



THE VOICE of BUSINESS

March 15, 2024

Members of the Virginia Business Community,

I am writing today to bring to your attention budget language that was recently approved by the General Assembly pertaining to the taxation of digital products and services. As approved by the General Assembly, the budget provides that **purchase or consumption of a software application service by a business is subject to the sales and use tax**. The Virginia Chamber of Commerce **opposes** the taxation of business inputs such as computer software services and is advocating for Governor Youngkin to veto this budget language, but we need your help. **We urge you to contact Governor Glenn Youngkin at Glenn.Youngkin@governor.virginia.gov TODAY and request he veto this language in the budget**. Governor Youngkin's deadline to act is **April 8th**, so you **MUST** contact the Governor **as soon as possible** to ensure your voice is heard.

As approved by the General Assembly, the budget language of concern reads:

"Taxable service" means any of the following services used or consumed in the Commonwealth:

- 1. Software application services;*
- 2. Computer-related services;*
- 3. Website hosting and design;*
- 4. Data storage; and*
- 5. Streaming services.*

"Taxable service" includes any software application service transaction where the purchaser or consumer of the software application service is a business, but does not include (i) any other taxable service described in subdivisions 2 through 5 where the purchaser or consumer of such other service is a business or (ii) any other service not specified in subdivisions 1 through 5 and otherwise exempt under this chapter.

The following points are just a few reasons why the business community should be concerned about this budget language. We encourage you to include these points in your communication to Governor Youngkin.

- Applying the sales tax to business-to-business software transactions would cost Virginia businesses over \$360 million each year. The high cost of doing business in the Commonwealth is already a recurring theme in reviews of Virginia's business climate, and these tax provisions will further raise that cost across all industries.

- Taxing business inputs such as software services will discourage economic development and business investment in Virginia by making the Commonwealth's tax system less competitive.
- Taxing business inputs such as software services increases production costs for Virginia businesses and puts Virginia businesses at a competitive disadvantage compared to businesses in other states not subject to such taxes.
- Taxing business inputs in this manner violates important tax policy principles such as neutrality, simplicity, and transparency, and will result in pyramiding. Pyramiding occurs when a tax is imposed at multiple levels, which results in a hidden effective tax rate which exceeds the statutory tax rate. Pyramiding forces companies to either pass increased costs on to consumers, or to reduce their investment in the affected state. In either case, Virginia's business climate will suffer.
- The categories of services listed above are not defined in the budget, nor are they defined in any other section of the Code of Virginia. These definitions are critical, particularly as software application services often overlap with the other digital services categories.
- Additional budget provisions require the Virginia Department of Taxation to develop guidelines implementing the tax changes made in the budget. This means that the tax treatment of certain digital services may change from one administration to another, or even within administrations. Leaving these determinations to be made by a regulatory process will reduce certainty for businesses and have a negative impact on the Commonwealth's business climate.

Please email Governor Youngkin at Glenn.Youngkin@governor.virginia.gov **TODAY** to ask that he veto this budget language. The Governor's deadline to act is April 8th, so do not wait to voice your concerns. Thank you for your urgent engagement on this matter.

Sincerely,



Barry E. DuVal
President and CEO