

# ECONOMIC DEVELOPMENT INCENTIVES

## *Science and Technology Incentives, 2022*

### RECOMMENDATIONS

**Prioritizing R&D tax credits for small companies** ► The General Assembly may wish to consider prioritizing Virginia's research and development tax credits for smaller companies by amending §§ 58.1-439.12:08 and 58.1-439.12:11 of the Code of Virginia to either (i) reallocate a portion of the Major Research and Development Tax Credit to the Research and Development Expenses Tax Credit cap or (ii) combine the two credits and give smaller companies priority for awards. (Recommendation 1)

**Step-rate reimbursement for major R&D tax credit** ► The General Assembly may wish to consider amending § 58.1-439.12:11 of the Code of Virginia to adopt a step-rate reimbursement structure for the Major Research and Development Tax Credit. (Recommendation 2)

**Cap for major R&D tax credit** ► The General Assembly may wish to consider amending § 58.1-439.12:11 of the Code of Virginia to adopt an annual company-level cap for the Major Research and Development Tax Credit. (Recommendation 3)

**Incentivizing R&D partnerships with higher education institutions** ► The General Assembly may wish to consider amending § 58.1-439.12:11 of the Code of Virginia to prioritize research conducted with Virginia higher education institutions for the Major Research and Development Tax Credit by providing a higher company level cap for awards for such research. (Recommendation 4)

**Eliminating angel investor tax credit** ► The General Assembly may wish to consider eliminating the Qualified Equity and Subordinated Debt Investments Tax Credit by repealing § 58.1-339.4 of the Code of Virginia. (Recommendation 5)

**Not renewing long-term capital gains and venture capital subtractions** ► The General Assembly may wish to consider not renewing the investment periods for the (i) long-term capital gains subtraction, which ended June 30, 2020, and (ii) venture capital subtraction, which will end December 31, 2023. (Recommendation 6)

**Eliminating Zero G Zero income tax subtractions** ► The General Assembly may wish to consider amending §§ 58.1-322 and 58.1-402 of the Code of Virginia to eliminate the Zero G Zero Tax income tax subtractions after the current contract to resupply the International Space Station expires. (Recommendation 7)

**Additional information in Virginia Commercial Space Flight Authority annual report**

► The General Assembly may wish to consider amending § 2.2-2213 of the Code of Virginia to require the Virginia Commercial Space Flight Authority to include in its annual report a summary of (i) its six-year strategic plan, (ii) how available state funds have been spent to achieve the strategic plan goals to date, and (iii) the extent to which the strategic plan goals have been achieved to date. (Recommendation 8)

***Trade and Transportation Incentives, 2021***

**Eliminating railroad rolling stock exemption** ► The General Assembly may wish to consider eliminating the railroad rolling stock exemption. (Recommendation 1)

**Restricting eligibility for aircraft parts, engines, and supplies exemption** ► If the General Assembly extends the expiration of the aircraft parts, engines, and supplies exemption, it may wish to consider amending § 58.1-609.10 of the Code of Virginia to restrict eligibility of the exemption to certified Federal Aviation Administration repair facilities in the state or maintenance, repair, and overhaul facilities that employ a minimum number of workers. (Recommendation 2)

**Targeting port incentives to export cargo** ► The General Assembly may wish to consider amending sections §§ 58.1-439.12:06, 58.1-439.12:10, and 62.1-132.3:2 of the Code of Virginia to better target the International Trade Facility Tax Credit, Port Volume Increase Tax Credit, and Port of Virginia Economic and Infrastructure Development Grant, respectively, to export cargo. (Recommendation 4)

**Converting port tax credit to a grant** ► The General Assembly may wish to consider amending § 58.1-439.12:10 of the Code of Virginia to convert the Virginia Port Volume Increase Tax Credit to a grant to increase its usability and to better target it to companies in geographic regions and industries less likely to use Virginia ports. (Recommendation 6)

**Incentivizing job creation with International Trade Facility Tax Credit** ► The General Assembly may wish to consider amending § 58.1-439.12:06 of the Code of Virginia to increase the value of the International Trade Facility Tax Credit for job creation. (Recommendation 7)

**POLICY OPTION**

*Staff typically propose policy options rather than make recommendations when (i) the action is a policy judgment best made by elected officials—especially the General Assembly, (ii) evidence suggests action could potentially be beneficial, or (iii) a report finding could be addressed in multiple ways.*

**Eliminating airline common carrier exemption** ► The General Assembly could consider eliminating the airline common carrier exemption (Option 1).

## *Infrastructure and Regional Incentives, 2020*

### **RECOMMENDATIONS**

**Real Property Investment Grant eligibility ►** If the General Assembly decides to maintain the Real Property Investment Grant, it may wish to consider amending § 59.1-548 of the Code of Virginia to restrict awards to projects in higher multiplier, export-base industries or to projects that would contribute to community revitalization. (Recommendation 4)

**Road access grant program administration ►** The General Assembly may wish to consider amending § 33.2-1509 of the Code of Virginia to remove the requirement for the Virginia Economic Development Partnership to consult with the Department of Small Business and Supplier Diversity to determine if projects seeking an award from the Economic Development Access Program are basic employers. (Recommendation 16)

### **POLICY OPTIONS**

**Eliminating the Real Property Investment Grant ►** The General Assembly could consider eliminating the Real Property Investment Grant by repealing § 59.1-548 of the Code of Virginia. (Option 1)

**Criteria for recapturing road and rail access program grant awards ►** The General Assembly could consider amending the Code of Virginia to require that job creation performance be one of the factors considered to determine if grant awards from the Economic Development Access Program and Rail Industrial Access Program should be recaptured. (Option 3)

## *Data Center and Manufacturing Incentives, 2019*

### **RECOMMENDATIONS**

**Data center work group ►** The General Assembly may wish to consider including language in the Appropriation Act directing the Secretary of Finance to convene a work group consisting of the Secretaries of Transportation, Commerce and Trade, and Administration; the staff directors of the House Appropriations Committee and Senate Finance Committee, or their designee; and other relevant agency stakeholders to conduct a data center industry study to examine actions that could be taken to maintain the state's competitive position to attract data centers and examine whether the opportunity exists to reduce the level of the exemption without adversely affecting industry growth. (Recommendation 2)

**Alignment of custom grants with targets and plans ►** The General Assembly may wish to consider amending § 30-312 of the Code of Virginia to require that information on how custom grants align with state and regional target industries and strategic economic development plans be included in the annual report of the Major Employment and Investment Project Approval Commission. (Recommendation 5)

**Eliminating green jobs and energy tax credits ►** The General Assembly may wish to consider eliminating the Green Job Creation Tax Credit and the Biodiesel and Green Diesel Fuel Producers Tax Credit. (Recommendation 8)

## **POLICY OPTION**

**Pollution control equipment exemption ►** The General Assembly could amend § 58.1-609.3 or § 58.1-3660 of the Code of Virginia to clarify that the equipment or facility does not need to be constructed before certification can be granted for purposes of claiming the Pollution Control Equipment and Facilities Sales Tax Exemption. (Option 1)

*Note: The 2020 General Assembly (HB 1173) implemented this option for pollution control equipment used in a locality's water, storm-water, wastewater, or solid waste management facilities, but the law does not apply to other pollution control equipment.*