

Virginia Gubernatorial Opponents Both Calling for Tax Credits

by Nicola M. White




Date: Oct. 28, 2009

Summary by **taxanalysts**[®]

Virginia gubernatorial candidates may differ on issues such as transportation and healthcare, but like many politicians on the campaign trail, Democrat Creigh Deeds and Republican Bob McDonnell share common ground when it comes to favoring job creation tax incentives.

Full Text Published by **taxanalysts**[®]

Virginia gubernatorial candidates may differ on issues such as transportation and healthcare, but like many politicians on the campaign trail, Democrat Creigh Deeds and Republican Bob McDonnell share common ground when it comes to favoring job creation tax incentives.

While critics may charge that economic development tax credits lead to dubious results at best, politicians still trot them out come campaign time to show they have clear-cut ideas on how to jump-start the economy. (For Part 1 of Tax Analysts' three-part series on states' use of tax credits, see *State Tax Notes*, Oct. 5, 2009, p. 11, [Doc 2009-21279 \[PDF\]](#), or [2009 STT 186-1](#) . For Part 2, see *State Tax Notes*, Oct. 5, 2009, p. 14, [Doc 2009-20989 \[PDF\]](#), or [2009 STT 187-1](#) . For Part 3, see *State Tax Notes*, Oct. 5, 2009, p. 16, [Doc 2009-21313 \[PDF\]](#), or [2009 STT 188-1](#) .)

It's easy to see why credits are popular, said Michael Cassidy, executive director of the Commonwealth Institute.

"The idea that if you cut taxes of any sort, it's going to be good for the economy seems to resonate a lot for voters," Cassidy told Tax Analysts. "Unfortunately, when you look at the evidence you start to see not all tax incentives are the same."

Both McDonnell and Deeds say they would offer tax credits to businesses that create jobs, although each candidate's plan differs. McDonnell would give a \$1,000 corporate income tax credit per job to an employer creating 50 or more jobs or 25 jobs in an economically depressed area. This program would be an expansion of the existing major business facility job tax credit, which currently offers \$1,000-per-job credits for businesses creating 50 or more jobs in a depressed area. Businesses in all other areas currently must create 100 or more jobs to qualify for the credit.

Deeds's incentive plan is significantly more generous. He wants to offer a credit for every new job that enters the economy, basing the credit on the employer share of the federal payroll tax. By Deeds's campaign estimate, 134,600 small businesses could qualify for the credits, which would vary based on the salary of the employee hired. A specific salary threshold hasn't been set yet, but Deeds would offer credits to employers that give "good" salaries, Deeds spokesman Mike Gehrke said.

"To get the economy going again, you need to create jobs. That's where Creigh Deeds has put the priority if he's elected," Gehrke said. "There is a cost to it; that's clear. If it's a choice between creating jobs and giving tax credits and not creating jobs, that's an easy choice."

In a chart examining the two candidates' proposals side by side, Deeds's campaign says that an employer offering a job with a \$30,000 salary would receive a \$2,295 tax credit, while a \$50,000 job would be offered

a \$3,825 credit. By contrast, McDonnell's plan offers a flat \$1,000 credit.

Deeds's credit program is clearly broader than McDonnell's. If the state provided a credit for every new job, it likely would cost significant money at a time when Virginia, like many states, is watching every dollar like a hawk.

McDonnell spokeswoman Crystal Cameron told Tax Analysts that expanding the major business facility job tax credit is a more sensible approach to spurring the economy than offering a credit for every job created.

"Bob feels that all incentives should be focused to achieve the best results for Virginia and keep us competitive with other states," Cameron said. "We can't simply take a shotgun approach that spends money without accountability."

In addition to changing the tax code, McDonnell wants to help the economy by approving routine business applications within 48 hours, enhancing the business one-stop Web site, updating and combining start-up guides, and making it easier for existing businesses in good standing to expand. He also supports the enterprise zone program and tax credits for green jobs, Cameron said.

Deeds too supports credits for green jobs and has proposed expanding the existing Solar Manufacturing Incentive Grant program to offer grants to all green-energy-related industries, according to his campaign.

In addition to those programs, Deeds wants to expand net operating loss carrybacks for small businesses and offer a small-business capital investment tax credit of up to 30 percent of qualified new capital purchases, according to his campaign. His campaign literature also promises tax credits for businesses that allow employees to telecommute -- a measure Deeds says will get cars off congested roads.

Transportation Proposals

Traffic congestion is the other major area of the campaign where taxes come into play.

McDonnell's allies have sharply criticized Deeds for saying he is open to new taxes as a way to fix Virginia's transportation woes. Deeds has not said which taxes could be raised, but has said he would convene a committee to examine all possibilities. At a time when voters are loath to endorse more taxes, some pundits say Deeds's transportation tax plan may be his campaign's downfall. But *The Washington Post* notes in its endorsement of Deeds that funding for transportation improvements has to come from somewhere.

"It is fantasy to think that the transportation funding problem, a generation in the making, will be addressed without a tax increase," the endorsement reads.

McDonnell doesn't think so, however. The former state attorney general wants to generate money for transportation needs through things like issuing bonds, privatizing the state's liquor stores, and exploring offshore oil drilling.

Such ideas may be too far-fetched to gain traction in the General Assembly, Cassidy said.

McDonnell's plan is "a pretty optimistic assumption, given that the state is likely to be in fiscal crisis for the next several years -- perhaps the entirety of his term," Cassidy said.

Outlook

Regardless of who wins, McDonnell or Deeds will face major budget challenges in the coming years, observers say.

If that is indeed the case, the conversations about offering tax credits and incentives to spur the economy may be a moot point, said Keith Cheatham, vice president of government affairs for the Virginia Chamber of

Commerce.

"We need to find the right things to do to create and retain jobs, and I wish it was as simple as providing a tax credit for creating a job -- but it's more involved than that. It's much more involved than that," Cheatham told Tax Analysts.

In 2007 and 2008, many tax credit ideas came before the General Assembly to try to help spur the economy. While lawmakers could have debated the merits of these types of programs, the conversation didn't get that far, Cheatham said.

"Most of them didn't see the light of day because there was no money in the state budget to provide those kind of things," he said.

The upcoming budget cycles are expected to be much worse.

"This is the reality of where we are today," Cheatham said.

Virginia and New Jersey are the only two states where there is a governor's race this year. (For coverage of the New Jersey race, see *State Tax Notes*, Oct. 12, 2009, p. 86, *Doc 2009-22114* [[PDF](#)], or *2009 STT 192-15*.)

Nicola M. White

nwhite@tax.org

 [Comment on this story](#)

Tax Analysts Information

Jurisdiction: Virginia

Subject Area: Corporate taxation

Credits

Incentives

Politics of taxation

Author: White, Nicola M.

Institutional Author: Tax Analysts

Tax Analysts Document Number: Doc 2009-23681

Tax Analysts Electronic Citation: 2009 STT 206-24

 [Use this link to bookmark or link to this document](#)