

The Honorable Glenn A. Youngkin
1111 E. Broad Street
Richmond, Virginia 23219

March 26, 2024

Dear Governor Youngkin,

We write as a united coalition of Virginia businesses and business organizations representing members that are proud to be headquartered or enjoy a significant presence here in the Commonwealth. Collectively, our coalition includes hundreds of Virginia businesses that employ hundreds of thousands of Virginians and generate billions in economic activity across a diverse range of industries.

We urge you to protect Virginia businesses, workers, and consumers from the substantial and hastily-written tax hike included in the General Assembly's recently passed biennial budget. This massive rewrite of the Commonwealth's tax code was done behind closed doors without any input from the public or business community, and without due consideration for the impact it will have on Virginia's businesses, business climate, and economic competitiveness.

The biennial budget as-passed includes a number of regressive and anti-competitive technology taxes that will raise costs for consumers, reduce investment by Virginia businesses, and hurt our Commonwealth's ability to attract new employers. For example, we suspect that many Virginians will be surprised to learn their various streaming subscriptions and cloud storage accounts full of family photos are about to be taxed each month.

We would like to focus your attention on the particular tax burden that this budget will place on Virginia businesses generally, and Virginia-headquartered businesses like ours, specifically.

According to the Virginia Economic Development Partnership, more than 500 companies have relocated to or expanded their headquarters offices in Virginia. Our Commonwealth boasts the 5th-highest number of Fortune 500 and 8th-highest number of Fortune 1000 company headquarters in the country.

Corporate headquarters are highly sought-after economic assets that bring prestige, jobs, investment, and secondary economic benefits for small businesses. In fact, the Commonwealth has dedicated recruitment programs and staff working to bring headquarters and major, high-paying investments to the Commonwealth.

The sales tax hike included in the General Assembly's biennial budget is really an HQ Tax that hurts all businesses in the Commonwealth while falling hardest on those businesses headquartered here in Virginia. This is because the new tax on business software and other digital services will be borne by businesses at the point of purchase for company-wide products, which for most businesses, is their corporate headquarters.

Under this budget, each time a Virginia-based hotel chain, bank or financial services provider, government contractor, engineering firm, law firm, technology startup, manufacturer, or any other businesses buys software of any kind, they will be hit with a sales tax bill that could easily run into the tens or hundreds of thousands of dollars.

Most other states include a business-to-business sales tax exemption for this kind of transaction because they recognize, as Virginia traditionally has, that it is bad policy to tax the essential inputs of businesses rather than the final product or service.

We are also disappointed that this sea change in Virginia's tax policy was developed without the benefit of public or stakeholder input. Virginia consumers and businesses had no meaningful opportunity to weigh-in on a material increase in the price of the services and products they buy, the technology services they receive, or the business inputs they need.

This approach to tax policy is a troubling deviation from Virginia's well-earned reputation for thoughtful, considered governance. We fear it will harm Virginia's reputation as a business friendly state and damage our competitiveness almost as much as the tax hike itself.

The biggest winners of this anticompetitive HQ Tax will be Maryland, North Carolina, Georgia, and other competitor states who will throw open their arms to welcome businesses that can no longer justify the tax burden of a Virginia headquarters.

Therefore, we urge you, Governor Youngkin, to exercise your authority to protect Virginia consumers, businesses, and our state's business-friendly reputation from

this HQ Tax Hike. Whether by veto or amendment, we believe it is critical to the Commonwealth's economic competitiveness that this tax hike be eliminated entirely, or at the very least, include a broad exemption for business-to-business transactions.

Without your veto or amendment, this tax hike will cause higher prices, reduced investment and job creation, and self-inflicted damage to Virginia's economic competitiveness and hard-earned reputation as one of the best places in America to start, grow, or locate a business.

- Northern Virginia Technology Council (NVTC)
- Virginia Chamber of Commerce
- Northern Virginia Chamber of Commerce
- Virginia Peninsula Chamber
- Hampton Roads Chamber of Commerce
- ChamberRVA
- National Federation of Independent Business
- Virginia Economic Developers Association
- Virginia Manufacturer's Association
- RVA Technology Council
- Virginia Retail Federation
- Virginia Restaurant, Lodging and Travel Association
- Council On State Taxation (COST)
- Consumer Technology Association (CTA)
- Thomas Jefferson Institute for Public Policy
- Virginia Trucking Association
- CarMax
- CoStar
- Dollar Tree
- ID.Me
- Micron
- Smithfield Foods
- Shift5
- The Brink's Company
- Thundercat Technology
- 360 IT Partners