

COMPETING TO WIN: THE CASE FOR TAX CUTS IN VIRGINIA

January 2023



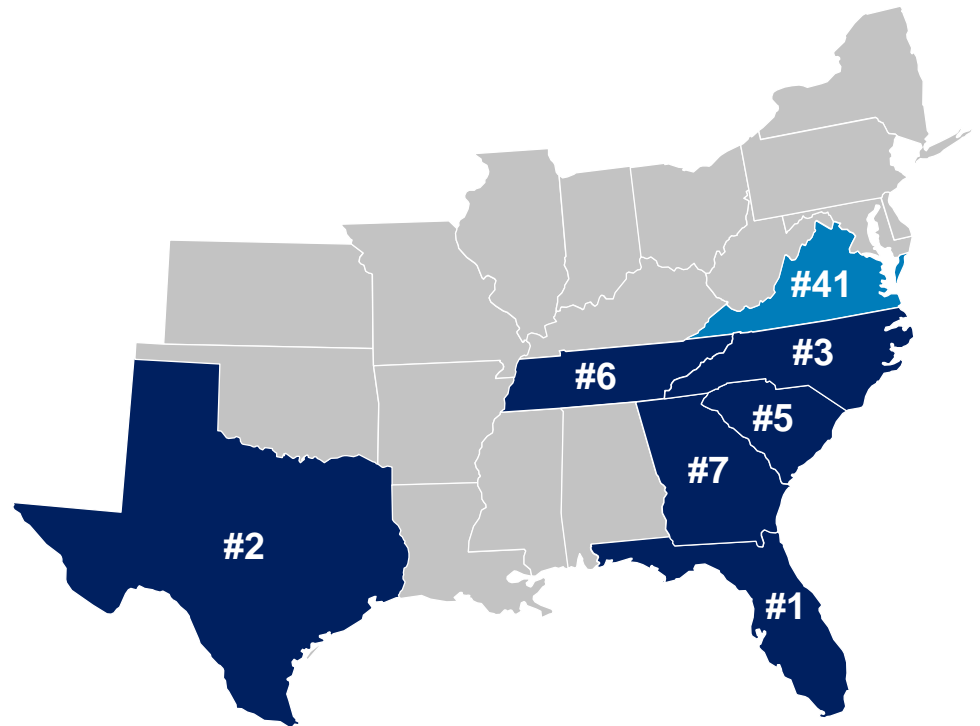
VIRGINIANS HAVE “VOTED WITH THEIR FEET”

VIRGINIA HAS SUFFERED NET DOMESTIC OUT-MIGRATION FOR NINE OF THE TEN LAST YEARS (TOTALING 132K+ RESIDENTS LOST)

Net domestic migration and national rankings
April 2020- July 2022

Net domestic migration national rankings
April 2020- July 2022

State	Migration	Rank	% of Pop.
Florida	622,476	1	1.6%
Texas	475,252	2	3.7%
North Carolina	211,867	3	6.8%
South Carolina	165,948	5	1.4%
Tennessee	146,403	6	3.4%
Georgia	128,089	7	2.2%
Virginia	(29,775)	41	-3.4%



Source: Census Bureau, Population Estimates Program

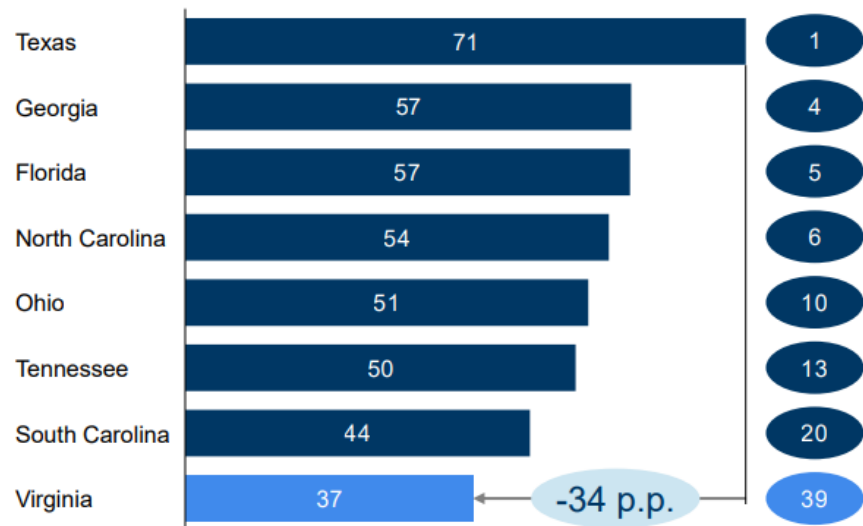
■ Virginia
 ■ Competitor States

Competitor states added over **+1.7M** residents since April of 2020. Meanwhile, Virginia experienced **-30K** of resident losses.

STUDENT LOSS: VIRGINIA RETAINS SIGNIFICANTLY FEWER GRADUATES EDUCATED IN OUR UNIVERSITIES

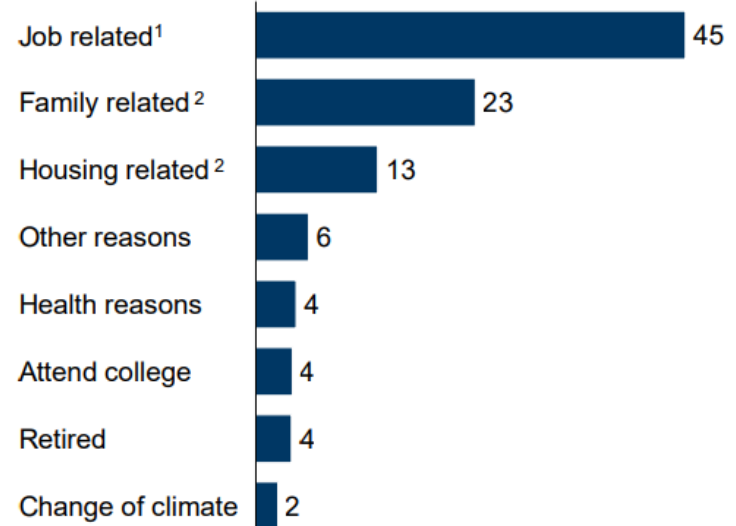
Virginia underperforms peer states in retaining graduates – with ~73k graduates leaving each year

Average retention rate of bachelor and advanced degree holders by peer state, 2015-2021, % of in-state graduates that stay in state one year after graduation *



Job, family, and housing are main drivers of out-of-state movers

Main reasons for moving to a different state 2015-2021, % of all movers out of Virginia



Almost two-thirds of graduates are leaving due to a lack of attractive job opportunities and housing.

*"In-state retention" represents all students who graduated from schools in a given state, and who were recorded to stay in the state post-graduation. "In-state" does not refer to whether a student attended an academic institution in which they have recorded residency.

1. Reasons that fall under the job-related category include new jobs, job transfers, looking for work, and easier commute

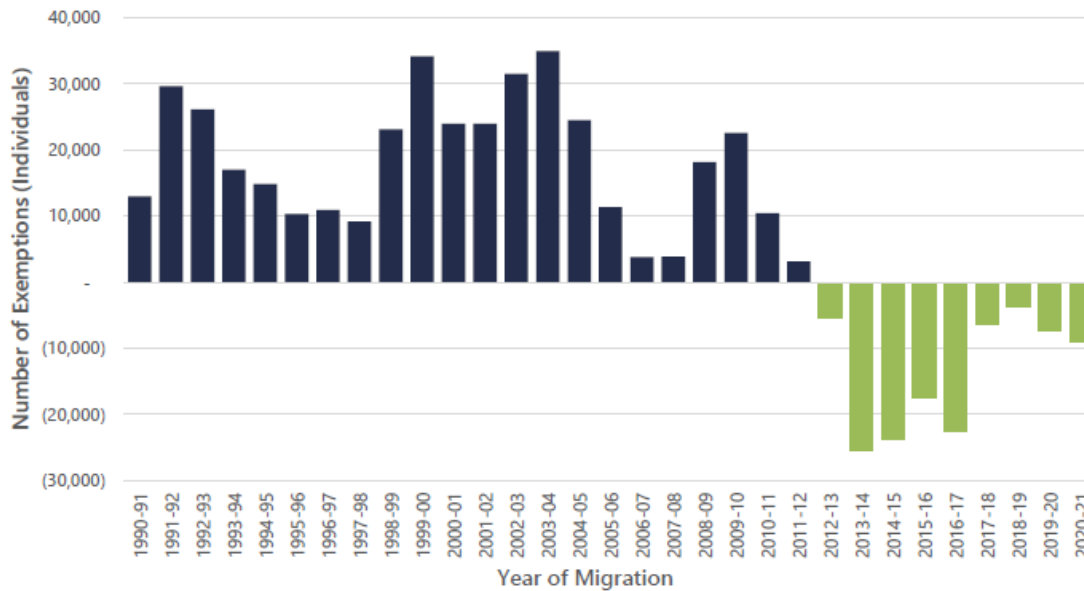
2. Reasons that fall under housing-related category include to establish own household, new/better housing, cheaper housing, to own instead of rent, and better neighborhood

3. Reasons that fall under family-related category include: change in marital status, to establish own household and other family reasons

Source: CPS ASEC, 2015-2021; Lightcast. McKinsey provided analysis.

WELDON COOPER CENTER FOR PUBLIC SERVICE PRESENTATION

The shift to out-migration has slowed Virginia's population growth



Virginia Net Migration

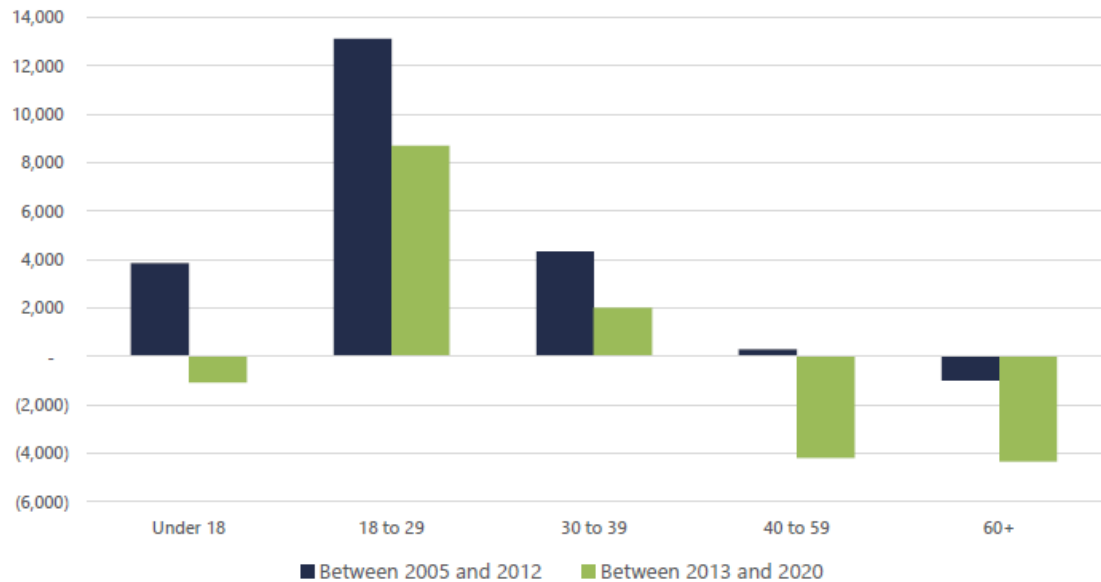
Before 2013, more people moved to Virginia from other states than out every year since the Second World War.

Virginia remains a gateway for new immigrants but older foreign born Virginians are increasingly leaving the commonwealth for other states.

Out-migration has slowed growth, causing Virginia to have 180,000 fewer residents in 2020 than would have been expected.

WELDON COOPER CENTER FOR PUBLIC SERVICE PRESENTATION (CONT'D)

More families with children and retirees are leaving Virginia



Average Annual Migration to Virginia by Age

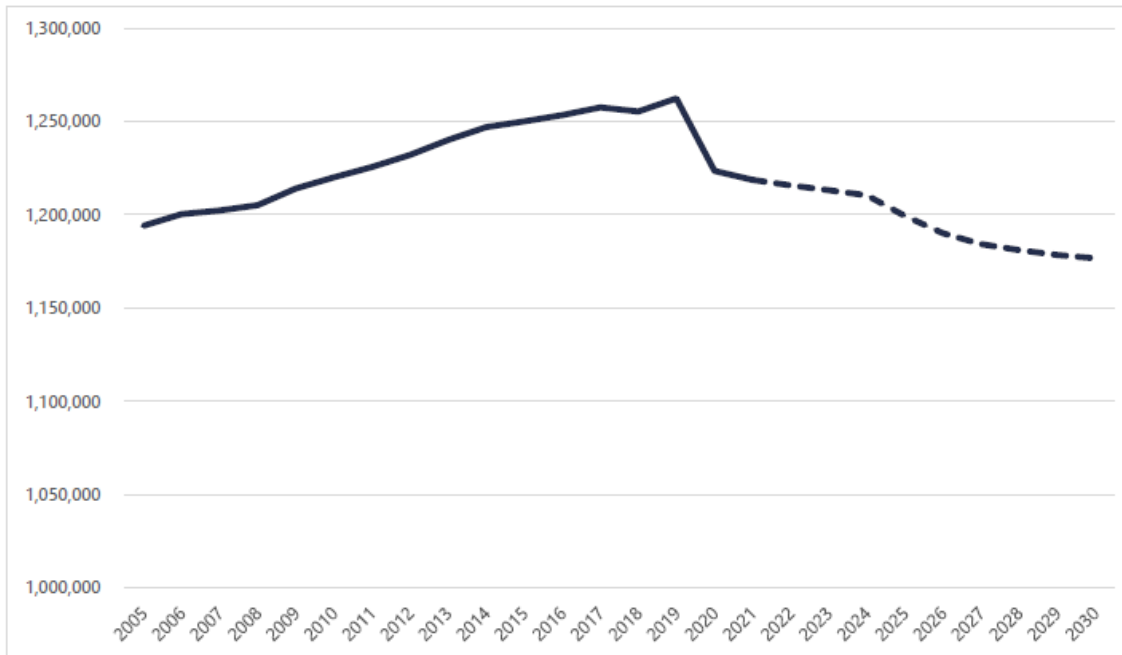
Virginia has experienced decline in in-migration across all age groups.

The largest decline in-migration was among the age 18 to 29 population, which is shrinking in Virginia.

Fewer young adults is causing Virginia's labor force to shrink and births to decline further.

WELDON COOPER CENTER FOR PUBLIC SERVICE PRESENTATION (CONT'D)

Virginia's public K-12 enrollment will decline during the 2020s



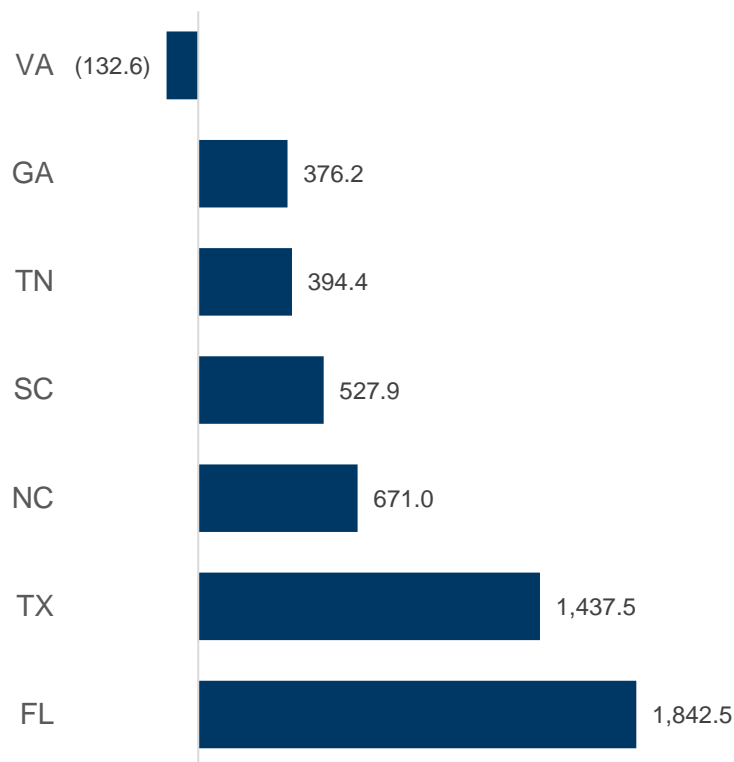
Virginia's public K-12 student enrollment grew every year between 1984 and 2018.

The pandemic caused enrollment to decrease by 45,000 students between 2019 and 2021.

As a result of pre-pandemic trends, Virginia's public school enrollment will likely decline by another 45,000 students.

NET DOMESTIC MIGRATION AND AGI LOSS: VIRGINIA IS LOSING PEOPLE AND TAXPAYERS

Cumulative net domestic migration VA vs. Peers
2013-2022 (000s)



Net Adjusted Gross Income inflow (outflow)
\$M, 2013 - 2020

State	2013 – 2020 (M\$)	Average 2013 - 2020 (M\$)	2020 (M\$)
Florida	112,146	16,020	23,677
Texas	27,509	3,929	6,346
North Carolina	17,635	2,519	3,644
South Carolina	16,989	2,427	3,585
Tennessee	10,600	1,514	2,642
Georgia	4,280	611	1,112
Virginia	(8,999)	(1,285)	(1,094)

Virginia Lost -\$9Bn in Resident Income while North Carolina Gained \$17.6Bn

Source: Census Bureau, Population Estimates Program (2013-2022). Internal Revenue Service, Statistics of Income Migration Data (2013-2020, latest available); VEDP analysis

RECOVERY SNAPSHOT & PROGRESS TO DATE

**(213K)
Fewer Jobs**

While all our peers had recovered or exceeded pre-pandemic employment by Jan-2022, Virginia had a 213K job deficit...

**19th
In Year-to-Date
Job Growth**

Since January, we've made progress closing the gap, with 85K more Virginians employed...

**128K
Jobs to Full
Recovery**

But we have more work to reach full recovery and the nation is lapping us. Virginia is ranked 45th in pandemic recovery.

EMPLOYMENT TRENDS OVER TIME (Jobs in 000s)

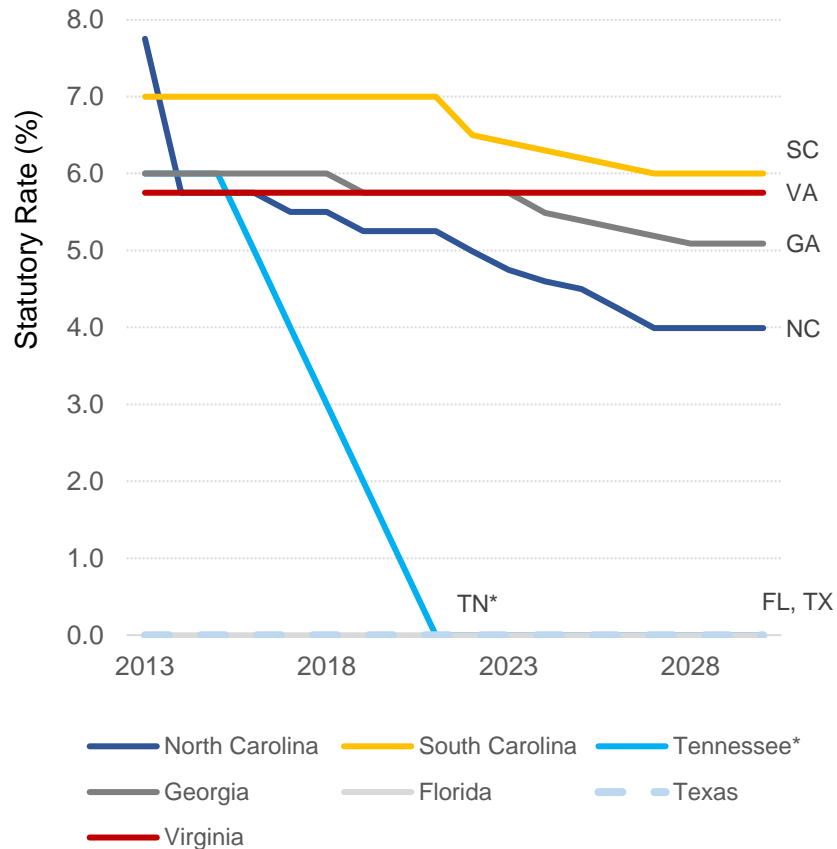
State	Pandemic Recovery			Year-to-Date Progress				Surplus / (Deficit)	
	Feb-20	Jan-22	% Recov.	Nov-22	Job Growth	% Growth	Rank	from Pandemic	Rank
South Carolina	2,249	2,292	102%	2,303	10.3	0.4%	#41	53	#12
Texas	13,466	13,646	101%	14,016	370.0	2.7%	#10	550	#7
Georgia	5,001	5,047	101%	5,106	58.8	1.2%	#31	105	#14
Florida	10,013	10,085	101%	10,476	391.3	3.9%	#3	464	#5
Tennessee	3,219	3,230	100%	3,228	(2.0)	-0.1%	#48	9	#24
North Carolina	4,833	4,810	100%	4,926	115.8	2.4%	#15	93	#15
Virginia	4,351	4,139	95%	4,224	85.2	2.1%	#19	(128)	#45

VIRGINIA TAX RATES HAVE STOOD STILL

WHILE COMPETITORS' RATES HAVE COME DOWN, CONTRIBUTING TO NET MIGRATION GAINS

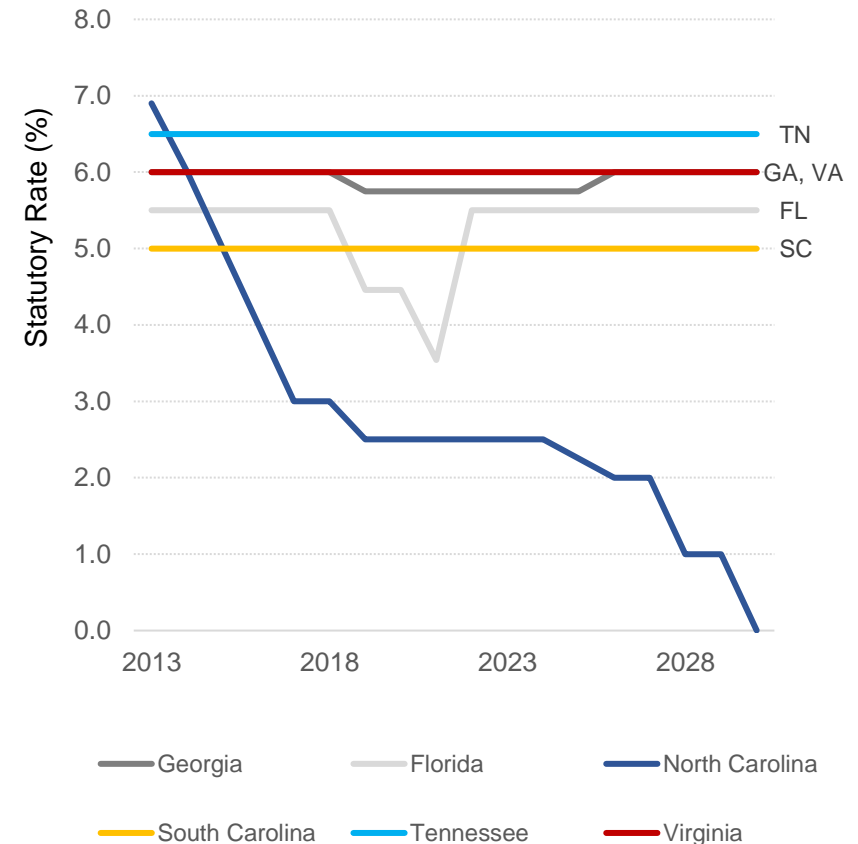
Individual Income Tax Rates*

All peer states are reducing tax rates



Corporate Income Tax Rates^

VA is second highest; four are at or below VA



Source: RIA Checkpoint; Department of Taxation staff research.

*Florida and Texas do not levy a personal income tax. Tennessee's Hall Income tax applied only to investment income and was phased out in 2021. ^Texas does not levy a corporate income tax and is excluded from this analysis. However, it does levy statewide gross receipts taxes of 0.375% on retail and wholesale firms, and of 0.75% on all other firms. The Tax Foundation 2013 Index records TX' corporate tax as 47th in the nation.

OVERVIEW OF PROPOSED TAX RELIEF

Tax Relief for Individuals

Relief for All:

- ✓ Further increases the standard deduction from \$8,000 (single) and \$16,000 (married/joint) to \$9,000 (single) and \$18,000 (married/joint) beginning in taxable year 2024.

Supporting Veterans:

- ✓ Removes the minimum age 55 requirement for claiming the military retirement income tax subtraction.

Lowering Rates for 86% of Virginia Taxpayers¹:

- ✓ Reduces the top marginal individual income tax rate from 5.75% to 5.5% beginning in taxable year 2024, contingent on revenue targets.

Tax Relief for Businesses

Relief for All:

- ✓ Increases the state income tax deduction for interest expense from 30% → 50% (of the amount disallowed at the federal level)

Supporting Small Business:

- ✓ Implements the Qualified Business Income deduction, allowing owners of sole proprietorships, partnerships, and S corporations to reduce taxable income.

Supporting Flagship Businesses & Recruiting Large Corporates:

- ✓ Reduces the corporate income tax rate from 6.0% to 5.0% effective with taxable years beginning on or after January 1, 2023.

Source: Virginia Department of Taxation. ¹ Represents the proportion of Virginia resident taxpayers who would otherwise have a tax liability that benefit from the proposed rate change.

2022-2023 TAX PACKAGE DELIVERS \$5BN OF TAXPAYER SAVINGS

RELIEF FOR INDIVIDUALS

\$4.2 billion (86% of total) directed to individuals

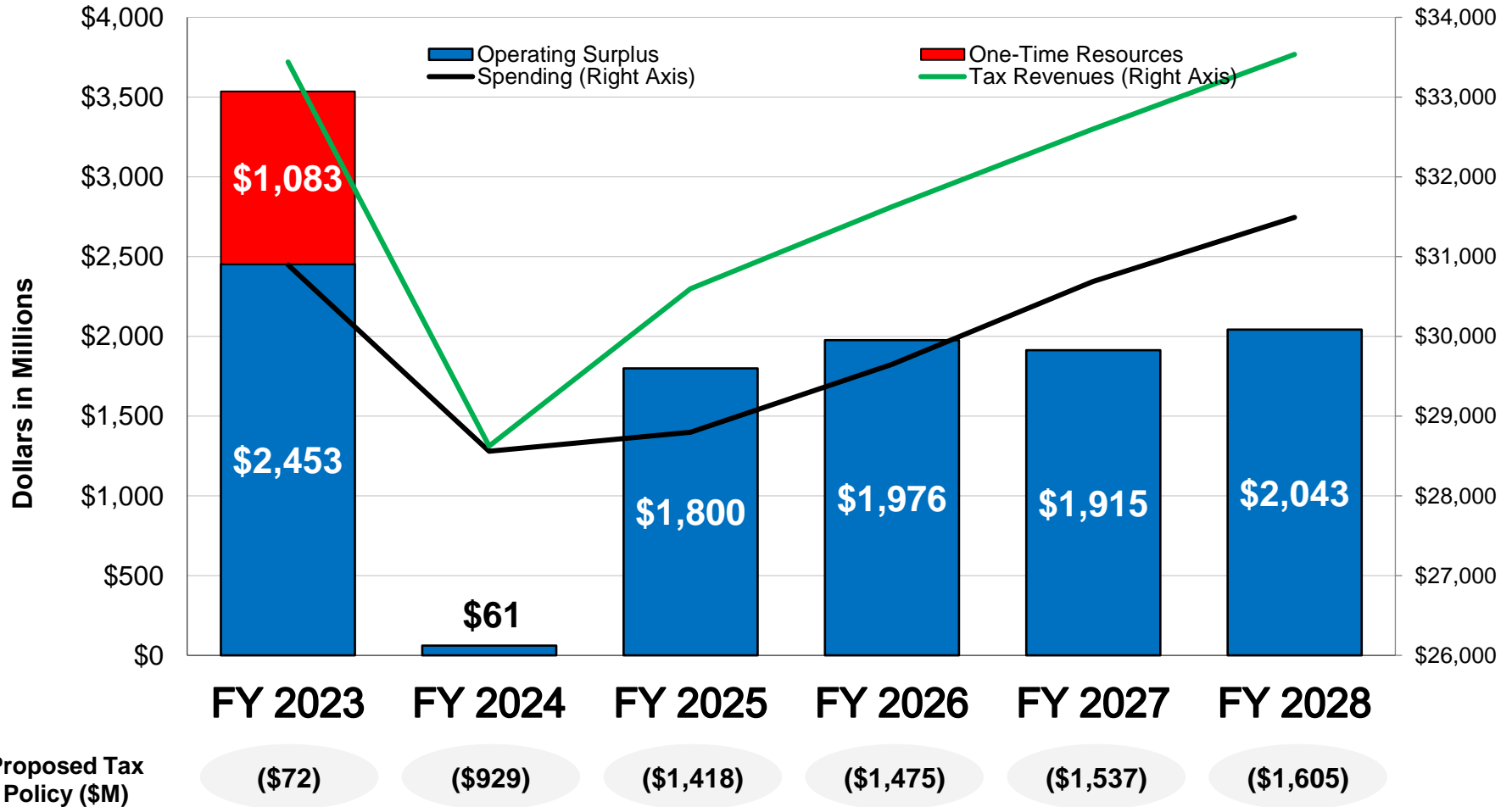
- \$3.9 billion (92% of total Individual relief) provides greater proportionate tax relief for lower income taxpayers
- Impact of tax rebate, state portion of grocery tax, doubling of the standard deduction and elimination of veterans' pension tax
 - ✓ **47,000** fewer Virginians will pay taxes
 - ✓ **152,000** veterans will enjoy significant increases in pension income if they stay in Virginia
- \$333 million (8% of total individual relief) for reduction of top rate
 - ✓ **86%** of Virginian taxpayers to benefit from top rate reduction

RELIEF FOR BUSINESSES

\$663 million (14% of total) directed to businesses

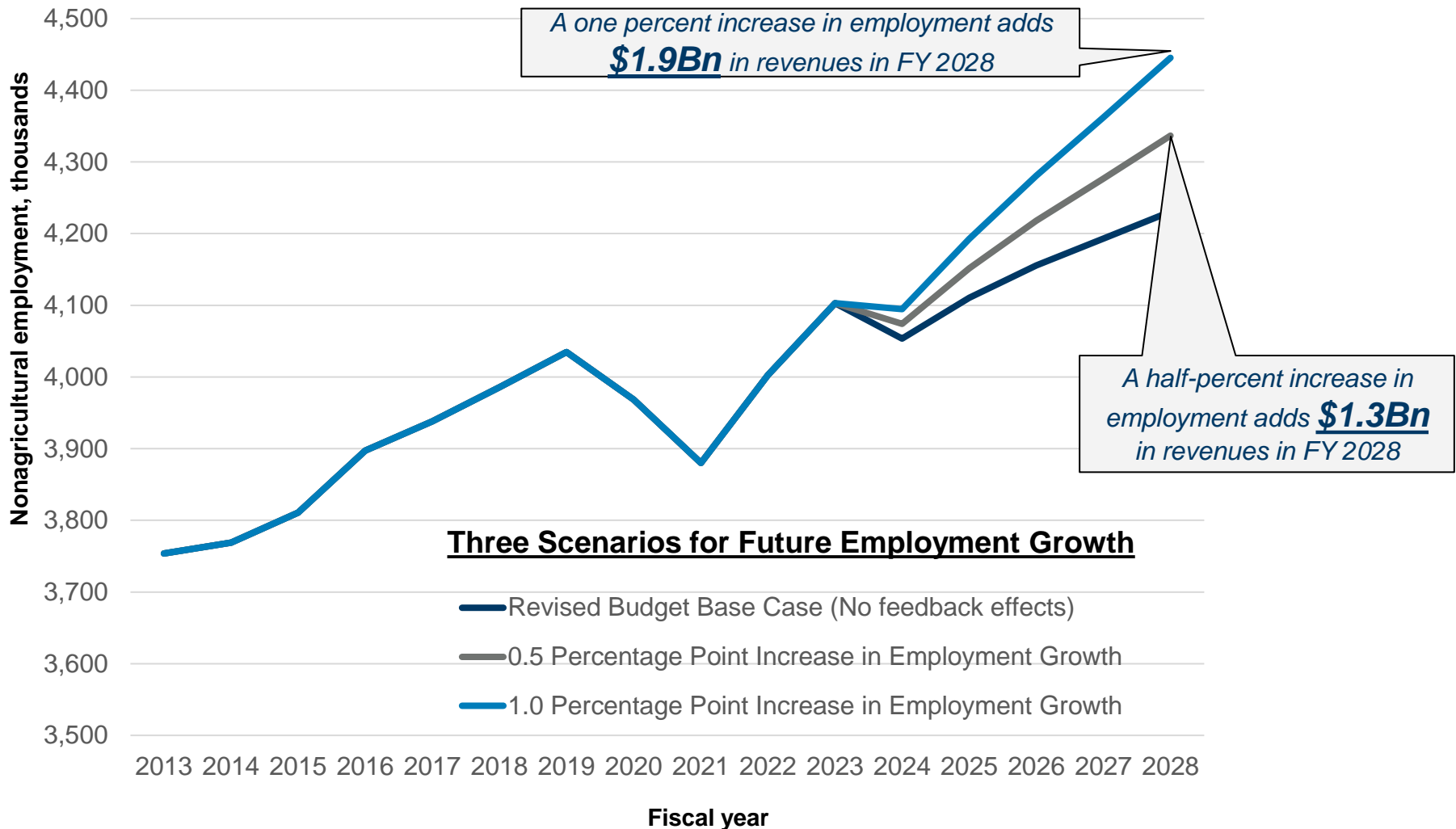
- \$362 million (55% of total business relief)
 - ✓ **25,000** C-Corp filers with reduced burden
 - ✓ **#2** VA would have the second lowest rate among competitor states
- \$162 million (24% of total business relief) for QBI deduction
 - ✓ **450,000** small business & pass-through entities with reduced burden
- \$37 million (6% of total business relief) for greater interest expense deductibility for large and small businesses

WE CAN AFFORD TO REDUCE RATES: CURRENT LAW TAXES WILL EXCEED SPENDING



TAX POLICY CAN DRIVE REAL RESULTS FOR VIRGINIA'S ECONOMY

INCREASES IN EMPLOYMENT CAN INCREASE REVENUES BY BILLIONS



COMPETING TO WIN – ECONOMIC GROWTH FOR THE FUTURE OF VIRGINIA

- Virginia residents have been voting with their feet. Virginia has experienced domestic net out-migration for nine of the ten last years, totaling 132,000+ in resident losses. Between April 2020 and July 2022, Virginia lost nearly 30,000 residents to other states.
- Taxpayers that left Virginia since 2013 accounted for a net loss of \$9 billion of reported Adjusted Gross Income (AGI). Over that same time period, North Carolina, our closest competitor, gained \$18 billion.
- Individual and corporate tax rates are a significant factor in the decision by individuals and companies on where to live and work. Since 2013, our Competitor States¹ have been lowering individual and corporate tax rates. Virginia has not changed its rates and is now significantly higher than all the Competitor States.
- The first step to challenge the status quo was taken in last year's budget with a \$4 billion tax relief package, the largest in Virginia's history. The package primarily benefited lower- and middle-income taxpayers and included significant tax rebates, a near doubling of the standard deduction, a reduction of taxes on military retirement and the elimination of the state portion of the grocery tax.
- It is now imperative that the Commonwealth begin to address its non-competitive individual and corporate tax rates with a reduction of the top individual rate from 5.75% to 5.5% and the corporate rate from 6% to 5%.
- The reductions in individual income tax will result in 47,000 lower income Virginians not paying taxes, 152,000 veterans paying less taxes and 86% of taxpaying Virginians enjoying the benefits of the lower top tax rate.
- The implementation of the reduction of corporate and small business tax rates will result in lower taxes for approximately 475,000 resident small business owners and large and small corporate entities.
- The Commonwealth has never been in a stronger financial position, with record reserve balances and a \$3.6 billion surplus under a prudent economic outlook. Furthermore, the proposed budget provides safeguards that will reduce spending, including proposed tax relief, in the event revenues are below projections.
- The trends of the past decade in Virginia must be reversed as they have broad, long-term implications for its schools and other essential services. In order to do so, Virginia must take advantage of its unique financial position to act strategically and respond to these challenges. We must send a clear message to individuals, families and companies that we are competing to win....and Virginia is truly the best place to live, work and raise a family.



¹--Competitor States are defined as NC, SC, TN, GA, FL and TX, those states that VA routinely competes with to attract families, workforce and companies.

APPENDIX

POPULATION CHANGES OVER TIME

Virginia's population change, 2012-2022

State	2012	2022	(Delta)	Growth	CAGR
Florida	19,302,016	22,244,823	2,942,807	15.2%	1.4%
Texas	26,084,120	30,029,572	3,945,452	15.1%	1.4%
North Carolina	9,751,810	10,698,973	947,163	9.7%	0.9%
South Carolina	4,719,027	5,282,634	563,607	11.9%	1.1%
Tennessee	6,455,752	7,051,339	595,587	9.2%	0.9%
Georgia	9,903,580	10,912,876	1,009,296	10.2%	1.0%
Virginia	8,187,456	8,683,619	496,163	6.1%	0.6%
United States	313,877,662	333,287,557	19,409,895	6.2%	0.6%

COMPONENTS OF CHANGE – VIRGINIA'S DETAIL

Virginia's population growth drivers, 2012-2022

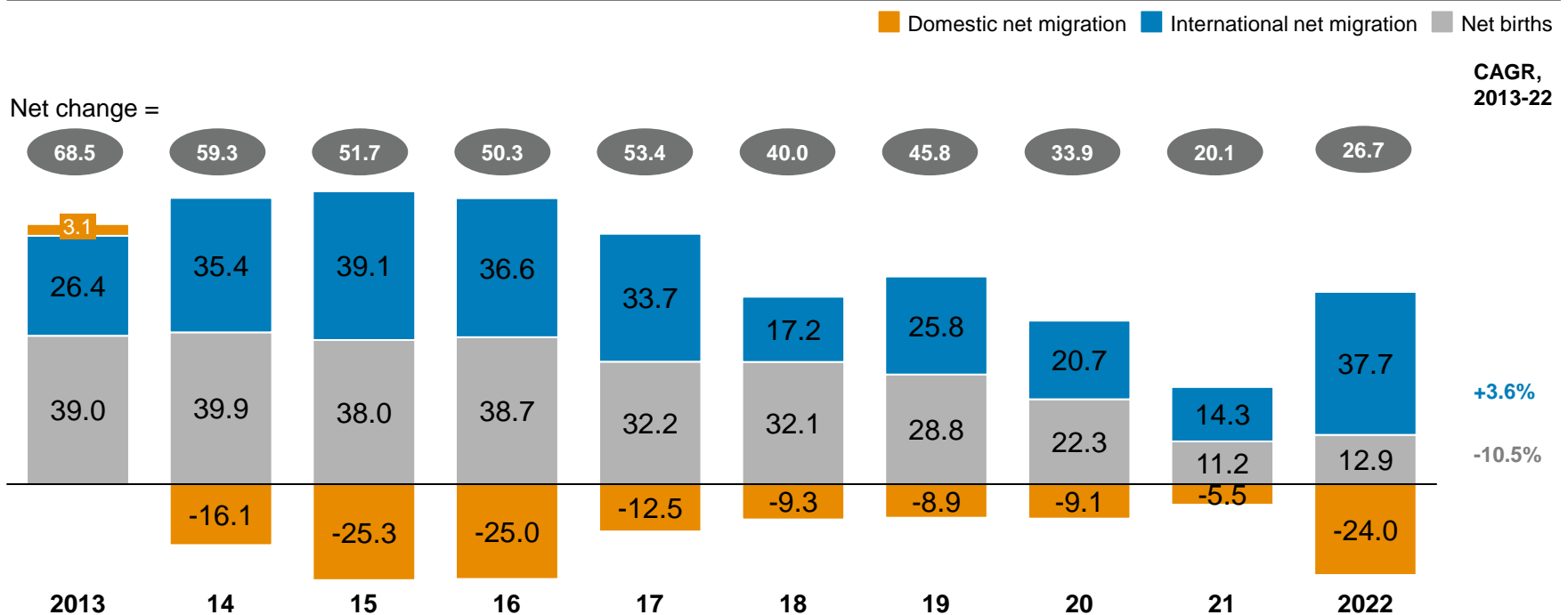
Annual change experienced within in the year

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Cumul.
Net Births	39,045	39,943	37,970	38,689	32,207	32,132	28,833	22,326	11,242	12,925	295,312
International Migration	26,352	35,428	39,097	36,646	33,741	17,189	25,830	20,721	14,310	37,692	287,006
Net Domestic Migration	3,111	(16,114)	(25,347)	(25,020)	(12,510)	(9,321)	(8,892)	(9,130)	(5,465)	(23,952)	(132,640)
Components of Pop. Change	68,508	59,257	51,720	50,315	53,438	40,000	45,771	33,917	20,087	26,665	449,678
Residual ¹	(103)	312	153	33	(78)	(91)	(49)	4	807	(411)	577
Components + Residual	68,405	59,569	51,873	50,348	53,360	39,909	45,722	33,921	20,894	26,254	450,255
Adjustment for Resurvey ²	-	-	-	-	-	-	-	45,908	-	-	45,908
Total Change in Population	68,405	59,569	51,873	50,348	53,360	39,909	45,722	79,829	20,894	26,254	496,163
Population Beginning of Period	8,187,456	8,255,861	8,315,430	8,367,303	8,417,651	8,471,011	8,510,920	8,556,642	8,636,471	8,657,365	8,187,456
Total Changes	68,405	59,569	51,873	50,348	53,360	39,909	45,722	79,829	20,894	26,254	496,163
End of Period Population	8,255,861	8,315,430	8,367,303	8,417,651	8,471,011	8,510,920	8,556,642	8,636,471	8,657,365	8,683,619	8,683,619

Source: Census Bureau, Population Estimates Program. ¹ Residuals represent the change in population that cannot be attributed to any specific demographic component of population change. ² The decennial censuses, which count the entire U.S. population every ten years, along with several other surveys, happened last in 2020, changing previous estimates for population that are not broken out in the components of population change.

VIRGINIANS ARE LEAVING THE COMMONWEALTH AND INTERNATIONAL MIGRATION HAD DECLINED BEFORE 2022

Virginia's population growth drivers, 2012-2022, Thousands



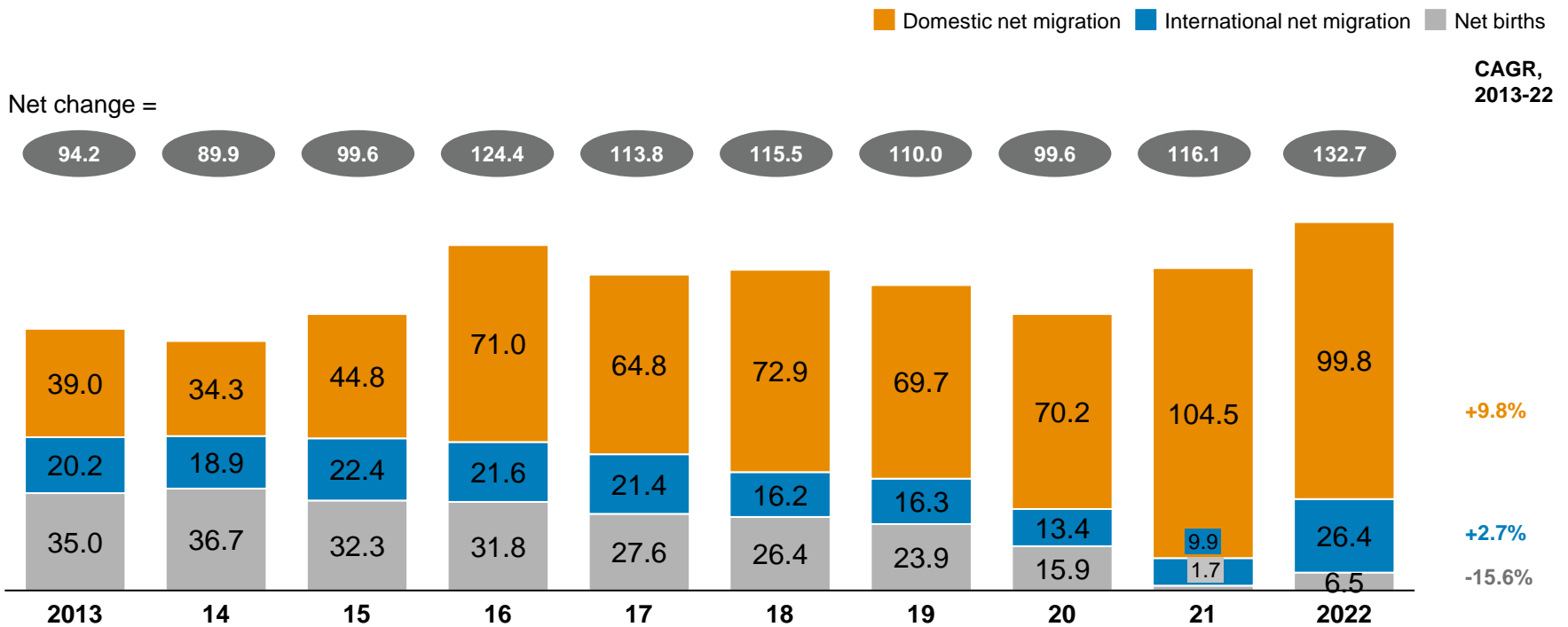
Source: Moody's Analytics; U.S. Census Bureau's Vintage 2022 national and state population estimates

Net Change in Population Totaled 450K Over the Period

Note: Figures may not add due to rounding. Excludes residual changes in population and impacts of decennial re-survey.

BY COMPARISON NORTH CAROLINA IS GAINING POPULATION THROUGH DOMESTIC MIGRATION

North Carolina's population growth drivers, 2012-2022, Thousands



Source: Moody's Analytics; U.S. Census Bureau's Vintage 2022 national and state population estimates

Net Change in Population Totaled 1.1M Over the Period

Note: Figures may not add due to rounding. Excludes residual changes in population and impacts of decennial re-survey.