

Outline for the Market-Based Sourcing Study

The Virginia House Finance Committee has requested that the Virginia Department of Taxation (“the Department”) convene a working group to study market-based sourcing. The purpose of this document is to provide an overview of the study. We will amend this outline as necessary based on our research and meetings with the working group.

Outline for the Study

- Overview of the history of corporation income tax apportionment.
- Summary of the cost of performance method.
- Summary of market-based sourcing.
- Summary of market-based sourcing states and the variations between the methods each state uses.
- Summary of the recent trend of switching to market-based sourcing.
- Impact on other corporation income tax policies.
- Data and analysis regarding the fiscal impact of switching from the cost of performance method to each of the following methods:
 - Sourcing all sales, other than sales of tangible personal property, using market-based sourcing.
 - Requiring all companies to use market-based sourcing unless they exceed certain thresholds related to, but not limited to, property and payroll. Any companies exceeding such thresholds would be allowed to elect whether to source all sales, other than sales of tangible personal property, using market-based sourcing.
- Recommendations based on this study.
- Draft legislation for consideration by the General Assembly.