by key employer groups in Virginia, that will create tens of thousands of net new jobs and this plan is revenue neutral to the state. This plan is well known by the Secretary of Finance and his staff and the Governor knows of this plan as well.

- The proposed Tax Restructuring idea is one that the Thomas Jefferson Institute has promoted with the Virginia Manufacturers Association, Virginia NFIB and the Virginia Retail Federation and is revenue neutral while creating tens of thousands of jobs over five years.
- This Tax Restructuring proposal eliminates the impact of the BPOL and M&T taxes while not effecting county/city budgets (the counties are kept "whole" with this plan), costs the state budget nothing since it is revenue neutral, and creates tens of thousands of jobs.
- This plan can reduce all income tax brackets by 17% or it can eliminate the bottom two (out of four) tax brackets and the final 2 ½ % tax on groceries while giving everyone else a 3% income tax cut while broadening the sales tax to items such as dry cleaning and haircuts, professional fees and movie tickets.
- The details can be found here: http://www.thomasjeffersoninst.org/?s=s&keywords=&l=8 – see the item at the top of that page.

We are told we must wean ourselves off our reliance on the federal government spending machine and grow our economy as other states are doing.

If true, long-term economic growth is the goal, then the Governor's minimal corporate income tax is not the answer. When compared to the true tax restructuring plan that the Jefferson Institute and three of the largest employer groups in the state have suggested and which can create tens of thousands of new jobs, the Governor's proposal that creates 280 jobs is meager at best.

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