

2025 Market-Based Sourcing Working Group Meeting

August 6, 2025

- ▶ Welcome & Introduction
- ▶ Opening Remarks, James J. Alex
- ▶ VEDP Opening Remarks on Market-Based Sourcing in Virginia
- ▶ Virginia Legislation on Market-Based Sourcing and History in Other States
- ▶ Comments, Questions, and Open Discussion
- ▶ Workgroup Roadmap
- ▶ Conclusion

- ▶ James J. Alex,
State Tax Commissioner
- ▶ Kristin Collins,
Deputy Commissioner
- ▶ Charles Kennington,
Assistant Commissioner
- ▶ James Savage,
Tax Legislation Director
- ▶ Aisha Yededji,
Director of Economic Analysis
- ▶ Ryan Cunningham,
Income Tax Team Lead
- ▶ Matthew Style,
Principal Economist, Economic Analysis
- ▶ Austin Smith,
Income Tax Law Analyst
- ▶ Cassandra Hamilton,
Legislative Coordinator
- ▶ Vickie Duffey,
Administrative Coordinator

- ▶ Meghan Welch,
Vice President, Knowledge Work
- ▶ Sarah Brooks,
Director, Business and Financial Services
- ▶ Cole Pearce,
Manager, Economic Competitiveness

Opening Remarks

Tax Commissioner
James J. Alex

VEDP Remarks

Vice President, Knowledge Work
Meghan Welch



EVALUATING VIRGINIA'S TAX STRUCTURE TO COMPETE

August 6, 2025



Virginia
Economic
Development
Partnership
VEDP.org

FY25-29 TRANSFORMATIONAL GOALS FOR THE COMMONWEALTH

1

Robust State Growth

Position Virginia to achieve a growth rate among that of the top 5-10 states in the U.S.

2

Every Region Wins

Ensure that every region participates in the growth of the Commonwealth

3

Best State for Business

Restore Virginia to its previous leadership position near the top of the national business climate rankings

4

Top State for Talent

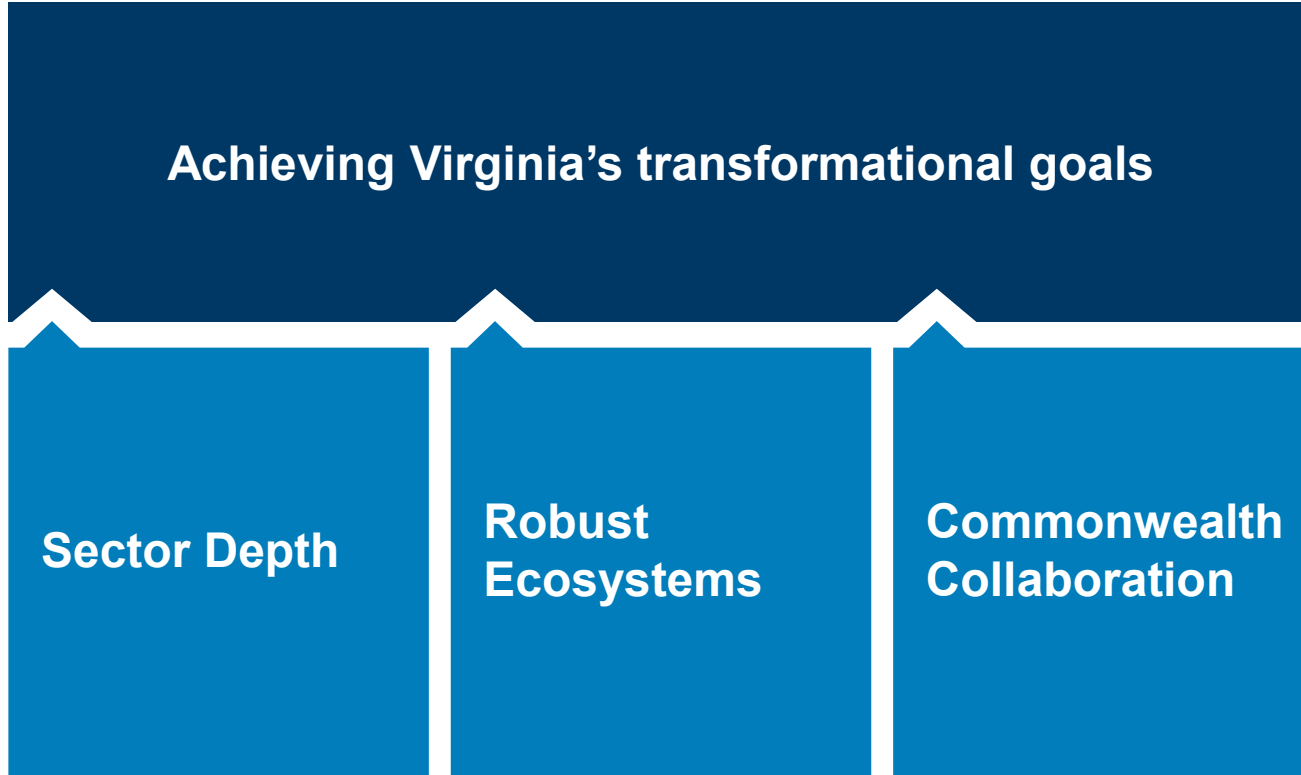
Establish Virginia as a top state for talent retention, attraction, development, and alignment

5

Most Innovative, Collaborative, and Effective State EDO

Solidify VEDP's position as one of America's top state EDOs through an innovative strategy, collaborative approach, and effective outcomes

AN INNOVATIVE FRAMEWORK TO DELIVER BETTER RESULTS



VIRGINIA'S GROWTH OPPORTUNITY: KNOWLEDGE WORK

Growth in the knowledge work sector (services and technology) presents VA's largest economic growth opportunity representing up to 41K Virginia jobs by 2030.

Virginia's cost-of-performance sales sourcing is a barrier to growth for some Knowledge Work companies:

- It provides a disincentive for service firms to locate the plurality of operations in Virginia
- It introduces the risk of double-taxation for service firms serving multiple states (taxed where services are generated, and where services are sold)
- It complicates accounting and tax filings for service sector firms with operations in multiple states

The Commonwealth's tax system should maximize its ability to compete.

SEVERAL KNOWLEDGE WORK FIRMS REQUIRED MARKET-BASED SOURCING TO RELOCATE OR EXPAND IN VIRGINIA



Financial Services

- Global leader in acquiring and collecting nonperforming loans, returns capital to banks and other creditors
- Norfolk, VA
- 300 jobs
- \$11M Capex
- 2019



Business Services

- Global leader in commercial real estate information, analytics, online marketplaces and 3D digital twin technology
- Richmond, VA
- 1,984 jobs
- \$461M Capex
- 2022



Software and Cybersecurity

- Global provider of domain name registry services and internet infrastructure, enables internet navigation for many of the world's most recognized domain names
- Reston, VA
- 550+ jobs maintained
- 2023

DETAILED CASE STUDY: COSTAR EXPANSION



- CoStar Group relocated its research function, and 732 jobs, from Washington D.C. to Richmond in October 2016
- In just over five years, CoStar grew to more than 1,000 employees becoming one of Richmond's largest employers
- In 2021, one of VEDP's Top 200 site selection consultants reached out to VEDP
- To compete with other states, Virginia had to both leverage its strengths and create a better business climate
- A whole-of-government effort put the framework in place to secure the R&D center and expansion, as well as corporate HQ

What made this approach different?

Investments to enhance Virginia's competitiveness

Virginia's existing corporate income tax structure was not competitive for the project. As an incentive for selecting Virginia, the Major Employment and Investment (MEI) Commission approved Market-based Sourcing tax apportionment for the property analytics company.

Coordination with partners to solve public infrastructure upgrades

CoStar will leverage up to \$15 million in public infrastructure upgrades to address commuter and pedestrian access, roadway and traffic improvements, safety, and off-site utility extensions around the new campus.

What was the result?

- CoStar Group invested \$460MM to build a two-building complex, which coupled with its existing building in downtown Richmond will create a corporate campus and welcome an additional 2,000 new jobs. The Innovation Campus will drive many of the latest research and development efforts for CoStar across approximately 1M SF in downtown Richmond.
- Since the December 2021 announcement, CoStar
 - Purchased a former SunTrust building across the river for \$20MM, home to 400 employees
 - Announced an \$18MM commitment to VCU for the construction of the CoStar Center for Arts and Innovation
 - Relocated its corporate HQ from Washington, D.C. to Arlington Co. representing 650 jobs and a \$20M capital investment



THANK YOU



Meghan Welch

Vice President, Knowledge Work
mwelch@vedp.org

Purpose and Legislative Mandate

The Governor's proposed amendments to the 2024 Appropriation Act (2025 HB 1600 /SB 800) included MBS enactment language

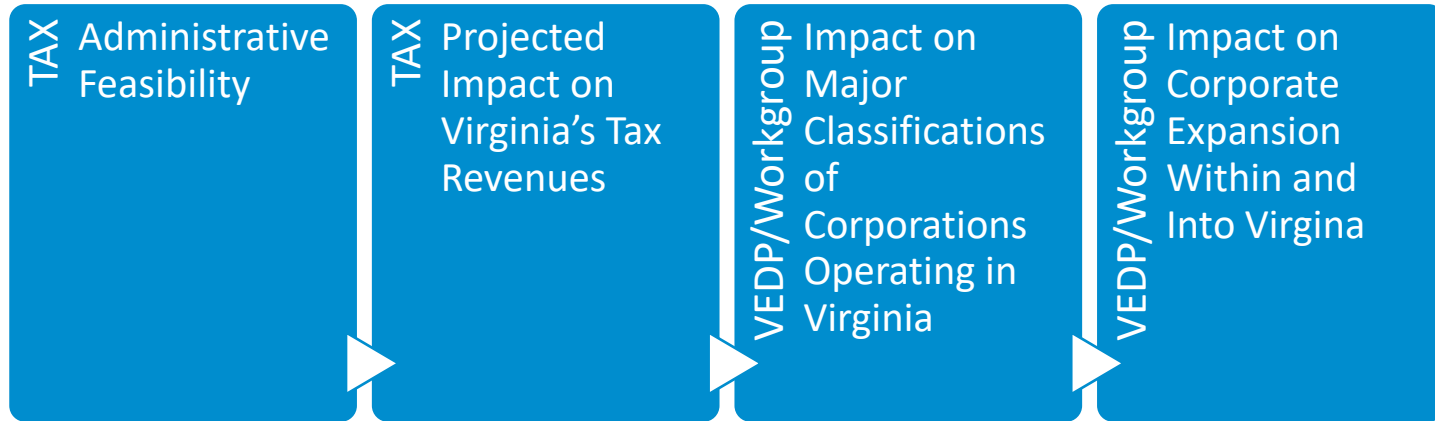
Enrolled & Re-enrolled versions of the budget changed MBS to study language

Bills proposing MBS in Virginia (HB 1866/SB 1456) died in committee

Re-enrolled budget is signed by the Governor & MBS becomes study

- ▶ Item 257(E) of the 2025 Appropriation Act requires the Department to:
 - ▶ Assess implementing market-based sourcing,
 - ▶ Present recommendations to the Joint Subcommittee on Tax Policy for evaluation of the fiscal implications and incorporate the Subcommittee's feedback in the report, and
 - ▶ Submit a final report with recommendations by November 15, 2025, to the Chairs of House Finance, House Appropriations, and Senate Finance and Appropriations Committees.

- ▶ The budget language requires the Department to form a workgroup of stakeholders with the Secretary of Finance and the Chairs of the Money Committees participating in selecting its members.
- ▶ The workgroup is asked to consider several aspects of potentially implementing MBS in Virginia, including:



“E. The Department of Taxation shall assess implementing market-based sourcing for sales in the corporate income apportionment formula. The Department shall assess the administrative feasibility, the impact on major classifications of corporations operating in Virginia, the impact on corporate expansion within and into Virginia, and the projected impact on Virginia's tax revenue as a result of adopting market-based sourcing. The Department shall present recommendations to the Joint Subcommittee on Tax Policy for evaluation of the fiscal implications and incorporate any feedback from the Joint Subcommittee prior to the submission of the final report. The Department may establish a work group of stakeholders with the Secretary of Finance and the Chairs of the House Finance, House Appropriations, and Senate Finance and Appropriations Committees participating in selecting its members. The Department shall submit a report with recommendations by November 15, 2025 to the Chairs of House Finance, House Appropriations, and Senate Finance and Appropriations Committees.”

- ▶ In Virginia, multi-state corporations are required to apportion a percentage of their income to Virginia based on a formula that includes the amount of their total payroll, property, and sales (double weighted) that are in Virginia.

This workgroup is not considering whether Virginia should:

- ▶ Adopt a new apportionment formula, such as a single-sales factor method of apportionment.
- ▶ Alter the weight of Virginia's current three factor apportionment formula.

This workgroup is considering whether Virginia should:

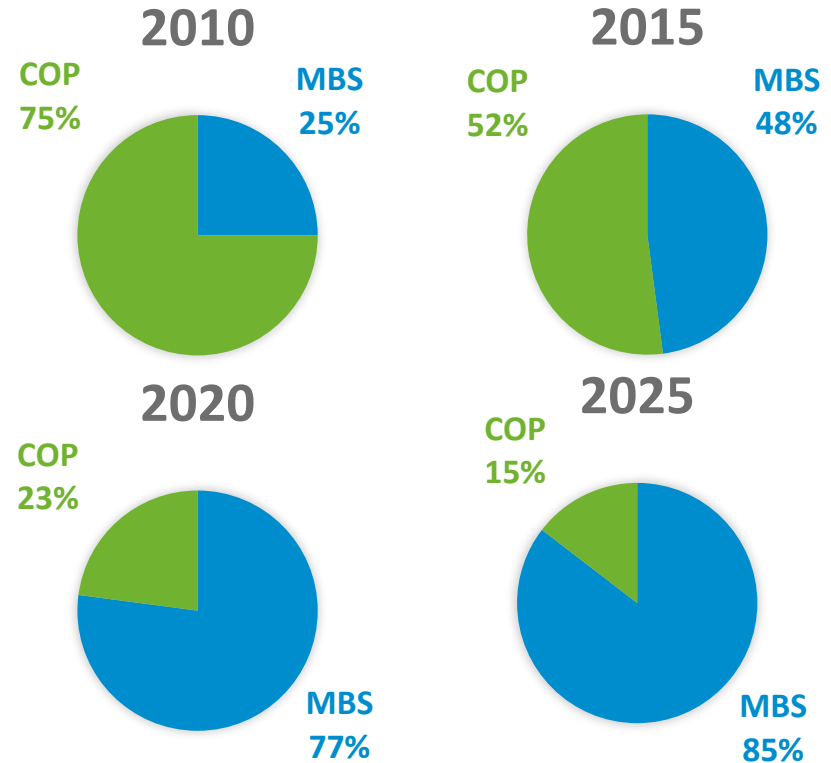
- ▶ Change how it determines whether non-tangible sales are “in Virginia” for the purposes of calculating the sales factor.

- ▶ Currently, sales of services and intangible personal property are considered to be in Virginia if more of the cost of performing the income-producing activity takes place in Virginia than in any other state—this is referred to as the cost-of-performance (“COP”) method.
- ▶ This workgroup is considering whether sales of services and intangible personal property should be considered to be in Virginia if the market for such sales is located in Virginia—this is referred to as market-based sourcing (“MBS”).

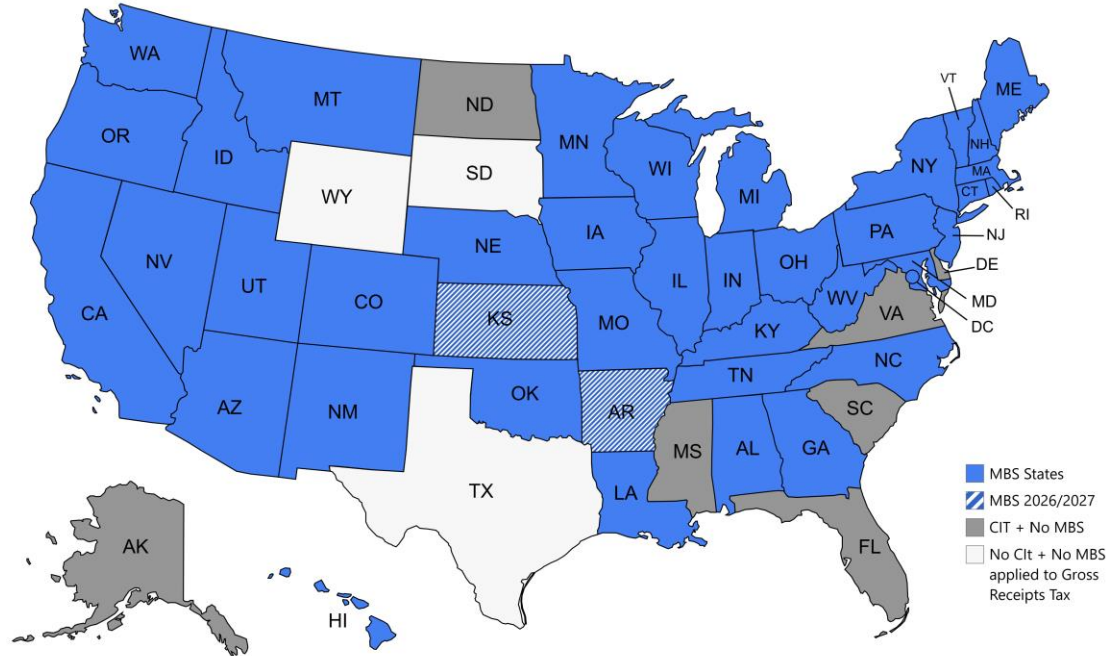
History and Growth of Market-Based Sourcing

Transition from COP to MBS to MTC

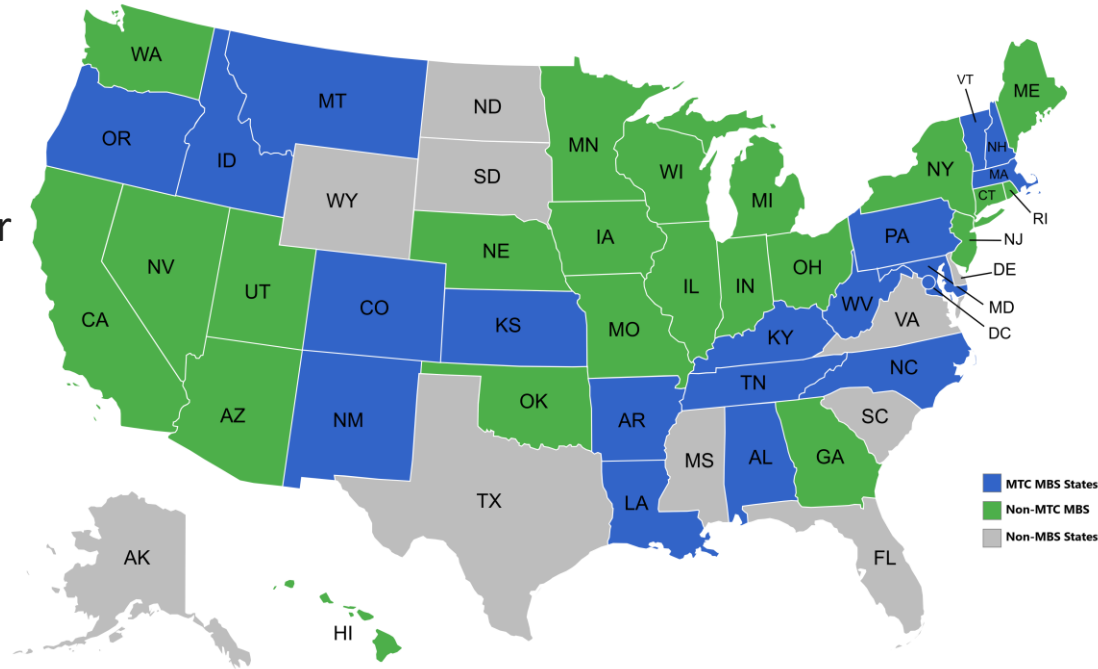
- ▶ Under the Uniform Division of Income for Tax Purposes Act developed in the 1950s, states sourced sales of services and intangibles using the COP method.
- ▶ In 2009, the Multistate Tax Commission (“MTC”) began a uniformity project to redraft the sourcing rules for services/intangibles.
- ▶ In 2015 the MTC adopted uniform MBS sourcing rules.



- ▶ A vast majority of states use MBS.
- ▶ MBS equalizes the treatment of non-tangible sales with the treatment of tangible sales for the purposes of calculating the sales factor.
- ▶ **41** jurisdictions with a corporate income tax or equivalent corporate-level tax have adopted MBS.
- ▶ Arkansas and Kansas have adopted MBS effective in 2026 and 2027, respectively.

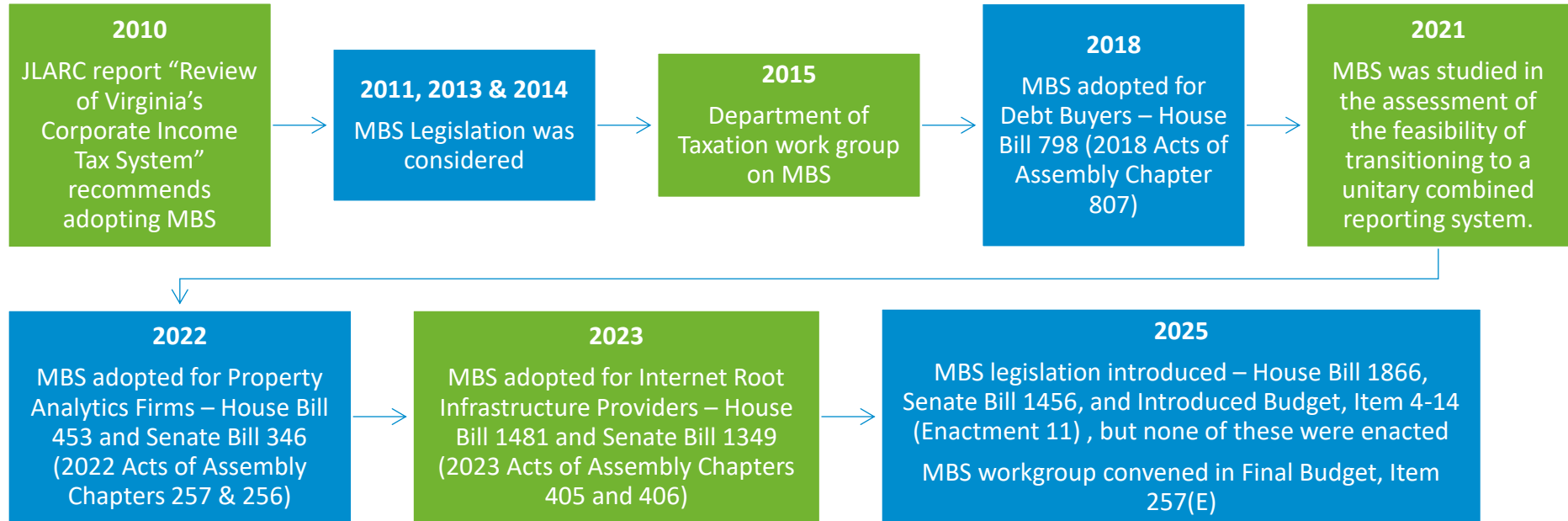


- ▶ About half (19 of 41) of MBS jurisdictions have adopted the MTC model rules promulgated in 2015.
 - ▶ Many of the non-MTC jurisdictions adopted MBS prior to 2015
 - ▶ Almost all of the jurisdictions adopting MBS after 2015 have used the MTC model.
 - ▶ Every state bordering Virginia uses the MTC model.



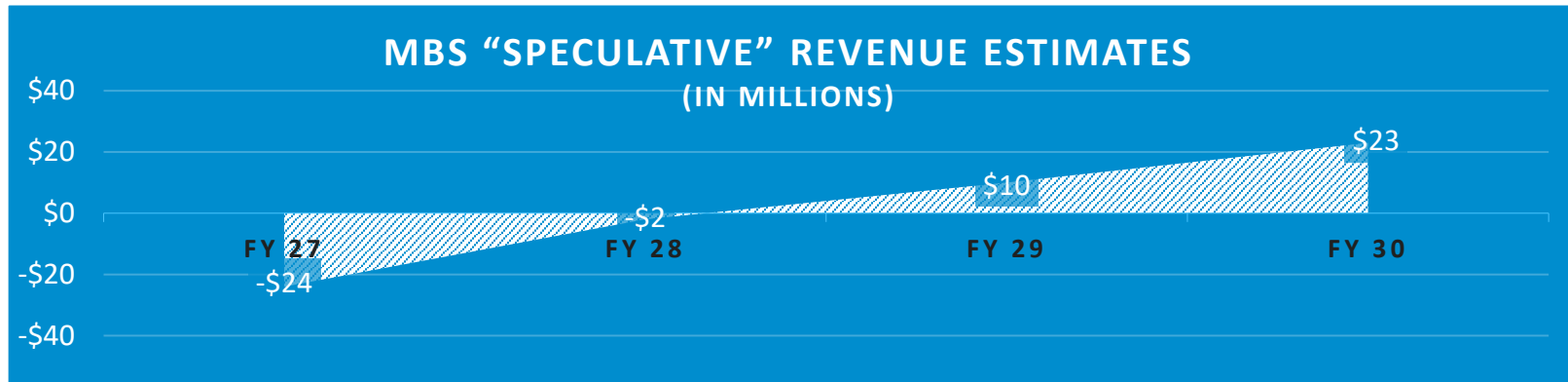
History of Market-Based Sourcing in Virginia

Over the past decade and a half, Virginia has studied market-based sourcing and implemented market-based sourcing for certain industries.



During the 2025 General Assembly the Department published a Fiscal Impact Statement for HB 1866 and SB 1456 which proposed implementing MBS in Virginia beginning in Taxable Year 2026.

- ▶ The revenue impact was determined to be “unknown” due to significant limitations in the availability of relevant data.
- ▶ However, based on data from the IRS Statistics of Income and other data, the Department was able to produce a speculative estimate that suggests this bill would have the following impact on revenues:



Open Forum

Questions and Comments



Presentation will be made available on the Virginia Tax webpage:

<https://www.tax.virginia.gov/>

Comments

- ▶ Please submit any comments you have regarding the report to the Department in writing by emailing such comments to: Austin.Smith@tax.virginia.gov
 - ▶ Initial comments on the workgroup discussion are due by **August 20th**
 - ▶ Written Comments on the Draft Report are due by **September 22th**

Reports

- ▶ Draft Report
 - ▶ Will be circulated on September 8th
- ▶ Final Report
 - ▶ Will be published by November 15th

- ▶ Ryan Cunningham, Income Tax Team Lead
 - ▶ Ryan.Cunningham@tax.virginia.gov
 - ▶ 804-371-0919

- ▶ Austin Smith, Income Tax Law Analyst
 - ▶ Austin.Smith@tax.virginia.gov
 - ▶ 804-371-5207