COMMONWEALTH of VIRGINIA

Department of Taxation

November 1, 2024

Governor Glen Youngkin
Commonwealth of Virginia

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee

The Honorable Luke E. Torian
Chairman, House Appropriations Committee

The Honorable Vivian E. Watts
Chairman, House Finance Committee

Dear Governor Youngkin and Chairmen:

During the 2024 Session, the General Assembly enacted Senate Bill 564, which directed the Department of Taxation and the Commission on Local Government to assess the need for income tax relief in double distressed localities in the Commonwealth that have experienced significant loss of population since 2013. The report of the study is enclosed.

If you have any questions or comments regarding the study or the enclosed report, please do not hesitate to contact me.

Sincerely,

James J. Alex
State Tax Commissioner
Commonwealth of Virginia

C: The Honorable Stephen E. Cummings, Secretary of Finance

Study to Assess the Need for Income Tax Relief in Double Distressed Localities in the Commonwealth that have Experienced Significant Loss of Population since 2013

Report

Department of Taxation

November 1, 2024

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Executive Summary

2024 Senate Bill 564 (*2024 Acts of Assembly*, Chapter 599) requires the Department of Taxation ("the Department") and the Commission on Local Government ("the Commission") to assess the need for income tax relief in double distressed localities experiencing significant population loss since 2013. See Appendix A, *2024 Acts of Assembly*, Chapter 599.

The Department and the Commission contacted the stakeholders identified in the legislation to notify them of the meeting and to request that each stakeholder appoint a representative to participate in the meeting.

The stakeholder meeting was held on June 27, 2024. Following the meeting, the Department and the Commission solicited written comments to be provided by July 31, 2024. All comments received from the work group are attached. This is the report of the study.

Background

Legislative History of 2024 Senate Bill 564

The introduced version of Senate Bill 564 would have established an individual income tax subtraction for income received by a resident of an eligible double distressed locality that experienced an aggregate population loss of at least 8% since January 1, 2020. The subtraction would have been up to $36,450 of income earned by a resident of such a locality. See Appendix B, 2024 Senate Bill 564, Introduced.

A substitute version of the bill was offered while in the Resources Subcommittee of the Senate Committee on Finance and Appropriations that would have established an individual income tax subtraction for income received by a resident of an eligible double distressed locality. "Eligible double distressed locality" would have been defined as a locality (i) in Planning Districts 1, 2, 3, 13, 15, or 19; (ii) with an annual unemployment rate for the most recent calendar year for which such data is available as of December 31, 2023, that is greater than the final statewide average unemployment rate for that calendar year; (iii) with a poverty rate for the most recent calendar year for which such data is available as of December 31, 2023, that exceeds the statewide average poverty rate for that calendar year; and (iv) that experienced an aggregate population loss of at least 9.8 percent during the 10-year period ending December 31, 2023, based on the U.S. Census Bureau population estimates compiled by the Weldon Cooper Center for Public Service of the University of Virginia. See Appendix C, 2024 Senate Bill 564, Patron Substitute. The subtraction in the substitute version of the bill would have been $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029. See Appendix D, 2024 Senate Bill 564, Patron Substitute Fiscal Impact Statement.

The final version of the bill, which was passed into law, removed the proposed income tax subtraction and instead required the Department and the Commission to assess the need for income tax relief in double distressed localities experiencing significant population loss since 2013.

Summary of Stakeholder Meeting

The Department and the Commission contacted the relevant localities that satisfied the criteria identified in the legislation to notify them of the stakeholder meeting and request that each locality appoint a representative to participate in the stakeholder meeting. The localities that satisfied the legislation's criteria are the following:

- Brunswick County
- Buchanan County
- Charles City County
- Dickenson County
- Lee County
- Russell County
- Smyth County
- Sussex County
- Tazewell County
- Wise County

The localities that responded and their representatives were as follows:

- Charles City County – Christina Jones, Finance Director
- Dickenson County – Larry Barton, County Administrator
- Lee County – Robbie Wright, Assistant County Administrator
- Smyth County – Shawn Utt, County Administrator
- Sussex County – David Conmy, Deputy County Administrator/Economic Development Director
- Tazewell County – Eric Young, County Administrator
- Wise County – Michael Hatfield, County Administrator

Additionally, the following stakeholders also participated in the stakeholder meeting:

- Commission on Local Government (CLG) – Terry Payne, Commissioner
- Office of Senator Hackworth – Senator Travis Hackworth, Patron of 2024 Senate Bill 564
- Office of Senator Hackworth – Sarah Owen, Legislative Director
- Virginia Association of Counties (VACO) – Katie Boyle, Director of Government Affairs
- Virginia Municipal League (VML) – Joe Flores, Director of Fiscal Policy

Following the stakeholder meeting but before the publication of the draft report, the Department obtained updated unemployment data. This updated data is reflected on the table in Appendix G. Based on this updated unemployment data, Bland County also satisfies the legislation's criteria.

June 27, 2024 Meeting

The stakeholder meeting was held on June 27, 2024. All stakeholders that responded to the request for participation were in attendance, either in person or virtually. Prior to the meeting, the Department gave the stakeholders an agenda with an outline of the topics to be discussed. See Appendix E, Stakeholder Meeting Agenda.

At the beginning of the meeting, representatives from the Department provided an overview of the legislation and the study mandate. Following the overview, each stakeholder participant was given an opportunity to provide input on the cost-of-living increase experienced over the past decade, whether income tax relief would alleviate population loss and fiscal distress, and tax policy options to alleviate the burden of income taxes on populations, in their respective localities. The Commission has suggested that fiscal distress could be measured by its Fiscal Stress Report.

The patron of the bill that mandated this study, Senator Hackworth, stated that his goals were to attract constituents to these localities, avoid further population loss, and compete with neighboring states, namely Tennessee. Additionally, he hopes that an individual income tax incentive would benefit companies seeking to relocate or expand their businesses in the region, by incentivizing potential workers to accept job offers and move to the affected localities.

The representative for Tazewell County added that the sharp increases in the minimum wage are having a negative impact on the economy in Southwest Virginia. By causing wage compression and forcing employers to pay higher wages to their workers, the increases in the minimum wage has eliminated the region's historical lower labor costs advantage over West Virginia. This has led to fewer companies locating in Virginia and more existing companies relocating across the border in West Virginia. A reduction in the income tax burden would put more money in employees' pockets and make it less likely for them to put pressure on their employer for higher wages.

When asked about the definition of "double distressed", the Department responded that "distressed" means an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year or a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year. "Double distressed" is a statistic that is tracked by the Virginia Economic Development Partnership and refers to localities meeting both of those criteria. The legislation reduced the scope of the study by including a third criteria, which is population decline since 2013. The localities that were selected for participation are the ten double distressed localities that have experienced the greatest population decline since 2013.

The representative for Sussex County cautioned the need for a balanced tax base as population growth without increased employment opportunities to support it would likely create fiscal stress for localities, not alleviate it. The representative for Tazewell County, while agreeing that this was true in some cases, indicated that Tazewell County has unused capacity in schools and other services that could accommodate additional residents due to population loss in recent years. Senator Hackworth agreed and stated that he is hearing that employers cannot get enough workers and companies are losing potential workers necessary to sustain or expand their businesses.

The representative for Lee County acknowledged that, while income tax relief could be beneficial, there were a variety of other aspects to consider. He cited the availability of housing and jobs as important to reversing the population loss. He also suggested that the rise of telework or remote work contributed to population loss and shared a personal anecdote about how his daughters who work from home had moved to Tennessee to avoid income tax because, as remote workers, they are taxed where they live and Tennessee does not have an individual income tax.

After inquiring whether there was a way to track where people are moving to, Senator Hackworth defended the revenue impact of any potential income tax incentive by pointing out that if residents of these localities move out of state, Virginia would lose all income tax revenue generated for such residents, well beyond the cost of the incentive. The localities would also lose local revenues generated by the residents that leave. The representative from Tazewell County agreed and offered that if manufacturers in these localities fold or move out of state, the revenue loss will be even greater. He acknowledged that any such incentives would be unlikely to bring back thousands of people to Tazewell County, but could "stop the bleeding" and would be a positive first step.

The representative from the Virginia Association of Counties inquired if any similar tax incentives had been implemented in other states that could be used as a template or proof of concept for a possible incentive in Virginia. The representative from the Virginia Municipal League was also curious about whether other states had implemented similar tax incentives and asked if the Department knows how many localities currently satisfy the criteria for the proposed income tax subtraction. Senator Hackworth expressed interest in checking if other states had done anything similar, but stated that, if not, he hoped that a Virginia program could serve as a model for other states struggling with similar issues in certain localities. See the "Other Similar Tax Incentives" section below for more information.

Senator Hackworth's Legislative Director stated that nine localities qualified based on the version of the bill with a tiered subtraction. Such qualifications were that the locality must be double distressed locality in Planning Districts 1, 2, 3, 13, 15, or 19 that experienced an aggregate population loss of at least 9.8 percent during the 10-year period ending December 31, 2023. She asked the representative from Sussex County what ideas he had for a tax incentive or other policy options.

The representative from Sussex County responded that, generally, Virginia has influenced local tax policy by mandating what local taxes can or cannot be used for and that this state fiscal preemption hinders localities and their ability to invest in themselves. He suggested considering changes to state fiscal preemption that would allow the localities to have more fiscal powers than they currently have and reiterated that mandated investment into an industrial development or economic development authority could be impactful.

The representative from Tazewell County suggested that focusing any tax incentives on residents with children may be a way to reduce the revenue impact. Recent demographic change has seen increases in the population over the age of 60 and decreases in the population under 30. A tax incentive directed at families with children could make these localities more attractive for people of working and childbearing age.

The Commission on Local Government voiced support for a holistic approach that included short-term measures to stop or slow the population loss and long-term measures that encouraged growth through new businesses and government services in the affected localities. The representative for Sussex County agreed and suggested that whatever measures are eventually adopted contain a sunset clause that allows sufficient time to evaluate whether or not it has an impact. The representative from Tazewell County asked about the aggregate tax revenue from the respective localities and whether it could be used as a metric to measure the effectiveness of a tax incentive.

The Department answered that its annual report contains data on taxable income and taxes paid by county. With regards to tracking where individuals were moving to when they left these localities and whether they were in fact leaving the state, county registrars, Department of Motor Vehicle ("DMV") records, and data from Weldon Cooper Center for Public Service were mentioned as possibilities.

In closing, Senator Hackworth's Legislative Director reiterated that individual income tax incentives were only one of the "tools in the toolbox" and that the Senator is working with other members of the General Assembly on other related issues such as housing shortages and economic development.

Written Comments

The Dickenson County Administrator submitted a letter that stated its population loss over the last decade was 12.6% and that it currently has an unemployment rate of 4.1%. The reduction in the county's population has made it more difficult to attract new industry. In addition, Dickenson County's proximity to neighboring states that can provide stronger workforces and offer incentives has not only impacted its population but its economic development as well. The Dickenson County Administrator, while in favor of income tax incentives, recognizes that those incentives will not fix all of its issues, but would be an "extra tool in the toolbox" as Senator Hackworth stated in the stakeholders meeting.

From Smyth County, the Department received two letters: one from the County Administrator, Shawn Utt, and one from the Director of Community and Economic Development, Kendra Hayden. Both letters mentioned the disadvantages that Smyth County and other counties in Southwest Virginia face due to their proximity to surrounding states that offer more favorable financial conditions such as West Virginia, Kentucky, Tennessee, and North Carolina. They argued that those more attractive financial conditions, in addition to high unemployment and poverty rates within Symth County, have contributed to the significant population loss experienced recently. Smyth County experienced a population decline of 9.8 percent over the last decade. Both letters were supportive of some type of income tax incentive to stem population decline and support economic growth in Smyth and other Southwest Virgina counties. The letters also recognized that such an incentive is not a comprehensive solution but instead is an important tool in those counties' economic development toolbox.

The Tazewell County Administrator reiterated many of the points he made during the stakeholders meeting. He again highlighted the decline of the coal, steel, and textile industry in Southwest Virginia generally and Tazewell County specifically. As ancillary businesses that had previously served the coal industry, such as steel, machinery, ceramics, batteries, and electronics, began to export their products to markets in the Midwest and Northeast, their remote location became an impediment because of the need to incorporate higher transportation costs into their prices. While those businesses were able to overcome this disadvantage with lower wages that the lower cost of living in Southwest Virginia allowed, the recent drastic increases in the minimum wage has eroded that advantage. Coupled with the increasing cost of living in the region, local manufacturers have been forced to raise pay to keep skilled workers and this additional cost makes them less competitive in their traditional markets in West Virginia, Tennessee, and beyond. The letter cited industries in Bluefield, Virginia and Tazewell County's work with their Industrial Development Authority and the Virginia Coalfield Economic Development Authority using local revenues to provide low interest loans and local tax incentives as efforts to keep businesses from relocating to West Virginia. Despite using millions of local revenues in a bid to retain businesses, Tazewell County fears that those efforts will not be sufficient in the long run and believes that an income tax incentive like the one proposed by Senator Hackworth could help recover Tazewell County's competitive advantage by easing wage pressure on its key businesses.

The Wise County Administrator's letter of support pointed out that its 12.8 percent decline in population over the past decade resulted in a strained economic environment for local businesses. He views an income tax incentive as "not merely a financial gesture but a strategic move to retain and attract skilled workers to support our businesses." He cited what has become a common refrain, that local businesses are under pressure as skilled workers increasingly move to neighboring states such as West Virginia, Kentucky, and Tennessee due to more favorable tax conditions and lower cost of living. Pointing out that this exodus of workers not only depletes the local workforce but also results in lost income tax revenue for Virginia, the Wise County Administrator argued that the modest negative revenue impact of implementing targeted income tax incentives would lead to long-term benefits by stabilizing the local economy and fostering sustainable growth.

Please see Appendix F for the written comments that the Department and the Commission received.

Aggregate Individual Income Tax from the Respective Localities

Because the stakeholders were interested in the aggregate individual income tax revenue from the respective localities, the Department compiled preliminary data by locality from Taxable Year 2022 taxpayer filings. See Appendix G, Total Individual Income Tax Revenue from Affected Localities. Please note that the revenue impact estimated for the Patron's substitute version of Senate Bill 564 that was offered during the 2024 General Assembly Session was considerably less than the amounts shown in Appendix G. See Appendix D, Senate Bill 564 (2024) Patron Substitute Fiscal Impact Statement. This is because the substitute bill did not offer a full subtraction; instead, the subtraction in the substitute version of the bill would have been $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029.

Cost of Living Increases

Because several workgroup members were interested in cost of living ("COL") increases in the affected localities, the Department analyzed data from the U.S. Bureau of Labor Statistics. Typically, COL is measured using the Consumer Price Index ("CPI"), which does not provide detail at a county or city level. The CPI COL data is generally broken down on a regional level. The COL for localities in the South Region with populations less than 2.5 million went from below-average increases of 1.3 percent in 2019 and 1.0 percent in 2020 to increases significantly above average of 5.3 percent in 2021, 8.4 percent in 2022, and 4.4 percent in 2023. This compares with 2.7 percent average annual increases in COL over the 10-year period in the South Region, which was the same as the national average. See Appendix H, Cost of Living Increases in the South Region by Population. Please note that, while there is overlap between the localities being considered in this study and the localities included in the South Region as defined by the U.S. Bureau of Labor Statistics, the COL data cited is not specific to the localities included in the study.

Population Decline and Unemployment Rates

Some of the information provided by stakeholders during the meeting regarding the population decline and unemployment rates in certain localities differs from the information as calculated by the Department in Appendix D and Appendix G. This discrepancy is due to different time periods or years used to calculate the information provided. The Department used the ten-year time period of 2013 to 2023 to calculate the numbers used in the Appendices.

Specific Questions for Further Study

The Commission for Local Government expressed interest in exploring whether the anecdotal data on the relevant demographic changes can be quantified or verified. The Commission further suggested that one potential source of such data is the IRS's annual county-by-county reports on migration which is based on where taxpayers file their income tax returns. Attached as Appendix M is IRS data regarding migration outflow from Virginia localities included in the study.

Other Similar Tax Incentives

In order to address questions that were raised regarding similar programs in other states, the Department conducted research on individual income tax incentives targeting population decline. While many states attempt to attract jobs to economically distressed areas of the state by offering businesses tax credits or other tax incentives, the Department has only identified one state, Kansas, that offers individual income tax incentives for people moving to economically-distressed areas. The details of the Kansas program called Kansas Rural Opportunity Zones are provided below.

Instead of offering an individual income tax incentive, it appears that several states offer a cash incentive and other non-tax benefits for moving to a state or economically-distressed areas of a state. Of Virginia's neighboring states, the Department identified West Virginia as offering such a program, known as Ascend West Virginia. Details on this program are provided below.

Kansas Rural Opportunity Zones

In 2011, Kansas enacted the "Kansas Rural Opportunity Zones" program. The program allows individuals who move to specified counties in Kansas as full-time residents and who have not lived in nor received significant income from Kansas in the last 5 years to receive one or both of the following:

- A 100 percent state income tax credit, and/or
- Student loan repayment assistance.

When originally implemented, 50 counties were designated as Rural Opportunity Zones ("ROZs"). See Appendix I, Kansas Department of Commerce, Rural Opportunity Zones 2021 Overview/Updates. The number of qualifying counties has increased over the years, and it now includes 95 of the 105 counties in Kansas.

According to a report from the Kansas Legislative Division of Post Audit regarding data from 2012 to 2022, approximately 1,670 individuals participated in student loan repayment assistance, and 1,700 participated in the 100 percent state income tax credits through the program. See Appendix J, Kansas Legislative Division of Post Audit, Evaluating the Rural Opportunity Zones Program. The student loan repayment assistance program is a state-locality partnership with each paying 50 percent of the benefit. The report notes that some localities do not have the funding to sponsor ROZ participants, which results in some qualified individuals not receiving a student loan repayment assistance benefit. Individuals may receive the state income tax credit benefit for up to five years. In contrast to the student loan repayment assistance, the income tax credit benefit is funded entirely by the state, so all eligible individuals may receive the benefit and are not subject to local funding restraints. The sunset date for this program has been extended several times. Currently, the program is scheduled to sunset after Taxable Year 2026.

Ascend West Virginia

Beginning in 2021 with a test group of 50, West Virginia created a public-private joint program called "Ascend West Virginia." See Appendix K, WV News, West Virginia launches "Ascend" program. The program targets remote workers looking for a lower cost of living and are interested in outdoor recreation opportunities located in West Virginia. This program offers a $12,000 cash incentive to move to West Virginia for two years, structured as a $10,000 payment in year one and a $2,000 in year two. The program also includes a free year's worth of certain types of outdoor recreation. Currently only 1,000 people per year can qualify for the program. According to news reports, West Virginia received 42,000 applications for the 1,000 slots available for the most recent program year. See Appendix L, WV News, Ascend West Virginia Program Attracts 42,000 Applications.

Conclusions and Findings

The study mandated by 2024 Senate Bill 564 brought together representatives from double distressed localities experiencing population loss, the patron's office, and the two agencies conducting the study. The Department and the Commission are grateful to all that participated and provided input for this report. The study identified the following areas of consensus:

1. Study participants were generally supportive of a potential income tax incentive targeted to the localities in question.

2. There was agreement that any such income tax incentive would not be a comprehensive solution to ending or reversing population loss in those localities.

3. Input from other stakeholders such as business and industry groups would be beneficial in developing policy options other than individual income tax incentives that address the needs of those localities.

Appendix A: 2024 Acts of Assembly, Chapter 599

VIRGINIA ACTS OF ASSEMBLY -- 2024 SESSION

CHAPTER 599

An Act to direct the Department of Taxation and Commission on Local Government to assess the need for income tax relief in certain double distressed localities in the Commonwealth.

[S 564]

Approved April 5, 2024

Be it enacted by the General Assembly of Virginia:

1. *§ 1. That the Department of Taxation and the Commission on Local Government (the Commission) shall assess the need for income tax relief in double distressed localities across the Commonwealth that have suffered a significant loss of population since 2013. For purposes of this act, "double distressed locality" means a Virginia locality (i) with an annual unemployment rate for the most recent calendar year for which such data is available as of December 31, 2023, that is greater than the final statewide average unemployment rate for that calendar year and (ii) with a poverty rate for the most recent calendar year for which such data is available as of December 31, 2023, that exceeds the statewide average poverty rate for that calendar year. The assessment shall include (a) determining the cost-of-living increase experienced in such localities over the past decade, (b) determining whether income tax relief would alleviate population loss and fiscal distress in such localities, and (c) investigating tax policy options to alleviate the burden of income taxes on populations in double distressed localities that have suffered a significant loss of population since 2013. The Department of Taxation and the Commission shall collaborate with relevant stakeholders in double distressed localities in conducting their assessment. The Department of Taxation and the Commission shall report their recommendations to the Governor and the Chairmen of the Senate Committee on Finance and Appropriations and the House Committees on Finance and Appropriations by November 1, 2024.*

Appendix B: 2024 Senate Bill 564, Introduced

24102342D

SENATE BILL NO. 564

Offered January 10, 2024

Prefiled January 10, 2024

A BILL to amend and reenact § 58.1-322.02 of the Code of Virginia, relating to individual income tax subtraction; income in certain localities.

Patrons—Hackworth, Aird, Jordan and Pillion

Referred to Committee on Finance and Appropriations

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-322.02 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-322.02. Virginia taxable income; subtractions.

In computing Virginia taxable income pursuant to § 58.1-322, to the extent included in federal adjusted gross income, there shall be subtracted:

1. Income derived from obligations, or on the sale or exchange of obligations, of the United States and on obligations or securities of any authority, commission, or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States, including, but not limited to, stocks, bonds, treasury bills, and treasury notes but not including interest on refunds of federal taxes, interest on equipment purchase contracts, or interest on other normal business transactions.

2. Income derived from obligations, or on the sale or exchange of obligations, of the Commonwealth or of any political subdivision or instrumentality of the Commonwealth.

3. Benefits received under Title II of the Social Security Act and other benefits subject to federal income taxation solely pursuant to § 86 of the Internal Revenue Code.

4. Up to $20,000 of disability income, as defined in § 22(c)(2)(B)(iii) of the Internal Revenue Code; however, any person who claims a deduction under subdivision 5 of § 58.1-322.03 may not also claim a subtraction under this subdivision.

5. The amount of any refund or credit for overpayment of income taxes imposed by the Commonwealth or any other taxing jurisdiction.

6. The amount of wages or salaries eligible for the federal Work Opportunity Credit which was not deducted for federal purposes on account of the provisions of § 280C(a) of the Internal Revenue Code.

7. Any amount included therein less than $600 from a prize awarded by the Virginia Lottery.

8. The wages or salaries received by any person for active and inactive service in the National Guard of the Commonwealth of Virginia, (i) for taxable years beginning before January 1, 2023, not to exceed the amount of income derived from 39 calendar days of such service or $3,000, whichever amount is less; however, only those persons in the ranks of O3 and below shall be entitled to the subtractions specified in this clause, and (ii) for taxable years beginning on or after January 1, 2023, not to exceed the amount of income derived from 39 calendar days of such service or $5,500, whichever amount is less; however, only those persons in the ranks of O6 and below shall be entitled to the subtractions specified in this clause.

9. Amounts received by an individual, not to exceed $1,000 for taxable years beginning on or before December 31, 2019, and $5,000 for taxable years beginning on or after January 1, 2020, as a reward for information provided to a law-enforcement official or agency, or to a nonprofit corporation created exclusively to assist such law-enforcement official or agency, in the apprehension and conviction of perpetrators of crimes. This subdivision shall not apply to the following: an individual who is an employee of, or under contract with, a law-enforcement agency, a victim or the perpetrator of the crime for which the reward was paid, or any person who is compensated for the investigation of crimes or accidents.

10. The amount of "qualified research expenses" or "basic research expenses" eligible for deduction for federal purposes, but which were not deducted, on account of the provisions of § 280C(c) of the Internal Revenue Code and which shall be available to partners, shareholders of S corporations, and members of limited liability companies to the extent and in the same manner as other deductions may pass through to such partners, shareholders, and members.

11. Any income received during the taxable year derived from a qualified pension, profit-sharing, or stock bonus plan as described by § 401 of the Internal Revenue Code, an individual retirement account or annuity established under § 408 of the Internal Revenue Code, a deferred compensation plan as defined by § 457 of the Internal Revenue Code, or any federal government retirement program, the contributions to which were deductible from the taxpayer's federal adjusted gross income, but only to the extent the contributions to such plan or program were subject to taxation under the income tax in

another state.

12. Any income attributable to a distribution of benefits or a refund from a prepaid tuition contract or savings trust account with the Virginia College Savings Plan, created pursuant to Chapter 7 (§ 23.1-700 et seq.) of Title 23.1. The subtraction for any income attributable to a refund shall be limited to income attributable to a refund in the event of a beneficiary's death, disability, or receipt of a scholarship.

13. All military pay and allowances, to the extent included in federal adjusted gross income and not otherwise subtracted, deducted, or exempted under this section, earned by military personnel while serving by order of the President of the United States with the consent of Congress in a combat zone or qualified hazardous duty area that is treated as a combat zone for federal tax purposes pursuant to § 112 of the Internal Revenue Code.

14. For taxable years beginning before January 1, 2015, the gain derived from the sale or exchange of real property or the sale or exchange of an easement to real property which results in the real property or the easement thereto being devoted to open-space use, as that term is defined in § 58.1-3230, for a period of time not less than 30 years. To the extent that a subtraction is taken in accordance with this subdivision, no tax credit under this chapter for donating land for its preservation shall be allowed for three years following the year in which the subtraction is taken.

15. Fifteen thousand dollars of military basic pay for military service personnel on extended active duty for periods in excess of 90 days; however, the subtraction amount shall be reduced dollar-for-dollar by the amount by which the taxpayer's military basic pay exceeds $15,000 and shall be reduced to zero if such military basic pay amount is equal to or exceeds $30,000.

16. The first $15,000 of salary for each federal and state employee whose total annual salary from all employment for the taxable year is $15,000 or less.

17. Unemployment benefits taxable pursuant to § 85 of the Internal Revenue Code.

18. a. Any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.

b. For taxable years beginning on and after January 1, 2022, but before January 1, 2023, up to $10,000 of military benefits; and for taxable years beginning on and after January 1, 2023, but before January 1, 2024, up to $20,000 of military benefits.

c. For taxable years beginning on and after January 1, 2024, but before January 1, 2025, up to $30,000 of military benefits; and for taxable years beginning on and after January 1, 2025, up to $40,000 of military benefits.

d. For purposes of subdivisions b and c, "military benefits" means any (i) military retirement income received for service in the Armed Forces of the United States, (ii) qualified military benefits received pursuant to § 134 of the Internal Revenue Code, (iii) benefits paid to the surviving spouse of a veteran of the Armed Forces of the United States under the Survivor Benefit Plan program established by the U.S. Department of Defense, and (iv) military benefits paid to the surviving spouse of a veteran of the Armed Forces of the United States. The subtraction allowed by subdivision b shall be allowed only for military benefits received by an individual age 55 or older. The subtraction allowed by subdivision c shall be allowed for military benefits received by an individual of any age. No subtraction shall be allowed pursuant to subdivisions b and c if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to subdivision a or any other provision of Virginia or federal law.

19. Items of income attributable to, derived from, or in any way related to (i) assets stolen from, hidden from, or otherwise lost by an individual who was a victim or target of Nazi persecution or (ii) damages, reparations, or other consideration received by a victim or target of Nazi persecution to compensate such individual for performing labor against his will under the threat of death, during World War II and its prelude and direct aftermath. This subtraction shall not apply to assets acquired with such items of income or with the proceeds from the sale of assets stolen from, hidden from, or otherwise lost to, during World War II and its prelude and direct aftermath, a victim or target of Nazi persecution. The provisions of this subdivision shall only apply to an individual who was the first recipient of such items of income and who was a victim or target of Nazi persecution, or a spouse, surviving spouse, or child or stepchild of such victim.

As used in this subdivision:

"Nazi regime" means the country of Nazi Germany, areas occupied by Nazi Germany, those European countries allied with Nazi Germany, or any other neutral European country or area in Europe under the influence or threat of Nazi invasion.

"Victim or target of Nazi persecution" means any individual persecuted or targeted for persecution by the Nazi regime who had assets stolen from, hidden from, or otherwise lost as a result of any act or omission in any way relating to (i) the Holocaust, (ii) World War II and its prelude and direct aftermath, (iii) transactions with or actions of the Nazi regime, (iv) treatment of refugees fleeing Nazi persecution, or (v) the holding of such assets by entities or persons in the Swiss Confederation during World War II and its prelude and aftermath. A "victim or target of Nazi persecution" also includes any individual forced into labor against his will, under the threat of death, during World War II and its prelude and direct aftermath.

20. The military death gratuity payment made after September 11, 2001, to the survivor of deceased military personnel killed in the line of duty, pursuant to 10 U.S.C. Chapter 75; however, the subtraction amount shall be reduced dollar-for-dollar by the amount that the survivor may exclude from his federal gross income in accordance with § 134 of the Internal Revenue Code.

21. The death benefit payments from an annuity contract that are received by a beneficiary of such contract, provided that (i) the death benefit payment is made pursuant to an annuity contract with an insurance company and (ii) the death benefit payment is paid solely by lump sum. The subtraction under this subdivision shall be allowed only for that portion of the death benefit payment that is included in federal adjusted gross income.

22. Any gain recognized from the sale of launch services to space flight participants, as defined in 49 U.S.C. § 70102, or launch services intended to provide individuals with the training or experience of a launch, without performing an actual launch. To qualify for a deduction under this subdivision, launch services must be performed in Virginia or originate from an airport or spaceport in Virginia.

23. Any gain recognized as a result of resupply services contracts for delivering payload, as defined in 49 U.S.C. § 70102, entered into with the Commercial Orbital Transportation Services division of the National Aeronautics and Space Administration or other space flight entity, as defined in § 8.01-227.8, and launched from an airport or spaceport in Virginia.

24. Any income taxed as a long-term capital gain for federal income tax purposes, or any income taxed as investment services partnership interest income (otherwise known as investment partnership carried interest income) for federal income tax purposes. To qualify for a subtraction under this subdivision, such income shall be attributable to an investment in a "qualified business," as defined in § 58.1-339.4, or in any other technology business approved by the Secretary of Administration, provided that the business has its principal office or facility in the Commonwealth and less than $3 million in annual revenues in the fiscal year prior to the investment. To qualify for a subtraction under this subdivision, the investment shall be made between the dates of April 1, 2010, and June 30, 2020. No taxpayer who has claimed a tax credit for an investment in a "qualified business" under § 58.1-339.4 shall be eligible for the subtraction under this subdivision for an investment in the same business.

25. For taxable years beginning on and after January 1, 2014, any income of an account holder for the taxable year taxed as (i) a capital gain for federal income tax purposes attributable to such person's first-time home buyer savings account established pursuant to Chapter 12 (§ 36-171 et seq.) of Title 36 and (ii) interest income or other income for federal income tax purposes attributable to such person's first-time home buyer savings account.

Notwithstanding the statute of limitations on assessments contained in § 58.1-312, any subtraction taken under this subdivision shall be subject to recapture in the taxable year or years in which moneys or funds withdrawn from the first-time home buyer savings account were used for any purpose other than the payment of eligible costs by or on behalf of a qualified beneficiary, as provided under § 36-174. The amount subject to recapture shall be a portion of the amount withdrawn in the taxable year that was used for other than the payment of eligible costs, computed by multiplying the amount withdrawn and used for other than the payment of eligible costs by the ratio of the aggregate earnings in the account at the time of the withdrawal to the total balance in the account at such time.

However, recapture shall not apply to the extent of moneys or funds withdrawn that were (i) withdrawn by reason of the qualified beneficiary's death or disability; (ii) a disbursement of assets of the account pursuant to a filing for protection under the United States Bankruptcy Code, 11 U.S.C. §§ 101 through 1330; or (iii) transferred from an account established pursuant to Chapter 12 (§ 36-171 et seq.) of Title 36 into another account established pursuant to such chapter for the benefit of another qualified beneficiary.

For purposes of this subdivision, "account holder," "eligible costs," "first-time home buyer savings account," and "qualified beneficiary" mean the same as those terms are defined in § 36-171.

26. For taxable years beginning on and after January 1, 2015, any income for the taxable year attributable to the discharge of a student loan solely by reason of the student's death. For purposes of this subdivision, "student loan" means the same as that term is defined under § 108(f) of the Internal Revenue Code.

27. a. Income, including investment services partnership interest income (otherwise known as investment partnership carried interest income), attributable to an investment in a Virginia venture capital account. To qualify for a subtraction under this subdivision, the investment shall be made on or after January 1, 2018, but before December 31, 2023. No subtraction shall be allowed under this subdivision for an investment in a company that is owned or operated by a family member or an affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has claimed a subtraction under subdivision 24 or a tax credit under § 58.1-339.4 for the same investment.

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b. As used in this subdivision 27:

"Qualified portfolio company" means a company that (i) has its principal place of business in the Commonwealth; (ii) has a primary purpose of production, sale, research, or development of a product or service other than the management or investment of capital; and (iii) provides equity in the company to the Virginia venture capital account in exchange for a capital investment. "Qualified portfolio company" does not include a company that is an individual or sole proprietorship.

"Virginia venture capital account" means an investment fund that has been certified by the Department as a Virginia venture capital account. In order to be certified as a Virginia venture capital account, the operator of the investment fund shall register the investment fund with the Department prior to December 31, 2023, (i) indicating that it intends to invest at least 50 percent of the capital committed to its fund in qualified portfolio companies and (ii) providing documentation that it employs at least one investor who has at least four years of professional experience in venture capital investment or substantially equivalent experience. "Substantially equivalent experience" includes, but is not limited to, an undergraduate degree from an accredited college or university in economics, finance, or a similar field of study. The Department may require an investment fund to provide documentation of the investor's training, education, or experience as deemed necessary by the Department to determine substantial equivalency. If the Department determines that the investment fund employs at least one investor with the experience set forth herein, the Department shall certify the investment fund as a Virginia venture capital account at such time as the investment fund actually invests at least 50 percent of the capital committed to its fund in qualified portfolio companies.

28. a. Income attributable to an investment in a Virginia real estate investment trust. To qualify for a subtraction under this subdivision, the investment shall be made on or after January 1, 2019, but before December 31, 2024. No subtraction shall be allowed for an investment in a trust that is managed by a family member or an affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has claimed a subtraction under subdivision 24 or 27 or a tax credit under § 58.1-339.4 for the same investment.

b. As used in this subdivision 28:

"Distressed" means satisfying the criteria applicable to a locality described in subdivision E 2 of § 2.2-115.

"Double distressed" means satisfying the criteria applicable to a locality described in subdivision E 3 of § 2.2-115.

"Virginia real estate investment trust" means a real estate investment trust, as defined in 26 U.S.C. § 856, that has been certified by the Department as a Virginia real estate investment trust. In order to be certified as a Virginia real estate investment trust, the trustee shall register the trust with the Department prior to December 31, 2024, indicating that it intends to invest at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed. If the Department determines that the trust satisfies the preceding criteria, the Department shall certify the trust as a Virginia real estate investment trust at such time as the trust actually invests at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed.

29. For taxable years beginning on and after January 1, 2019, any gain recognized from the taking of real property by condemnation proceedings.

30. For taxable years beginning before January 1, 2021, up to $100,000 of all grant funds received by the taxpayer under the Rebuild Virginia program established by the Governor and administered by the Department of Small Business and Supplier Diversity.

31. For taxable years beginning on and after January 1, 2022, any compensation for wrongful incarceration awarded pursuant to the procedures established under Article 18.2 (§ 8.01-195.10 et seq.) of Chapter 3 of Title 8.01.

32. For taxable years beginning on and after January 1, 2024, up to $36,450 of income earned by a resident of a Virginia locality (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year, (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year, and (iii) that experienced an aggregate population loss of at least eight percent since January 1, 2020 based on the latest U.S. census or the latest population estimates made by the Weldon Cooper Center for Public Service of the University of Virginia, whichever is more recent.

Appendix C: 2024 Senate Bill 564, Patron Substitute

SENATE BILL NO. 564

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Finance and Appropriations

on ________________)

(Patron Prior to Substitute--Senator Hackworth)

A BILL to amend and reenact § 58.1-322.02 of the Code of Virginia, relating to individual income tax subtraction; certain double distressed localities.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-322.02 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-322.02. Virginia taxable income; subtractions.

In computing Virginia taxable income pursuant to § 58.1-322, to the extent included in federal adjusted gross income, there shall be subtracted:

1. Income derived from obligations, or on the sale or exchange of obligations, of the United States and on obligations or securities of any authority, commission, or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States, including, but not limited to, stocks, bonds, treasury bills, and treasury notes but not including interest on refunds of federal taxes, interest on equipment purchase contracts, or interest on other normal business transactions.

2. Income derived from obligations, or on the sale or exchange of obligations, of the Commonwealth or of any political subdivision or instrumentality of the Commonwealth.

3. Benefits received under Title II of the Social Security Act and other benefits subject to federal income taxation solely pursuant to § 86 of the Internal Revenue Code.

4. Up to $20,000 of disability income, as defined in § 22(c)(2)(B)(iii) of the Internal Revenue Code; however, any person who claims a deduction under subdivision 5 of § 58.1-322.03 may not also claim a subtraction under this subdivision.

5. The amount of any refund or credit for overpayment of income taxes imposed by the Commonwealth or any other taxing jurisdiction.

6. The amount of wages or salaries eligible for the federal Work Opportunity Credit which was not deducted for federal purposes on account of the provisions of § 280C(a) of the Internal Revenue Code.

7. Any amount included therein less than $600 from a prize awarded by the Virginia Lottery.

8. The wages or salaries received by any person for active and inactive service in the National Guard of the Commonwealth of Virginia, (i) for taxable years beginning before January 1, 2023, not to exceed the amount of income derived from 39 calendar days of such service or $3,000, whichever amount is less; however, only those persons in the ranks of O3 and below shall be entitled to the subtractions specified in this clause, and (ii) for taxable years beginning on or after January 1, 2023, not to exceed the amount of income derived from 39 calendar days of such service or $5,500, whichever amount is less; however, only those persons in the ranks of O6 and below shall be entitled to the subtractions specified in this clause.

9. Amounts received by an individual, not to exceed $1,000 for taxable years beginning on or before December 31, 2019, and $5,000 for taxable years beginning on or after January 1, 2020, as a reward for information provided to a law-enforcement official or agency, or to a nonprofit corporation created exclusively to assist such law-enforcement official or agency, in the apprehension and conviction of perpetrators of crimes. This subdivision shall not apply to the following: an individual who is an employee of, or under contract with, a law-enforcement agency, a victim or the perpetrator of the crime for which the reward was paid, or any person who is compensated for the investigation of crimes or accidents.

10. The amount of "qualified research expenses" or "basic research expenses" eligible for deduction for federal purposes, but which were not deducted, on account of the provisions of § 280C(c) of the Internal Revenue Code and which shall be available to partners, shareholders of S corporations, and members of limited liability companies to the extent and in the same manner as other deductions may pass through to such partners, shareholders, and members.

11. Any income received during the taxable year derived from a qualified pension, profit-sharing, or stock bonus plan as described by § 401 of the Internal Revenue Code, an individual retirement account or annuity established under § 408 of the Internal Revenue Code, a deferred compensation plan as defined by § 457 of the Internal Revenue Code, or any federal government retirement program, the contributions

to which were deductible from the taxpayer's federal adjusted gross income, but only to the extent the contributions to such plan or program were subject to taxation under the income tax in another state.

12. Any income attributable to a distribution of benefits or a refund from a prepaid tuition contract or savings trust account with the Virginia College Savings Plan, created pursuant to Chapter 7 (§ 23.1-700 et seq.) of Title 23.1. The subtraction for any income attributable to a refund shall be limited to income attributable to a refund in the event of a beneficiary's death, disability, or receipt of a scholarship.

13. All military pay and allowances, to the extent included in federal adjusted gross income and not otherwise subtracted, deducted, or exempted under this section, earned by military personnel while serving by order of the President of the United States with the consent of Congress in a combat zone or qualified hazardous duty area that is treated as a combat zone for federal tax purposes pursuant to § 112 of the Internal Revenue Code.

14. For taxable years beginning before January 1, 2015, the gain derived from the sale or exchange of real property or the sale or exchange of an easement to real property which results in the real property or the easement thereto being devoted to open-space use, as that term is defined in § 58.1-3230, for a period of time not less than 30 years. To the extent that a subtraction is taken in accordance with this subdivision, no tax credit under this chapter for donating land for its preservation shall be allowed for three years following the year in which the subtraction is taken.

15. Fifteen thousand dollars of military basic pay for military service personnel on extended active duty for periods in excess of 90 days; however, the subtraction amount shall be reduced dollar-for-dollar by the amount by which the taxpayer's military basic pay exceeds $15,000 and shall be reduced to zero if such military basic pay amount is equal to or exceeds $30,000.

16. The first $15,000 of salary for each federal and state employee whose total annual salary from all employment for the taxable year is $15,000 or less.

17. Unemployment benefits taxable pursuant to § 85 of the Internal Revenue Code.

18. a. Any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.

b. For taxable years beginning on and after January 1, 2022, but before January 1, 2023, up to $10,000 of military benefits; and for taxable years beginning on and after January 1, 2023, but before January 1, 2024, up to $20,000 of military benefits.

c. For taxable years beginning on and after January 1, 2024, but before January 1, 2025, up to $30,000 of military benefits; and for taxable years beginning on and after January 1, 2025, up to $40,000 of military benefits.

d. For purposes of subdivisions b and c, "military benefits" means any (i) military retirement income received for service in the Armed Forces of the United States, (ii) qualified military benefits received pursuant to § 134 of the Internal Revenue Code, (iii) benefits paid to the surviving spouse of a veteran of the Armed Forces of the United States under the Survivor Benefit Plan program established by the U.S. Department of Defense, and (iv) military benefits paid to the surviving spouse of a veteran of the Armed Forces of the United States. The subtraction allowed by subdivision b shall be allowed only for military benefits received by an individual age 55 or older. The subtraction allowed by subdivision c shall be allowed for military benefits received by an individual of any age. No subtraction shall be allowed pursuant to subdivisions b and c if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to subdivision a or any other provision of Virginia or federal law.

19. Items of income attributable to, derived from, or in any way related to (i) assets stolen from, hidden from, or otherwise lost by an individual who was a victim or target of Nazi persecution or (ii) damages, reparations, or other consideration received by a victim or target of Nazi persecution to compensate such individual for performing labor against his will under the threat of death, during World War II and its prelude and direct aftermath. This subtraction shall not apply to assets acquired with such items of income or with the proceeds from the sale of assets stolen from, hidden from, or otherwise lost to, during World War II and its prelude and direct aftermath, a victim or target of Nazi persecution. The provisions of this subdivision shall only apply to an individual who was the first recipient of such items of income and who was a victim or target of Nazi persecution, or a spouse, surviving spouse, or child or stepchild of such victim.

As used in this subdivision:

"Nazi regime" means the country of Nazi Germany, areas occupied by Nazi Germany, those European countries allied with Nazi Germany, or any other neutral European country or area in Europe under the influence or threat of Nazi invasion.

"Victim or target of Nazi persecution" means any individual persecuted or targeted for persecution by the Nazi regime who had assets stolen from, hidden from, or otherwise lost as a result of any act or omission in any way relating to (i) the Holocaust, (ii) World War II and its prelude and direct aftermath, (iii) transactions with or actions of the Nazi regime, (iv) treatment of refugees fleeing Nazi persecution, or (v) the holding of such assets by entities or persons in the Swiss Confederation during World War II and its prelude and aftermath. A "victim or target of Nazi persecution" also includes any individual forced into labor against his will, under the threat of death, during World War II and its prelude and direct aftermath.

20. The military death gratuity payment made after September 11, 2001, to the survivor of deceased military personnel killed in the line of duty, pursuant to 10 U.S.C. Chapter 75; however, the subtraction amount shall be reduced dollar-for-dollar by the amount that the survivor may exclude from his federal gross income in accordance with § 134 of the Internal Revenue Code.

21. The death benefit payments from an annuity contract that are received by a beneficiary of such contract, provided that (i) the death benefit payment is made pursuant to an annuity contract with an insurance company and (ii) the death benefit payment is paid solely by lump sum. The subtraction under this subdivision shall be allowed only for that portion of the death benefit payment that is included in federal adjusted gross income.

22. Any gain recognized from the sale of launch services to space flight participants, as defined in 49 U.S.C. § 70102, or launch services intended to provide individuals with the training or experience of a launch, without performing an actual launch. To qualify for a deduction under this subdivision, launch services must be performed in Virginia or originate from an airport or spaceport in Virginia.

23. Any gain recognized as a result of resupply services contracts for delivering payload, as defined in 49 U.S.C. § 70102, entered into with the Commercial Orbital Transportation Services division of the

National Aeronautics and Space Administration or other space flight entity, as defined in § 8.01-227.8, and launched from an airport or spaceport in Virginia.

24. Any income taxed as a long-term capital gain for federal income tax purposes, or any income taxed as investment services partnership interest income (otherwise known as investment partnership carried interest income) for federal income tax purposes. To qualify for a subtraction under this subdivision, such income shall be attributable to an investment in a "qualified business," as defined in § 58.1-339.4, or in any other technology business approved by the Secretary of Administration, provided that the business has its principal office or facility in the Commonwealth and less than $3 million in annual revenues in the fiscal year prior to the investment. To qualify for a subtraction under this subdivision, the investment shall be made between the dates of April 1, 2010, and June 30, 2020. No taxpayer who has claimed a tax credit for an investment in a "qualified business" under § 58.1-339.4 shall be eligible for the subtraction under this subdivision for an investment in the same business.

25. For taxable years beginning on and after January 1, 2014, any income of an account holder for the taxable year taxed as (i) a capital gain for federal income tax purposes attributable to such person's first-time home buyer savings account established pursuant to Chapter 12 (§ 36-171 et seq.) of Title 36 and (ii) interest income or other income for federal income tax purposes attributable to such person's first-time home buyer savings account.

Notwithstanding the statute of limitations on assessments contained in § 58.1-312, any subtraction taken under this subdivision shall be subject to recapture in the taxable year or years in which moneys or funds withdrawn from the first-time home buyer savings account were used for any purpose other than the payment of eligible costs by or on behalf of a qualified beneficiary, as provided under § 36-174. The amount subject to recapture shall be a portion of the amount withdrawn in the taxable year that was used for other than the payment of eligible costs, computed by multiplying the amount withdrawn and used for other than the payment of eligible costs by the ratio of the aggregate earnings in the account at the time of the withdrawal to the total balance in the account at such time.

However, recapture shall not apply to the extent of moneys or funds withdrawn that were (i) withdrawn by reason of the qualified beneficiary's death or disability; (ii) a disbursement of assets of the account pursuant to a filing for protection under the United States Bankruptcy Code, 11 U.S.C. §§ 101 through 1330; or (iii) transferred from an account established pursuant to Chapter 12 (§ 36-171 et seq.) of Title 36 into another account established pursuant to such chapter for the benefit of another qualified beneficiary.

For purposes of this subdivision, "account holder," "eligible costs," "first-time home buyer savings account," and "qualified beneficiary" mean the same as those terms are defined in § 36-171.

26. For taxable years beginning on and after January 1, 2015, any income for the taxable year attributable to the discharge of a student loan solely by reason of the student's death. For purposes of this subdivision, "student loan" means the same as that term is defined under § 108(f) of the Internal Revenue Code.

27. a. Income, including investment services partnership interest income (otherwise known as investment partnership carried interest income), attributable to an investment in a Virginia venture capital account. To qualify for a subtraction under this subdivision, the investment shall be made on or after January 1, 2018, but before December 31, 2023. No subtraction shall be allowed under this subdivision for an investment in a company that is owned or operated by a family member or an affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has claimed a subtraction under subdivision 24 or a tax credit under § 58.1-339.4 for the same investment.

b. As used in this subdivision 27:

"Qualified portfolio company" means a company that (i) has its principal place of business in the Commonwealth; (ii) has a primary purpose of production, sale, research, or development of a product or service other than the management or investment of capital; and (iii) provides equity in the company to the Virginia venture capital account in exchange for a capital investment. "Qualified portfolio company" does not include a company that is an individual or sole proprietorship.

"Virginia venture capital account" means an investment fund that has been certified by the Department as a Virginia venture capital account. In order to be certified as a Virginia venture capital account, the operator of the investment fund shall register the investment fund with the Department prior to December 31, 2023, (i) indicating that it intends to invest at least 50 percent of the capital committed to its fund in qualified portfolio companies and (ii) providing documentation that it employs at least one investor who has at least four years of professional experience in venture capital investment or substantially equivalent experience. "Substantially equivalent experience" includes, but is not limited to, an undergraduate degree from an accredited college or university in economics, finance, or a similar field of study. The Department may require an investment fund to provide documentation of the investor's training, education, or experience as deemed necessary by the Department to determine substantial equivalency. If the Department determines that the investment fund employs at least one investor with the experience set forth herein, the Department shall certify the investment fund as a Virginia venture capital account at such time as the investment fund actually invests at least 50 percent of the capital committed to its fund in qualified portfolio companies.

28. a. Income attributable to an investment in a Virginia real estate investment trust. To qualify for a subtraction under this subdivision, the investment shall be made on or after January 1, 2019, but before December 31, 2024. No subtraction shall be allowed for an investment in a trust that is managed by a family member or an affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has claimed a subtraction under subdivision 24 or 27 or a tax credit under § 58.1-339.4 for the same investment.

b. As used in this subdivision 28:

"Distressed" means satisfying the criteria applicable to a locality described in subdivision E 2 of § 2.2-115.

"Double distressed" means satisfying the criteria applicable to a locality described in subdivision E 3 of § 2.2-115.

"Virginia real estate investment trust" means a real estate investment trust, as defined in 26 U.S.C. § 856, that has been certified by the Department as a Virginia real estate investment trust. In order to be certified as a Virginia real estate investment trust, the trustee shall register the trust with the Department prior to December 31, 2024, indicating that it intends to invest at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed. If the Department determines that the trust satisfies the preceding criteria, the Department shall certify the trust as a Virginia real estate investment trust at such time as the trust actually invests at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed.

29. For taxable years beginning on and after January 1, 2019, any gain recognized from the taking of real property by condemnation proceedings.

30. For taxable years beginning before January 1, 2021, up to $100,000 of all grant funds received by the taxpayer under the Rebuild Virginia program established by the Governor and administered by the Department of Small Business and Supplier Diversity.

31. For taxable years beginning on and after January 1, 2022, any compensation for wrongful incarceration awarded pursuant to the procedures established under Article 18.2 (§ 8.01-195.10 et seq.) of Chapter 3 of Title 8.01.

32. a. For taxable years beginning on and after January 1, 2025, but before January 1, 2026, up to $5,000 of income received by a resident of an eligible double distressed locality; for taxable years beginning on and after January 1, 2026, but before January 1, 2027, up to $10,000 of income received by a resident of an eligible double distressed locality; and for taxable years beginning on and after January 1, 2027, but before January 1, 2030, up to $15,000 of income received by a resident of an eligible double distressed locality.

b. For purposes of subdivision a, "eligible double distressed locality" means a locality (i) in Planning District 1, 2, 3, 13, 15, or 19; (ii) with an annual unemployment rate for the most recent calendar year for which such data is available as of December 31, 2023, that is greater than the final statewide average unemployment rate for that calendar year; (iii) with a poverty rate for the most recent calendar year for which such data is available as of December 31, 2023, that exceeds the statewide average poverty rate for that calendar year; and (iv) that experienced an aggregate population loss of at least 9.8 percent during the 10-year period ending December 31, 2023, based on the population estimates made by the Weldon Cooper Center for Public Service of the University of Virginia. No subtraction shall be allowed pursuant to subdivision a if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to any other provision of Virginia or federal law.

c. The Tax Commissioner shall develop guidelines for claiming the subtraction provided by subdivision a. Such guidelines shall be exempt from the provisions of the Administrative Process Act (§ 2.2-4000 et seq.) and shall, among other things, specify all localities that meet the "eligible double distressed locality" definition in subdivision b.

#

Appendix D: 2024 Senate Bill 564, Patron Substitute Fiscal Impact Statement

DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement

1. **Patron** T. Travis Hackworth

2. **Bill Number** SB 564
   House of Origin:
   ____ **Introduced**
   X **Substitute**
   ____ **Engrossed**

   Second House:
   ____ **In Committee**
   ____ **Substitute**
   ____ **Enrolled**

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax Subtraction for Income Earned in Qualified Virginia Counties

5. **Summary/Purpose:**

The Department of Taxation understands that the Patron intends to introduce a substitute. This fiscal impact statement is based upon the substitute.

This bill would establish an individual income tax subtraction for income received by a resident of an eligible double distressed locality. The amount of the subtraction would be $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

6. **Budget amendment necessary:** Yes.
   Item(s): Page 1, Revenue Estimates

7. **Fiscal Impact is Preliminary:** See Line 8.
   7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2024-25	($8.76 million)	GF
2025-26	($24.96 million)	GF
2026-27	($38.74 million)	GF
2027-28	($45.10 million)	GF
2028-29	($45.10 million)	GF
2029-30	($45.10 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would result in an estimated negative General Fund revenue impact of $8.76 million in FY 2025, $24.96 million in FY 2026, $38.74 million in FY 2027, and $45.10 million in FY 2028 through 2030.

Based upon the requirements of the bill, the ten localities that would qualify are: Brunswick, Buchanan, Charles City, Dickenson, Lee, Russell, Smyth, Sussex, Tazewell, and Wise. The following table shows the criteria by which these counties qualify:

County	Population % Change Over Last 10 Years	Unemployment Rate	Poverty Rate
Buchanan	-17.7%	4.7	26.9
Lee	-15.8%	3.8	24.4
Sussex	-15.0%	4.2	23.5
Brunswick	-13.6%	4.6	20.8
Dickenson	-13.2%	4.4	23.4
Tazewell	-12.1%	4.2	17.6
Russell	-12.1%	3.6	18.4
Wise	-11.6%	4.1	22.2
Charles City	-10.6%	3.1	11.8
Smyth	-9.8%	3.2	19.7
Virginia	**8.8%**	**2.9**	**10.6**

The Department's estimates are based upon residents of the above counties being eligible for the subtraction provided by this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Individual Income Tax Modifications

Federal Adjusted Gross Income

Virginia's Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income ("FAGI") as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

Virginia Adjusted Gross Income

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates Virginia adjusted gross income by making two types of adjustments: (1) "additions" which increase the amount of income taxable by Virginia and (2) "subtractions" which reduce such amount. These adjustments are made only to the extent that they have not already been included or excluded from FAGI.

Virginia Taxable Income

The taxpayer calculates his Virginia taxable income by making another type of modification referred to as "deductions," which further reduce the amount of income taxable by Virginia. These modifications are made regardless of federal treatment unless specifically stated otherwise in the provision.

Please find below an illustration of how taxable income is computed for federal and Virginia income tax purposes and how they interrelate:

Federal Income Tax	**Virginia Income Tax**
+Wages and Other Income	*=Federal Adjusted Gross Income ("FAGI")*
+Federal Adjustments	+Virginia Additions (only if not included in FAGI)
-Federal Adjustments	-Virginia Subtractions (only if not excluded from FAGI)
=Federal Adjusted Gross Income ("FAGI")	*=Virginia Adjusted Gross Income ("VAGI")*
-Federal Standard Deduction or Itemized Deductions	-Virginia Standard Deduction or Federal Itemized Deductions (depends on federal election)
-QBI Deduction	-Deduction for Virginia Exemptions
	-Virginia Deductions (regardless of federal treatment)
=Federal Taxable Income	*=Virginia Taxable Income*

Because this bill would establish a new Virginia subtraction, the amount allowed under this bill could be taken whether the taxpayer choses to take the Virginia standard deduction or itemized their deductions.

<u>Distressed and Double Distressed Localities</u>

"Distressed" localities are localities (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year or (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

"Double distressed" localities are localities (i) with an annual unemployment rate for the most recent calendar year for which such data is available that is greater than the final statewide average unemployment rate for that calendar year and (ii) with a poverty rate for the most recent calendar year for which such data is available that exceeds the statewide average poverty rate for that year.

Proposed Legislation

This bill would establish an individual income tax subtraction for income received by a resident of an eligible double distressed locality. The amount of the subtraction would be $5,000 for Taxable Year 2025, $10,000 for Taxable Year 2026, and $15,000 for Taxable Years 2027 through 2029.

An "eligible double distressed locality" would be defined as a locality:

- Located in Planning Districts 1, 2, 3, 13, 15, or 19;
- That has an annual unemployment rate for the most recent calendar year for which such data is available as of December 31, 2023 that is greater than the final statewide average unemployment rate for that calendar year;
- That has a poverty rate for the most recent calendar year for which such data is available as of December 31, 2023 that exceeds the statewide average poverty rate for that year; and
- That has an aggerated population loss of at least 9.8 percent during the ten-year period ending December 31, 2023 based on the population estimates made by the Weldon Cooper Center for Public Service of the University of Virginia.

The ten localities that would qualify for the subtraction under those criteria are: Brunswick, Buchanan, Charles City, Dickenson, Lee, Russell, Smyth, Sussex, Tazewell, and Wise.

No subtraction would be allowed if a credit, exemption, subtraction, or deduction is claimed for the same income pursuant to any other provision of Virginia or federal law.

This bill would require the Department to develop guidelines, exempt from the provisions of the Administrative Process Act, for claiming the subtraction. Those guidelines would, among other things, specify all localities that meet the "eligible double distressed locality" definition in the bill.

If any provision of the bill were held to be invalid or unconstitutional by a court of competent jurisdiction, that provision would not be deemed severable.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

cc : Secretary of Finance

Date: 2/6/2024 JLOF
SB564F161

Appendix E: Stakeholder Meeting Agenda

Senate Bill 564 Stakeholders' Meeting

June 27, 2024, 2 p.m.

1957 Westmoreland Street, Richmond, VA 23230

AGENDA

Introduction

- Welcome/Introductions

Legislation

- Review Senate Bill 564

Statement of Purpose

- *That the Department of Taxation and the Commission on Local Government (the Commission) shall assess the need for income tax relief in double distressed localities across the Commonwealth that have suffered a significant loss of population since 2013.*

Overview: Study Road Map

- Written comments—July 31
- Draft Report—September 16
- Additional written comments—October 1
- Final Report—November 1

Open Forum: Input and Discussion

- The cost-of-living increase experienced in such localities over the past decade.
- Whether income tax relief would alleviate population loss and fiscal distress in such localities.
- Tax policy options to alleviate the burden of income taxes on populations in double distressed localities that have suffered a significant loss of population since 2013.

Next Steps

- Written comments due by July 31
- Please send comments to James Ford at james.ford@tax.virginia.gov and Legrand Northcutt at legrand.northcutt@dhcd.virginia.gov

Closing

- James Ford, Virginia Department of Taxation
- Legrand Northcutt, Commission on Local Government

Appendix F: Written Comments from Locality Representatives Regarding Senate Bill 564 Study

DICKENSON COUNTY BOARD OF SUPERVISORS

SHELBIE WILLIS, Chair Kenady District	RICHARD THACKER Sandlick District	CHRIS HALL Willis District	County Administrator LARRY K. BARTON
PEGGY KISER, Vice Chair Ervinton District	RHONDA SLUSS Clintwood District		County Attorney WILLIAM J. STURGILL

July 17, 2024

Mr. Ryan Cunningham
Office of Tax Policy
Virginia Department of Taxation
P.O. Box 27185
Richmond, VA 23261-7185

Dear Mr. Cunningham:

As the County Administrator for the Dickenson County Board of Supervisors, I am writing this letter in support of Senate Bill 564, sponsored by Senator Travis Hackwork in the 2024 General Assembly Session. I would also like to thank the Department of Taxation and the Commission on Local Government for studying the important issue of tax policy for double-distressed localities who have experience significant population loss over the past decade. Dickenson County saw a 12.6% drop in population over the past decade and currently has an unemployment rate of 4.1%.

Dickenson County has been working hard to develop economic opportunities for its residents to help offset the decline of the coal industry, but faces many challenges. With reduction in the County's population, the ability to provide a workforce becomes increasingly difficult to attract new industry. Bordering the Commonwealth of Kentucky and close by States of Tennessee and West Virginia, it becomes even more challenging when potential businesses see a population that can provide a stronger work force and offer incentives we cannot compete with. Not only do we begin losing our residents to those States but economic growth as well.

Although we realize that this will not be a fix for all the issues facing Dickenson County, it certainly will be an "extra tool in the toolbox" as Senator Hackwork has stated and presented to the General Assembly.

On behalf of the Dickenson County Board of Supervisors, I want to thank you and your colleagues for considering our views on Senate Bill 564. The support of this Bill will be an asset to Dickenson County and the entire region as we seek not only to maintain our population, but to see it grow and move us closer to economic prosperity.

Sincerely,

Larry Barton, County Administrator
Dickenson County Board of Supervisors
Email: lbarton@dickensonva.org

LB/rdm

SMYTH
COUNTY, VA

Atkins District	*Charles E. Atkins*
Chilhowie District	*Michael L. Sturgill*
North Fork District	*Rick A. Billings*
Park District	*Kristopher S. Ratliff, DPh*
Royal Oak District	*S. Courtney Widener*
Rye Valley District	*W. Jason Parris*
Saltville District	*Roscoe D. Call*
County Administrator	*Shawn M. Utt*
Asst. County Administrator - Operations	*Lisa Richardson*
Asst. County Administrator - Development	*Clegg Williams*

July 30, 2024

Mr. Ryan Cunningham
Office of Tax Policy
Virginia Department of Taxation
P.O. Box 27185
Richmond, VA 23261-7185

Dear Mr. Cunningham,

I write this letter in support of SB564 patroned by Senator Hackworth related to the study of tax policy amendments for citizens of "double distressed" communities. As County Administrator of what I expect to have such a characterization, I believe we must be much more creative in how we reverse the negative trends in population loss, high unemployment/under-employment and increases in poverty levels.

Localities in Southwest Virginia are at a critical disadvantage due to our proximity to the surrounding states of West Virginia, Kentucky, Tennessee and North Carolina, all of which have more favorable financial conditions than what Virginia provides/requires. We have all experienced losses in our population due to those favorable conditions. With the proposed income tax reduction, the localities will be better equipped to begin to lure those lost residents and many others back to our communities. This selective income tax reduction should serve as a strategic investment in the long-term economic stability of our region and the Commonwealth as a whole.

We want to thank Sen. Hackworth for his vision, and the Virginia Department of Taxation and Commission on Local Government for allowing me to participate with the workgroup in this study and for encouraging all rural Virginians to provide written testimony and support for the proposed tax policy adjustments. It is this type of vision and thinking that will help turn our communities back into the economic drivers they once were. I stand ready to continue to serve as needed.

Sincerely,

Shawn M. Utt
County Administrator

#SMYTHSTRONG

Smyth County Board of Supervisors ~ 121 Bagley Circle, Suite 100 ~ Marion, VA 24354
Ph. (276) 783-3298 | Fax (276) 783-9314 | www.smythcounty.org

TAZEWELL COUNTY VIRGINIA

"Bound For Progress"

Andy Hrovatic, Chair
Western District

Aaron Gillespie, Vice Chair
Southern District

Kyle Cruey, Member
Northern District

Chuck Presley Member
Eastern District

Shanna Plaster, Member
Northwestern District

C. Eric Young
County Administrator

July 25, 2024

Mr. Ryan Cunningham
Office of Tax Policy
Virginia Department of Taxation
P.O. Box 27185
Richmond, VA 23261-7185

Via email: Ryan.Cunningham@tax.virginia.gov.

Re: 2024 SB564 Study Group

Dear Mr. Cunningham:

I write regarding the SB564 Study Group's solicitation of comments from stakeholders regarding the aforesaid bill, which in some form would provide personal income tax relief to individuals residing in distressed counties in Virginia that have experienced significant population loss since the 2010 US Census period. Thank you for the opportunity to participate as a member of the study group, attend the zoom conference, and to offer these additional thoughts.

I understand the purpose of the bill is to help reverse population decline in the subject counties. Low or no state income tax would be attractive generally to many. In that sense SB564 would be very helpful. However, it would be more helpful in addressing the underlying cause of population decline: the lack of employment opportunity. SB564 can keep jobs here by maintaining the employment base.

I am a native of Tazewell County, Virginia, graduating from Tazewell High School in 1989. I lived in Washington County, Henry County, Patrick County, Albemarle County and the City of Bristol, Virginia from 1989 to 2001. But I came home to Tazewell County in 2001 to practice law and have lived here since.

Having lived in all those counties in those times, I have witnessed the decline of the coal industry and the textile industry first hand. I often remember the gentleman who sold me my wife's engagement ring. He had been a coal miner from Buchanan County, who lost his job in the 1982 coal decline, moved to Martinsville to find work in textiles, and then lost his job when Tultex closed in 1999. With a humor perhaps only our people appreciate, he said, "I keep moving but it keeps following me."

The "It" he was talking about was the long steady decline of America's manufacturing. Living again in Tazewell County, I see empty store fronts, crumbling homes, and am haunted by memories of a time when our people's coal and steel built and rebuilt the world. If our businesses continue to close more residents will leave. This economic slide is not a new circumstance for our people. But we have seen recently a dramatic acceleration of this process threatening our communities' survival.

Yet we have a rich legacy of niche, ancillary businesses that once served the coal industry. We make steel here. We make machines here. We make ceramics here. We make batteries here. And we make electronics here. During the hay day of the coal industry those companies thrived because they were located at the heart of coal country. However, when coal declined and they began to export their products to markets in the Midwest and Northeast, their location became an impediment. They had difficulty competing because they had to incorporate those higher transportation costs into their price model.

For several decades those businesses overcame their geographic disadvantage with lower wages. The lower cost of living in Southwest Virginia allowed them to pay their workers less than their competitors had to pay in the Northeast.

However, recent sharp increases in Virginia's minimum wage have eroded that advantage. Minimum wage increases beginning in 2020 and continuing have driven the pay for unskilled jobs to near par for the pay for skilled jobs in Southwest Virginia. Additionally, the cost of living in Southwest Virginia has risen broadly as the minimum wage pushes overall costs more in line with the rest of the Commonwealth. These factors have forced local manufacturers to raise pay to keep skilled employees.

Adding this additional cost into the price of their goods makes them less competitive in their traditional markets: the cost of doing business in Tazewell County went up compared to Mercer County, West Virginia, Beckley, West Virginia, Sullivan County, Tennessee and other areas outside the Commonwealth.

This is especially true in the town of Bluefield, Virginia. Bluefield sits on the Virginia/West Virginia state line. They are joined at the hip with their siter City, Bluefield, West Virginia. Driving through town one would hardly know whether you were in the Commonwealth or the Mountain State on any given street. But the employers know.

In large part Bluefield, Virginia's manufacturing economy is premised on making mining machines for West Virginia mines or West Virginian mining companies. Interstate 77 located five miles to the east is a conduit for our county's manufacturing exports. Any day of the week convoys can be seen hauling machinery north.

However, once our wages par West Virginia's, I77 will haul Bluefield's businesses north once and forever. At some point they will not be able to overcome the transportation cost difference of operating in Tazewell County, if there is no longer a wage advantage.

There will be a day when it makes more sense for them to locate closer to their market. West Virginia's local governments are all too aware of this vulnerability and wait with baited breath and a basket of relocation incentives.

We work tirelessly with our Industrial Development Authority and the Virginia Coalfield Economic Development Authority using local revenues to provide low interest loans and local tax incentives to counterbalance this pressure. We have put millions of local revenue Dollars into keeping these businesses, but it is not going to be enough in the long run.

Senator Hackworth is right. SB564 is not a magic bullet to solve our economic ills. However, it can add to other local incentives and just may tip the balance in our favor and keep these businesses in Tazewell County.

A reduction in the state income tax would ease the wage pressure on our key businesses and hopefully keep them in the Commonwealth. If the employee nets more take-home pay, they will be more satisfied with their current wage and less likely to relocate elsewhere for higher pay. This means the employer pays less to keep employees and can charge less for her product. We can recover some of our competitive advantage through SB564.

For these reasons we support SB564 and any version thereof that provides income tax relief to our residents. Thank you for considering these comments. Let me know if I may be of any further assistance.

Sincerely,

C. Eric Young

C. Eric Young, Esq.
Tazewell County Administrator

Cc: Hon. Travis Hackworth, Senator
Members of the Tazewell County Board of Supervisors
Members of the Tazewell County IDA

Wise County Board of Supervisors

Office of the County Administrator

TELEPHONE (276) 328-2321
FAX (276) 328-9780

Michael W. Hatfield, P.E.

WISE COUNTY COURTHOUSE

P.O. BOX 570
WISE, VA 24293

July 19, 2024

Mr. Ryan Cunningham
Office of Tax Policy
Virginia Department of Taxation
P.O. Box 27185
Richmond, VA 23261-7185

RE: Tax Policy Study – Letter of Support

Dear Mr. Cunningham:

I am writing to extend my sincere gratitude to the Department of Taxation and the Commission on Local Government for undertaking the crucial study on tax policy for double-distressed localities facing significant population loss over the past decade.

Senate Bill 564, sponsored by Senator Travis Hackworth in the 2024 General Assembly Session, has brought much-needed attention to this pressing issue. As the County Administrator for Wise County, Virginia, I am deeply concerned about the economic challenges our community faces.

In Wise County we have witnessed a 12.8% decline in population over the past decade, resulting in a strained economic environment for local businesses. The proposal to provide tax incentives for current and future residents is not merely a financial gesture but a strategic move to retain and attract skilled workers to support our businesses.

Local businesses within Southwest Virginia, including those in Wise County are under immense pressure as talented employees increasingly migrate to neighboring states such as West Virginia, Kentucky, and Tennessee, seeking more favorable tax conditions and cost of living advantages. This outward migration not only depletes our workforce but also results in lost revenue for the Commonwealth of Virginia.

It is crucial to highlight that if a current Virginia resident relocates to a neighboring state, Virginia Taxation stands to lose all income tax revenue from that individual. Thus, implementing targeted tax incentives, although involving a modest adjustment to the Commonwealth's budget, promises long-term benefits by stabilizing our local economy and fostering sustainable growth.

I commend Mr. Cunningham and his colleagues for considering the input and support of stakeholders like the residents of Wise County, in advocating this "extra tool in the toolbox." It is imperative for our region of the Commonwealth to not only preserve our current population but also to cultivate an environment that attracts new residents and enhances economic prosperity.

Thank you once again for your attention to this critical matter. I look forward to the positive outcomes that this study may yield for our community and the broader region.

Sincerely,

Michael W. Hatfield

Michael W. Hatfield, P.E.
County Administrator

MWH/bm

SMYTH
COUNTY, VA

Smyth County, Virginia
121 Bagley Circle, Suite 100
Marion, Virginia 24354

July 30, 2024

Smyth County Economic Development
121 Bagley Circle, Suite 100
Marion, VA 24354

Mr. Ryan Cunningham
Office of Tax Policy
Virginia Department of Taxation
P.O. Box 27185
Richmond, VA 23261-7185

Dear Mr. Cunningham,

I would like to extend my gratitude to Senator Hackworth, the Department of Taxation, and the Commission on Local Government for undertaking the critical study of tax policy for double-distressed localities that have experienced significant population loss over the past decade.

This letter is written in strong support of Senate Bill 564, sponsored by Senator Travis Hackworth in the 2024 General Assembly Session. This bill aims to establish an individual income tax subtraction for residents of eligible localities, including Smyth County, in the heart of Southwest Virginia. As outlined in the bill, this tax subtraction would be phased-in over the first three years and sunset after five years, providing substantial financial relief and incentives for residents: $5,000 in 2025, $10,000 in 2026, and $15,000 from 2027 to 2029. After this period, the program's effectiveness would be evaluated by the General Assembly.

Smyth County has been facing economic challenges characterized by a significant population decline of 9.8% over the past decade, coupled with unemployment challenges and high poverty rates. The implementation of an income tax subtraction for residents in double-distressed localities like ours is an essential step towards reversing these trends. This incentive is crucial for attracting and retaining workers, which in turn supports our local businesses that are struggling to compete with neighboring states for talent.

The pressure on our local businesses to retain employees is immense, especially with neighboring states such as West Virginia, Kentucky, and Tennessee offering more attractive financial conditions. If Virginia residents move to these neighboring states, the Commonwealth will lose the associated income tax revenue. Therefore, providing an income tax incentive, although it represents a modest short-term reduction in the Commonwealth's budget, is a strategic investment in long-term economic stability and growth.

Smyth County Board of Supervisors
Ph. (276) 783-3298 | Fax (276) 783-9314 | www.smythcounty.org

This tax incentive is not a comprehensive solution but rather an important tool in our economic development toolbox. It will help to stem the population decline and support economic prosperity in Smyth County and other similarly affected localities in Southwest Virginia.

Thank you for considering our comments and for your support of this vital initiative. Please feel free to contact me if you have any questions or require further information.

Sincerely,

Kendra Hayden

Kendra Hayden
Director of Community & Economic Development
Smyth County, Virginia

Appendix G: Total Individual Income Tax Revenue from Affected Localities

Appendix G

Total Individual Income Tax Revenue & Other Measures from Qualifying Localities

Locality	Locality Type	2023 Population	Population % Chg Last 10 Yr	Employment % Chg Last 10 Yr	Unemployment Rate	Poverty Rate	% of Tax Liability	TY 2022 Tax Liability
Buchanan	County	19,191	-17.7%	-15.7%	4.4	26.9	0.07%	$12,610,742
Lee	County	21,955	-15.8%	-5.6%	3.8	24.4	0.07%	$11,805,001
Sussex	County	10,275	-15.0%	-4.8%	4.1	23.5	0.04%	$7,507,113
Brunswick	County	15,057	-13.6%	-5.0%	4.6	20.8	0.07%	$11,666,815
Dickenson	County	13,603	-13.2%	-6.9%	4.4	23.4	0.05%	$8,347,227
Tazewell	County	39,082	-12.1%	-8.0%	4.0	17.6	0.19%	$33,342,572
Russell	County	25,033	-12.1%	1.8%	3.6	18.4	0.11%	$18,956,783
Wise	County	35,019	-11.6%	-8.4%	4.2	22.2	0.14%	$25,031,679
Charles City	County	6,428	-10.6%	1.5%	3.2	11.8	0.07%	$12,175,058
Bland*	County	6,217	-10.1%	2.9%	3.0	13.4	0.03%	$5,432,037
Smyth	County	28,963	-9.8%	11.8%	3.2	19.7	0.13%	$23,196,231
Subtotal		220,823	N/A	N/A	N/A	N/A	0.96%	$170,071,257
Total / Statewide		8,729,032	5.5%	10.5%	2.9	10.6	100.0%	$17,671,088,854

Total Individual Income Tax Revenue & Other Measures from Non-Qualifying Localities

Locality	Locality Type	2023 Population	Population % Chg Last 10 Yr	Employment % Chg Last 10 Yr	Unemployment Rate	Poverty Rate	% of Tax Liability	TY 2022 Tax Liability
Bath**	County	4,230	-11.6%	-3.9%	2.8	12.6	0.03%	$5,240,195
Norton	City	3,648	-9.6%	-9.3%	4.1	20.3	0.02%	$2,924,290
Halifax	County	33,056	-9.5%	4.7%	4.0	16.5	0.17%	$30,822,627
Henry	County	48,568	-9.0%	9.8%	3.5	17.1	0.22%	$39,036,518
Scott	County	21,304	-8.8%	-2.5%	3.2	19.5	0.09%	$15,931,316
Franklin	City	7,987	-8.8%	1.5%	3.8	19.0	0.04%	$6,317,255
Greensville	County	10,868	-8.3%	2.8%	3.7	21.1	0.05%	$8,573,534
Covington	City	5,567	-8.3%	-7.1%	4.1	16.2	0.03%	$4,450,410
Alleghany	County	14,943	-7.5%	-10.9%	3.5	13.5	0.08%	$14,177,726
Pittsylvania	County	59,171	-7.4%	6.0%	3.1	14.4	0.33%	$57,631,897
Mecklenburg	County	30,232	-7.3%	11.4%	3.6	19.4	0.18%	$31,717,452
Patrick	County	16,971	-7.0%	-1.4%	3.5	14.4	0.08%	$13,811,925
Essex	County	10,454	-6.1%	2.9%	3.7	13.3	0.07%	$12,962,850
Mathews	County	8,376	-6.1%	3.3%	2.8	8.8	0.07%	$12,572,094
Surry	County	6,524	-6.0%	8.6%	2.7	12.4	0.04%	$6,995,636
Lunenburg	County	12,060	-6.0%	4.4%	3.3	21.9	0.05%	$8,307,819
King And Queer	County	6,675	-5.8%	13.2%	2.7	14.2	0.05%	$8,341,421
Charlotte	County	11,448	-5.8%	5.1%	3.5	18.2	0.05%	$9,470,091
Bristol	City	16,738	-5.7%	2.4%	3.7	20.7	0.10%	$17,004,027
Northumberlanc	County	11,674	-5.5%	1.7%	4.3	13.3	0.11%	$20,223,505
Southampton	County	17,754	-5.4%	3.2%	2.6	15.0	0.11%	$18,659,496
Wythe	County	28,003	-5.2%	8.9%	7.1	15.7	0.15%	$26,147,349
Prince Edward	County	22,074	-5.1%	6.7%	4.1	20.3	0.10%	$18,073,036
Giles	County	16,610	-4.9%	6.0%	2.9	12.0	0.09%	$16,360,053

Appendix G

Total Individual Income Tax Revenue & Other Measures from Non-Qualifying Localities

Locality	Locality Type	2023 Population	Population % Chg Last 10 Yr	Employment % Chg Last 10 Yr	Unemployment Rate	Poverty Rate	% of Tax Liability	TY 2022 Tax Liability
Martinsville	City	13,221	-4.9%	5.8%	4.7	20.6	0.06%	$11,075,026
Pulaski	County	33,203	-4.6%	6.8%	2.8	14.0	0.18%	$31,466,260
Buckingham	County	16,673	-4.2%	7.7%	3.9	18.4	0.07%	$12,008,365
Amherst	County	31,223	-4.0%	-2.2%	3.2	12.8	0.17%	$29,594,104
Lancaster	County	10,815	-4.0%	10.6%	3.7	14.2	0.12%	$20,709,158
Emporia	City	5,601	-3.8%	2.5%	4.6	22.2	0.02%	$3,184,038
Floyd	County	15,025	-3.6%	6.9%	2.6	12.3	0.10%	$18,323,395
Franklin	County	54,182	-3.6%	2.7%	3.0	13.3	0.37%	$65,843,504
Galax	City	6,822	-3.5%	0.9%	7.6	22.0	0.03%	$5,575,106
Norfolk	City	238,112	-3.5%	4.3%	3.4	18.8	1.33%	$234,252,014
Carroll	County	28,848	-3.4%	2.4%	3.7	15.8	0.12%	$21,672,744
Page	County	23,341	-3.4%	13.0%	3.5	13.1	0.13%	$22,499,488
Grayson	County	15,152	-3.2%	27.2%	6.3	19.3	0.06%	$10,844,097
Cumberland	County	9,839	-2.9%	10.9%	3.5	15.1	0.05%	$8,470,921
Washington	County	53,608	-2.8%	0.1%	2.9	11.3	0.37%	$65,633,605
Buena Vista	City	6,523	-2.7%	11.2%	2.7	15.7	0.03%	$4,464,088
Danville	City	42,248	-2.1%	2.3%	4.6	26.8	0.20%	$35,212,041
Middlesex	County	10,753	-2.0%	7.0%	2.7	12.2	0.09%	$15,408,514
Nottoway	County	15,621	-1.9%	7.6%	3.0	21.2	0.06%	$10,950,173
Accomack	County	33,236	-1.9%	3.6%	3.5	16.0	0.21%	$36,809,946
Nelson	County	14,713	-1.9%	5.7%	2.7	12.8	0.12%	$21,014,864
Hampton	City	136,895	-1.8%	4.7%	3.7	14.4	0.68%	$120,325,794
Portsmouth	City	96,085	-1.7%	4.4%	3.7	19.8	0.42%	$75,064,038
Northampton	County	12,100	-1.7%	-0.9%	3.5	19.1	0.09%	$16,528,453
Newport News	City	182,268	-1.4%	4.0%	6.3	17.2	0.96%	$168,960,586
Salem	City	24,985	-1.3%	4.5%	2.9	10.9	0.21%	$37,273,351
Hopewell	City	22,494	-1.3%	9.1%	7.9	17.9	0.08%	$14,716,650
Dinwiddie	County	28,177	-1.3%	9.3%	3.3	11.0	0.17%	$30,862,797
Craig	County	4,855	-0.8%	0.4%	3.2	11.8	0.03%	$4,814,072
Highland	County	2,251	-0.5%	8.2%	2.3	12.9	0.01%	$2,118,270
Rappahannock	County	7,412	-0.5%	-0.7%	2.6	9.8	0.12%	$21,898,539
Radford	City	16,854	-0.3%	16.2%	3.6	24.6	0.08%	$13,893,573
Roanoke	City	99,045	-0.2%	4.7%	3.2	19.9	0.66%	$116,388,033
Richmond	County	9,220	-0.2%	5.2%	3.1	16.3	0.12%	$21,488,896
Fairfax	City	23,750	0.0%	2.8%	2.4	7.6	0.45%	$80,354,323
Botetourt	County	33,466	0.1%	5.5%	2.5	7.0	0.29%	$51,926,548
Rockbridge	County	22,462	0.2%	9.0%	2.7	12.1	0.15%	$26,833,928
Virginia Beach	City	453,605	0.7%	6.1%	2.8	9.9	4.62%	$815,776,446
Petersburg	City	34,157	1.2%	0.9%	5.4	22.8	0.10%	$17,968,759
Campbell	County	56,028	1.6%	-0.3%	3.3	12.7	0.32%	$55,699,406

Appendix G

Total Individual Income Tax Revenue & Other Measures from Non-Qualifying Localities

Locality	Locality Type	2023 Population	Population % Chg Last 10 Yr	Employment % Chg Last 10 Yr	Unemployment Rate	Poverty Rate	% of Tax Liability	TY 2022 Tax Liability
Fairfax	County	1,139,398	1.6%	7.1%	2.5	5.9	22.50%	$3,976,736,543
Lexington	City	7,331	1.7%	7.8%	4.4	20.0	0.05%	$8,479,481
Williamsburg	City	15,675	2.7%	5.9%	4.0	18.6	0.12%	$20,381,549
Fredericksburg	City	27,711	2.9%	10.8%	3.4	15.0	0.33%	$57,729,982
Roanoke	County	96,519	3.1%	5.1%	2.6	7.5	0.85%	$150,687,005
Poquoson	City	12,648	3.4%	5.8%	2.5	5.6	0.14%	$24,966,433
Lynchburg	City	80,736	3.5%	4.4%	7.4	19.6	0.49%	$86,196,841
Colonial Heights	City	18,041	3.5%	5.1%	6.5	10.4	0.10%	$18,165,277
Shenandoah	County	44,566	3.8%	11.8%	2.7	12.4	0.33%	$58,174,144
Alexandria	City	158,591	4.2%	12.4%	2.3	9.0	3.13%	$552,392,375
Gloucester	County	39,161	4.6%	6.4%	2.6	8.7	0.29%	$51,143,978
Augusta	County	77,913	4.7%	9.9%	2.5	8.2	0.59%	$103,945,075
Staunton	City	25,669	4.7%	11.1%	2.6	12.4	0.17%	$29,252,411
Manassas	City	42,571	5.0%	3.3%	2.5	9.1	0.35%	$61,063,312
Madison	County	14,026	5.0%	8.8%	2.3	10.7	0.12%	$21,736,568
Montgomery	County	101,894	5.3%	11.3%	2.8	21.0	0.75%	$131,766,718
Bedford	County	80,759	5.5%	4.7%	2.9	8.4	0.92%	$162,724,614
Amelia	County	13,513	5.5%	7.8%	3.0	11.3	0.09%	$16,706,352
Winchester	City	28,734	5.8%	12.1%	2.8	16.3	0.22%	$38,663,991
Waynesboro	City	22,651	6.2%	15.2%	5.7	12.9	0.14%	$24,234,519
Westmoreland	County	18,999	6.5%	9.5%	3.3	16.1	0.13%	$23,567,737
Richmond	City	229,035	7.0%	16.8%	3.5	21.6	2.42%	$427,665,908
Henrico	County	339,918	7.3%	13.0%	2.9	9.2	3.73%	$659,810,895
Arlington	County	242,479	7.8%	12.6%	2.1	6.8	5.44%	$960,513,376
Harrisonburg	City	55,990	7.8%	10.3%	3.5	28.5	0.22%	$38,983,155
York	County	71,806	7.9%	10.2%	2.7	5.1	0.69%	$122,122,278
Warren	County	41,552	8.0%	9.6%	2.9	9.8	0.33%	$58,788,491
Fluvanna	County	28,214	8.3%	14.9%	2.5	7.7	0.21%	$37,466,947
Clarke	County	15,442	8.5%	5.3%	2.5	7.2	0.20%	$35,589,496
Chesapeake	City	252,478	8.5%	13.1%	2.9	8.7	1.97%	$348,380,228
Appomattox	County	16,728	9.1%	4.1%	3.6	12.0	0.09%	$15,793,837
Rockingham	County	85,508	9.5%	11.1%	2.5	10.5	0.66%	$116,387,437
Orange	County	37,629	9.9%	14.2%	3.0	10.1	0.31%	$55,478,088
Fauquier	County	73,731	10.1%	10.3%	2.5	6.4	1.13%	$200,285,706
Charlottesville	City	51,132	10.4%	15.7%	2.4	21.8	0.54%	$95,964,986
Hanover	County	113,026	10.5%	14.7%	2.5	5.2	1.39%	$246,122,180
Powhatan	County	31,766	11.1%	14.4%	2.7	5.6	0.39%	$68,801,515
Greene	County	21,370	11.4%	15.8%	2.5	8.4	0.15%	$25,646,831
Manassas Park	City	17,131	11.7%	17.2%	2.6	8.9	0.13%	$23,398,407
Isle Of Wight	County	40,873	11.9%	10.5%	2.8	8.5	0.36%	$63,115,662

Appendix G

Total Individual Income Tax Revenue & Other Measures from Non-Qualifying Localities

Locality	Locality Type	2023 Population	Population % Chg Last 10 Yr	Employment % Chg Last 10 Yr	Unemployment Rate	Poverty Rate	% of Tax Liability	TY 2022 Tax Liability
Caroline	County	33,063	12.5%	13.0%	3.1	10.5	0.21%	$37,839,786
King William	County	18,365	13.2%	16.7%	2.7	7.3	0.14%	$24,993,954
Albemarle	County	116,148	13.2%	16.3%	2.6	8.4	1.88%	$331,556,724
King George	County	27,719	13.6%	28.5%	2.6	6.9	0.27%	$48,138,163
Culpeper	County	54,831	13.8%	14.9%	2.8	8.3	0.45%	$79,912,520
Prince William	County	492,959	13.8%	14.3%	2.7	6.9	5.16%	$911,362,378
Suffolk	City	100,690	14.5%	15.6%	3.1	11.6	0.78%	$138,190,681
James City	County	80,678	15.2%	15.7%	2.8	6.9	0.99%	$174,926,459
Spotsylvania	County	146,708	16.3%	14.4%	3.0	8.3	1.34%	$236,522,899
Prince George	County	42,743	17.6%	11.8%	5.8	11.4	0.21%	$37,632,495
Louisa	County	40,434	18.6%	20.3%	2.7	10.7	0.32%	$56,740,293
Frederick	County	96,359	18.7%	24.2%	2.5	7.2	0.90%	$159,596,976
Falls Church	City	15,675	18.7%	14.0%	2.3	4.1	0.40%	$70,844,388
Chesterfield	County	387,703	18.8%	17.7%	2.9	6.9	3.80%	$671,657,820
Stafford	County	165,184	21.8%	21.0%	2.9	5.5	1.62%	$286,014,597
Goochland	County	26,629	21.9%	20.3%	2.9	6.1	0.59%	$105,023,658
Loudoun	County	433,929	25.0%	27.3%	2.5	3.8	8.07%	$1,426,163,142
New Kent	County	25,675	30.1%	29.9%	2.6	5.1	0.27%	$48,192,581
Unassigned / Nonresidents			N/A	N/A	N/A	N/A	3.70%	$653,021,322
Subtotal		8,508,209	N/A	N/A	N/A	N/A	99.04%	$17,501,017,597
Total / Statewide		8,729,032	5.5%	10.5%	2.9	10.6	100.0%	$17,671,088,854

**This table reflects updated unemployment data that was not available at the time the Fiscal Impact Statement for Senate Bill 564 was drafted. Based on this updated data, Bland County also meets the criteria of the study.*

*** Bath county does not meet the criteria of the study because its unemployment rate does not exceed the state average.*

Appendix H: Cost of Living Increases in the South Region by Population

Appendix H

CPI as measure of "Cost of Living"

Consumer Price Index for All Urban Consumers (CPI-U)*

U.S. vs. South Region, Re-based to 1996=100

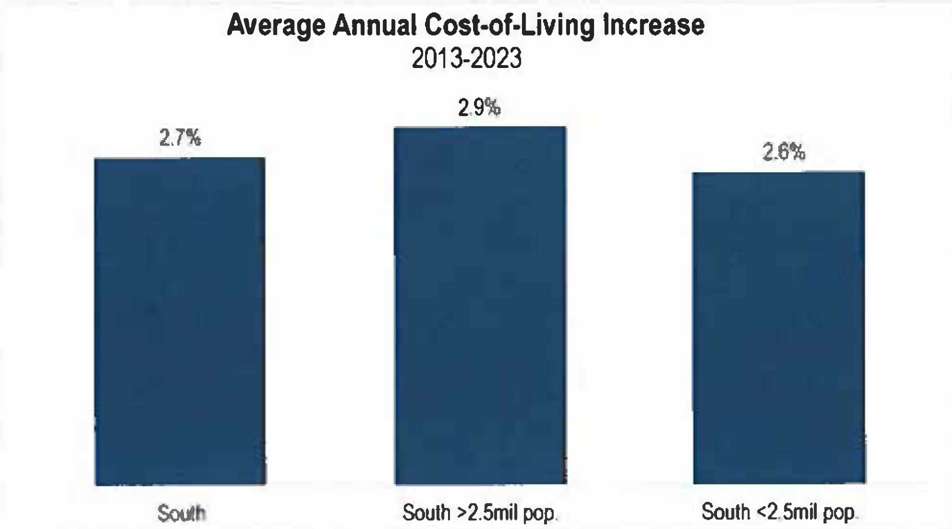
Not Seasonally Adjusted

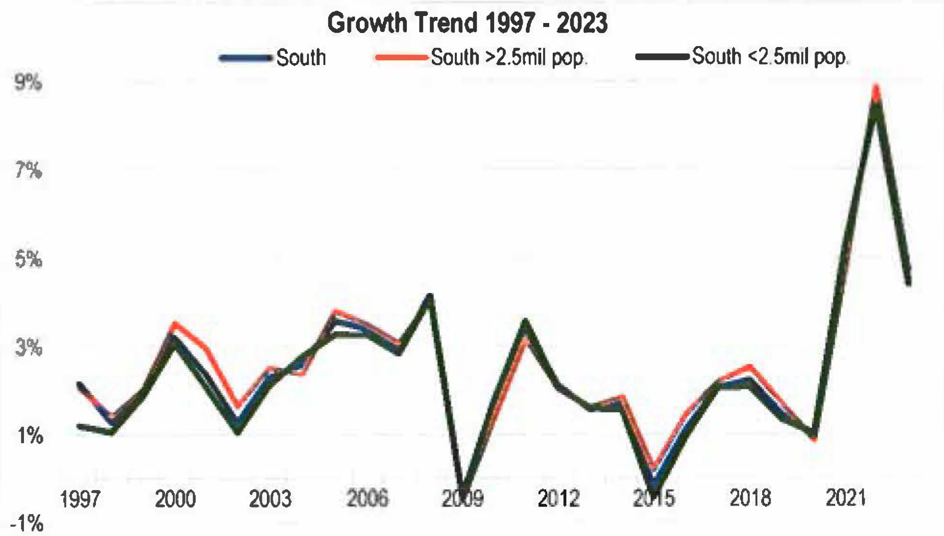
			Class A	*Class B/C*	**Percent change**				
			South	South			South	South	PPT
Year	**U.S.**	South	>2.5mil pop.	<2.5mil pop.	**U.S.**	South	>2.5mil pop.	<2.5mil pop.	difference
1996	100.00	100.00	100.00	100.00					
1997	102.34	102.15	102.07	101.20	2.3%	2.2%	2.1%	1.2%	-0.9%
1998	103.93	103.47	103.50	102.27	1.6%	1.3%	1.4%	1.1%	-0.4%
1999	106.20	105.46	105.59	104.18	2.2%	1.9%	2.0%	1.9%	-0.1%
2000	109.79	108.84	109.31	107.38	3.4%	3.2%	3.5%	3.1%	-0.5%
2001	112.89	111.41	112.54	109.61	2.8%	2.4%	3.0%	2.1%	-0.9%
2002	114.68	112.81	114.38	110.76	1.6%	1.3%	1.6%	1.0%	-0.6%
2003	117.28	115.38	117.24	113.10	2.3%	2.3%	2.5%	2.1%	-0.4%
2004	120.42	118.36	120.02	116.22	2.7%	2.6%	2.4%	2.8%	0.4%
2005	124.51	122.59	124.57	120.01	3.4%	3.6%	3.8%	3.3%	-0.5%
2006	128.53	126.74	128.91	123.92	3.2%	3.4%	3.5%	3.3%	-0.2%
2007	132.19	130.43	132.85	127.42	2.9%	2.9%	3.1%	2.8%	-0.2%
2008	137.27	135.85	138.23	132.62	3.8%	4.2%	4.1%	4.1%	0.0%
2009	136.78	135.30	137.56	132.07	-0.4%	-0.4%	-0.5%	-0.4%	0.1%
2010	139.02	137.57	139.47	134.41	1.6%	1.7%	1.4%	1.8%	0.4%
2011	143.41	142.31	143.89	139.20	3.2%	3.4%	3.2%	3.6%	0.4%
2012	146.38	145.32	146.82	142.07	2.1%	2.1%	2.0%	2.1%	0.0%
2013	148.52	147.59	149.18	144.32	1.5%	1.6%	1.6%	1.6%	0.0%
2014	150.93	150.08	151.92	146.55	1.6%	1.7%	1.8%	1.5%	-0.3%
2015	151.11	149.82	152.21	145.93	0.1%	-0.2%	0.2%	-0.4%	-0.6%
2016	153.02	151.48	154.41	147.31	1.3%	1.1%	1.4%	0.9%	-0.5%
2017	156.28	154.58	157.78	150.33	2.1%	2.0%	2.2%	2.1%	-0.1%
2018	160.09	158.01	161.76	153.45	2.4%	2.2%	2.5%	2.1%	-0.5%
2019	162.99	160.31	164.47	155.49	1.8%	1.5%	1.7%	1.3%	-0.3%
2020	165.01	161.86	165.90	157.08	1.2%	1.0%	0.9%	1.0%	0.2%
2021	172.76	170.07	173.77	165.36	4.7%	5.1%	4.7%	5.3%	0.5%
2022	186.58	184.66	189.16	179.29	8.0%	8.6%	8.9%	8.4%	-0.4%
2023	194.26	192.96	198.08	187.16	4.1%	4.5%	4.7%	4.4%	-0.3%

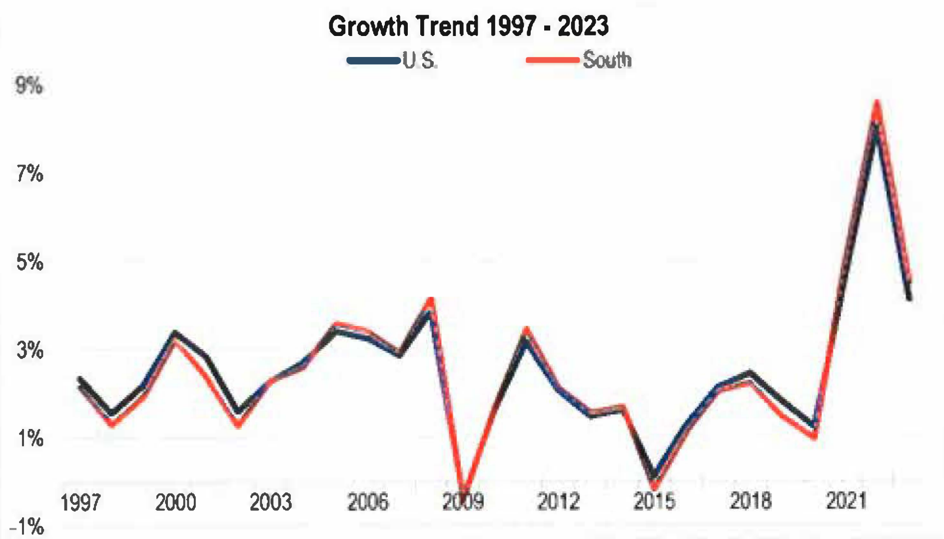
Average Annual Growth Rate				
2013-2023	2.7%	2.7%	2.9%	2.6%

*Source: U.S. Bureau of Labor Statistics

Appendix H


Average Annual Cost-of-Living Increase
2013-2023
2.7%
2.9%
2.6%
South
South >2.5mil pop.
South <2.5mil pop.


Growth Trend 1997 - 2023
South
South >2.5mil pop.
South <2.5mil pop.
9%
7%
5%
3%
1%
-1%
1997
2000
2003
2006
2009
2012
2015
2018
2021


Growth Trend 1997 - 2023
U.S.
South
9%
7%
5%
3%
1%
-1%
1997
2000
2003
2006
2009
2012
2015
2018
2021

Appendix I: Kansas Department of Commerce, Rural Opportunity Zones 2021 Overview/Updates

Rural Opportunity Zones 2021 Overview / Updates

Kansas Department of Commerce

What is a Kansas Rural Opportunity Zone (ROZ)?

Rural Opportunity Zones Were established to as a tool for communities experiencing depopulation to incentivize NEW Citizens to move to the region.

ROZs provide up to a 5-year personal a 100% personal Kansas income tax credit as well as up to $15,000 in student loan debt forgiveness. *Pursuant to K.S.A.* 74-50, 222 – 74-50,223

Benefits of living in a Kansas ROZ:

- Student Loan Repayment Assistance
- State Income Tax Credit

History of ROZ in Kansas

Kansas currently has 95 counties designated as "Rural Opportunity Zones," which means moving to these counties results in significant added benefits to new residents. ROZ offers one or both of the following financial incentives for new full-time residents in the form of a **100% state income tax credit** and/or **student loan repayment assistance.**

2011	2012	2014	2015	2017	2018	2019	2021
50 ROZ Counties	73 ROZ Counties	77 ROZ Counties	77 ROZ Counties	77 ROZ Counties	77 ROZ Counties	77 ROZ Counties	95 ROZ Counties
Program launch – initial counties designated	23 new counties (32% increase). Employers allowed to sponsor employees with matching funds instead of county	4 new counties (5% increase)	Sunset date extended 5 years from 2016 – 2021	69 counties (90%)	75 counties (97%) participating in SLR program and 47 (61%) provide county sponsorship	ROZ budget cut from $1.2M to $950,000	County eligibility established at populations at or under 40,000 increasing to 95 eligible counties and sunset date expanded to 2023

Definition of "Rural Opportunity Zone" to mean any county with a population of 40,000 persons or less
County Population qualification will be determined by the Certified Population published By KDOR in July prior to the program year
https://budget.kansas.gov/population/
July 2020 published CP determines Eligible Counties for Calendar year 2021
July 2021 published CP determines Eligible Counties for Calendar year 2022

Kansas
Department of Commerce

ROZ 2021 New Counties

In 2021, 18 new counties now have a ROZ designation.

New 2021 ROZ County	CY2020 Population	New 2021 ROZ County	CY2020 Population
Atchison	16,073	Geary	31,670
Barton	25,779	Harvey	34,429
Cowley	34,908	Jefferson	19,043
Crawford	38,818	Lyon	33,195
Dickinson	18,466	McPherson	28,542
Ellis	28,553	Miami	34,237
Finney	36,467	Osage	15,949
Ford	33,619	Pottawatomie	24,383
Franklin	25,544	Seward	21,428

State Budget for student loan assistance distributions scheduled Oct/Nov 2021:
Grant: **$700,000**
Allocated as of 5/25/2021: **$482,417.82**
Remaining: **$217,582.18**

Kansas
Department of Commerce

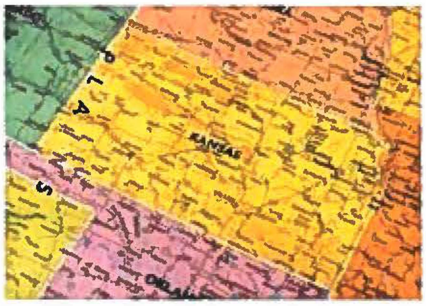
ROZ – Financial Incentives

Let's take a deeper look at the financial incentives

100% State Income Tax Credit up to 5 year
and
Student Loan Repayment Assistance up to $15,000

Kansas
Department of Commerce

STATE INCOME TAX CREDIT



State Income Tax Waiver

- Administered by **Kansas Department of Revenue** (KDOR)
- Filed with state taxes; only eligible with online filing on KDOR website
- https://www.ksrevenue.org/prtaxcredits-roz.html

Eligibility for State Income Tax Credits

- Must have lived outside of Kansas for 5 or more years immediately prior to establishing **domicile*** in a ROZ
- Must have no more than $10,000 in Kansas source income in each of those 5 years prior to establishing domicile
- Must establish domicile in one of the ROZ counties on or after the date the county was qualified for the program
- Must have lived in the ROZ county the entire taxable year to be able to claim the tax credit Jan. 1 to Dec. 31
- Must File State income taxes online at https://www.kansas.gov/webfile/

****Domicile shall mean that place in which a person's habitation is fixed, without any present intention of removal, and to which, whenever absent, that person intends to return.***

Kansas Department of Commerce

STUDENT LOAN REPAYMENT ASSISTANCE

Student Loan Repayment Assistance

- Administered By Kansas Department of Commerce (KDC)
- Partners with Counties and Employers
- www.kansascommerce.gov/roz

Incentive amount

- Distributions are up 20% of the qualified loans with a max benefit of $3,000 once a year for 5 years totaling $15,000

Funding

The State covers 50% of the yearly payment. This is funded through EDIF funds (Lottery)

Local Sponsors fund 50% of the yearly payment

  - Sponsor annual financial contribution per participant max is $1,500

Kansas
Department of Commerce

STUDENT LOAN REPAYMENT ASSISTANCE

Student Loan Repayment Assistance Eligibility

- Establish domicile* in a ROZ County on or after the date on which the County opts-in to the student loan program
- Hold at least an Associate's degree prior to moving to the ROZ County
- Have an outstanding student loan balance related to qualifying degree, in applicant's name
- Ability to provide proof of residency at current and previous addresses, Proof of Degree, and Proof of student loan balance with distribution dates
- Must have a Local Sponsor to be funded

Kansas
Department of Commerce

FUNDING SPONSOR TYPES

1. **County** – funds by budgeted Resolution due to the KDC by **January 31 annually** (first come-, first-served basis).
2. **City** - funds by budgeted Resolution due to KDC by **January 31** annually (first come-, first-served basis): No Resolution required if not directly funding sponsorship.
   (2019 – 2 Cities have Sponsored)
3. **Employer** - funds by Sponsor Confirmation Agreement.
   (2016 – 147 active sponsors)
4. **Foundations** - funds by Sponsor Confirmation Agreement.
   (2019 - 2 current foundations)

Matching funds for all Sponsors are due to the State no later than September 30th year

NEW ONLINE Sponsor Match Digital Payment Portal.

ROZ Sponsors may submit their annual matching funds here via Electronic transfer or electronic check once they have received their invoice. Online portal is at www.kansascommerce.gov/roz

Kansas
Department of Commerce

COUNTY PARTICIPATION INFORMATION

Counties must have a resolution to participate. This is crucial! If a county does not submit a resolution, no Sponsor Entity in the County may use ROZ in that Calendar year.

County Resolutions due date: January 31 (every year)

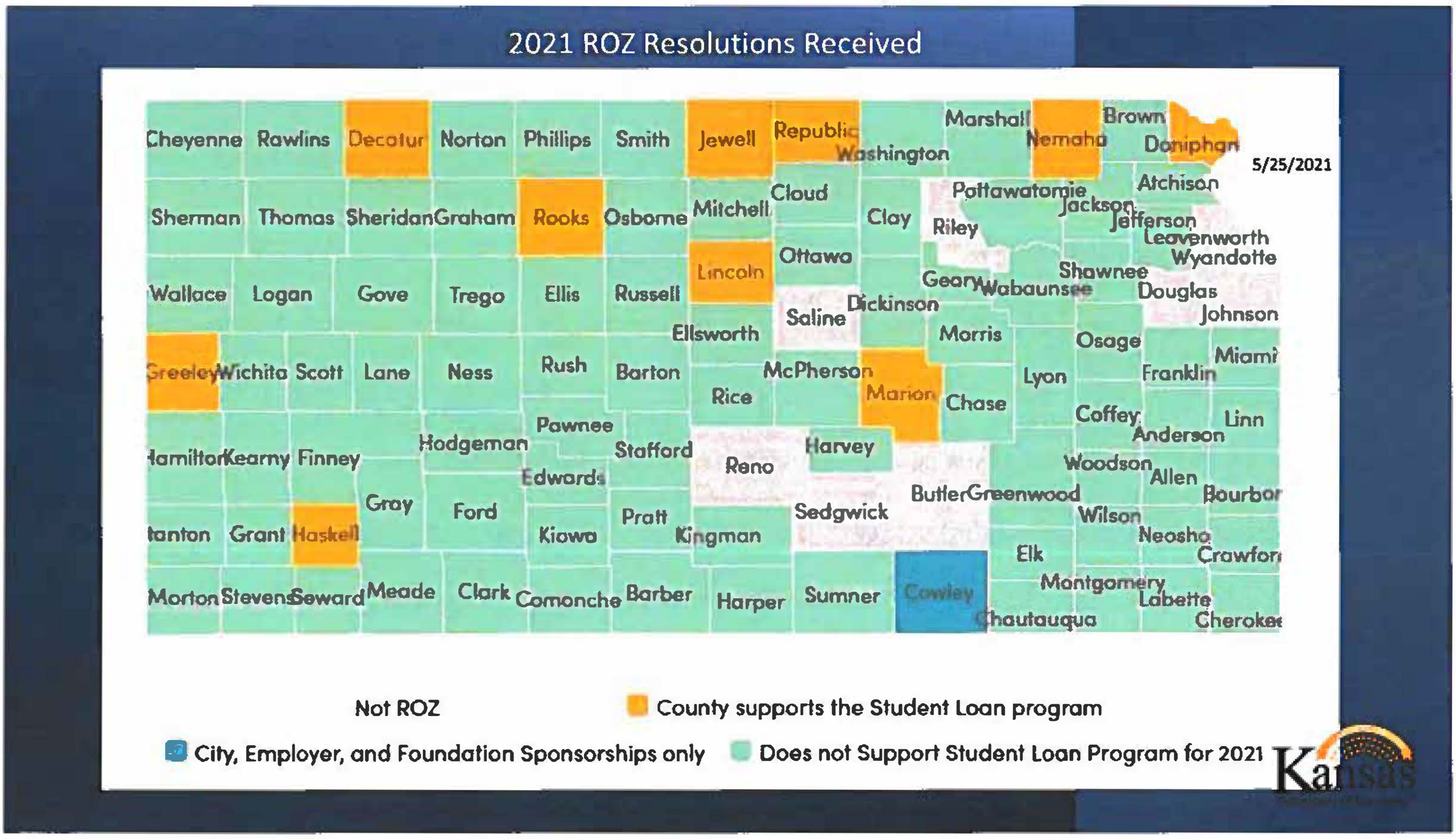
2021 Resolution Due Date: June 30, 2021

New Counties: Along with the Resolution, send the name, email and phone number of the person County Leadership has designated as the ROZ contact for the County. This person will receive reports and invoices for the County.

Send Resolutions and County Leadership information to Rachell.Rowand@ks.gov

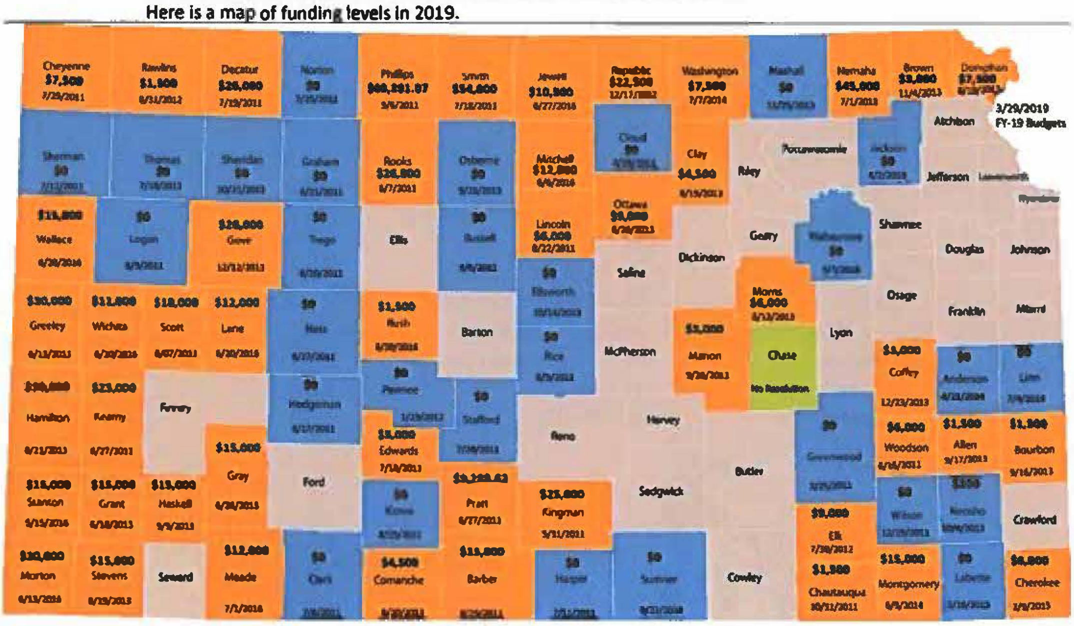
If Applicants have questions, please direct them to email KDC_ROZ@ks.gov

Kansas


2021 ROZ Resolutions Received
5/25/2021
Cheyenne
Rawlins
Decatur
Norton
Phillips
Smith
Jewell
Republic
Washington
Marshall
Nemaha
Brown
Doniphan
Sherman
Thomas
Sheridan
Graham
Rooks
Osborne
Mitchell
Cloud
Clay
Riley
Pottawatomie
Jackson
Atchison
Jefferson
Leavenworth
Wyandotte
Wallace
Logan
Gove
Trego
Ellis
Russell
Lincoln
Ottawa
Saline
Dickinson
Geary
Wabaunsee
Shawnee
Douglas
Johnson
Ellsworth
Morris
Osage
Miami
Franklin
Greeley
Wichita
Scott
Lane
Ness
Rush
Barton
Rice
McPherson
Marion
Chase
Lyon
Coffey
Anderson
Linn
Hamilton
Kearny
Finney
Hodgeman
Pawnee
Stafford
Edwards
Reno
Harvey
Butler
Greenwood
Woodson
Allen
Bourbon
Gray
Ford
Kiowa
Pratt
Kingman
Sedgwick
Wilson
Neosho
Crawford
Stanton
Grant
Haskell
Elk
Montgomery
Labette
Morton
Stevens
Seward
Meade
Clark
Comanche
Barber
Harper
Sumner
Cowley
Chautauqua
Cherokee
Not ROZ
County supports the Student Loan program
City, Employer, and Foundation Sponsorships only
Does not Support Student Loan Program for 2021
Kansas

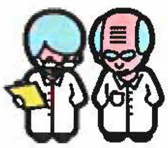
2019 County Funding Levels

Is there an average dollar amount you see from counties toward this program?
To be honest each region is different when it come to funding the program
Here is a map of funding levels in 2019.



Prosperity for Rural Kansans

Professions of All Applicants for Student Loan Repayment Assistance as of 10/1/2020



Health Care

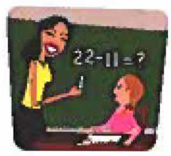
Financial Planning

Environmental Conservation

Education	1042	Communications/Marketing	51
Healthcare	949	Religious	48
Agriculture	334	Sales	46
Social Worker	214	Utility	44
Finance	165	Artist	42
Engineer	161	Information Technology	42
Accounting	147	Mechanic	33
Legal	107	Home Maker	30
Retail	94	Administrative Assistant	23
Business Administration	89	Construction	22
Manufacturing	70	Human Resources	22
Personal Care Services	68	Law Enforcement	20
Animal Health	59	Student	16

Community Service

Entertainment



Education

Professional Services

Kansas
Department of Commerce

THANK YOU

Rachèll Rowand
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Kansas
Department of Commerce

Appendix J: Kansas Legislative Division of Post Audit, Evaluating the Rural Opportunity Zones Program

KANSAS LEGISLATIVE
DIVISION *of*
POST AUDIT

An Economic Development Incentive Evaluation Presented to the Legislative Post Audit Committee

Evaluating the Rural Opportunity Zones Program

August 2023

Report Number: R-23-011

Introduction

This audit satisfies requirements in K.S.A. 46-1137. The Legislative Post Audit Committee directed us to evaluate this incentive at its December 12, 2022 meeting.

Objectives, Scope, & Methodology

Our audit objective was to answer the following question:

1. To what extent has the Rural Opportunity Zones program been effective at slowing or reversing rural depopulation?

To answer this question, we reviewed program data from calendar years 2011 through 2022 from the Departments of Commerce and Revenue. We used the data to estimate how many people (i.e., program participants and their family members) moved to rural opportunity zone counties because of the program. We compared that to data on county-level population change from the U.S. Census Bureau for the same time period. We also surveyed 14 program stakeholders to get their perspectives on the program.

Our scope of work did not include an evaluation of how the Departments of Commerce and Revenue administered the program. For example, we didn't verify whether participants were eligible for the program. However, we identified a few areas in which program administration might be improved as discussed more later in this report.

More specific details about the scope of our work and the methods we used are included throughout the report as appropriate.

Important Disclosures

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Overall, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on those audit objectives.

Our audit reports and podcasts are available on our website (www.kslpa.org).

The Rural Opportunity Zones program has done little to slow rural depopulation statewide, but stakeholders we talked to told us the program benefitted their communities in other ways.

Incentive Background

The Rural Opportunity Zones program provides student loan repayment assistance and state income tax credits to eligible individuals who move to rural Kansas counties.

- The Legislature created the Rural Opportunity Zones (ROZ) program in 2011. It incents individuals to move to counties statute designates as rural opportunity zones (i.e., counties with populations of less than 40,000). To incent individuals to move to these counties, the program offers 2 benefits. Participants may receive up to $15,000 in student loan repayment assistance over 5 years. They may also receive a 5-year 100% state income tax credit. Eligible individuals may receive 1 or both benefits.

- Since 2011, the Legislature has increased the number of counties designated as rural opportunity zones. The program originally designated 50 counties as rural opportunity zones. The populations of those counties had declined by at least 10% over the previous decade. In 2013 and 2014, the Legislature made 27 more counties rural opportunity zones. Then, in 2021, the Legislature made any county with a population of less than 40,000 a rural opportunity zone. 95 of the state's 105 counties are currently designated as rural opportunity zones.

- The Departments of Commerce and Revenue administer the ROZ program. Commerce administers the student loan repayment assistance part of the program. Revenue administers the tax credit part. The 2 agencies administer each part independently of each other.

- The program will sunset in 2026 unless the Legislature extends it. Individuals will not be able to apply for student loan repayment assistance after June 30, 2026. Anyone already receiving loan assistance will continue doing so for the rest of their 5-year benefit period. Tax year 2026 is the last year in which individuals can claim the tax credit.

For the last several decades, rural areas have been losing population nationally, especially the Midwest.

- U.S. Census Bureau data show that rural counties throughout the U.S. have experienced population declines in recent decades. Since 1980, over half of rural U.S. counties have lost population. Migration from rural areas to urban areas helped cause these population declines.

- Rural population declines have been most significant in the Midwest. For example, between 1980 and 2021, Kansas's rural population declined by about 9%. Some counties experienced population declines of over 20%. By contrast, Kansas's urban population has increased by about 50% since 1980.

- The U.S. Office of Management and Budget defines urban areas as areas with more than 50,000 people. Rural areas have fewer than 50,000 people. These definitions don't follow county boundaries. For example, a county may include both urban and rural areas. Most Kansas counties are mainly rural.

The ROZ program's purpose isn't defined in statute but was likely meant to counteract the depopulation of rural Kansas.

- State law doesn't specify a goal or purpose for the ROZ program. However, the program was likely meant to counteract depopulation in rural Kansas counties. This is based on testimony from when the Legislature created the program. To do this, the ROZ program provides student loan repayment assistance and state income tax credits to eligible individuals who move to rural Kansas counties.

- State law also doesn't provide benchmarks for measuring ROZ program success. For example, it's not clear how many people it should have brought to ROZ counties. Our analysis focuses on the extent to which the program has slowed or reversed rural depopulation since there aren't clear statutory criteria.

<u>Student Loan Benefit</u>

A local sponsor must share half of the repayment costs with the state for ROZ participants to receive student loan assistance.

- A participant must have a local sponsor to receive student loan repayments. A local sponsor can be a county, city, employer, or foundation like a local economic development foundation.

- K.S.A. 74-50,223 requires ROZ counties to adopt resolutions to take part in the ROZ program. A resolution requires a county to share 50% of the student loan repayment assistance costs with the state for 5 years.

    - In its resolution, a county declares how much money it will allocate each year to help pay student loan costs. That determines how many ROZ participants it can sponsor.

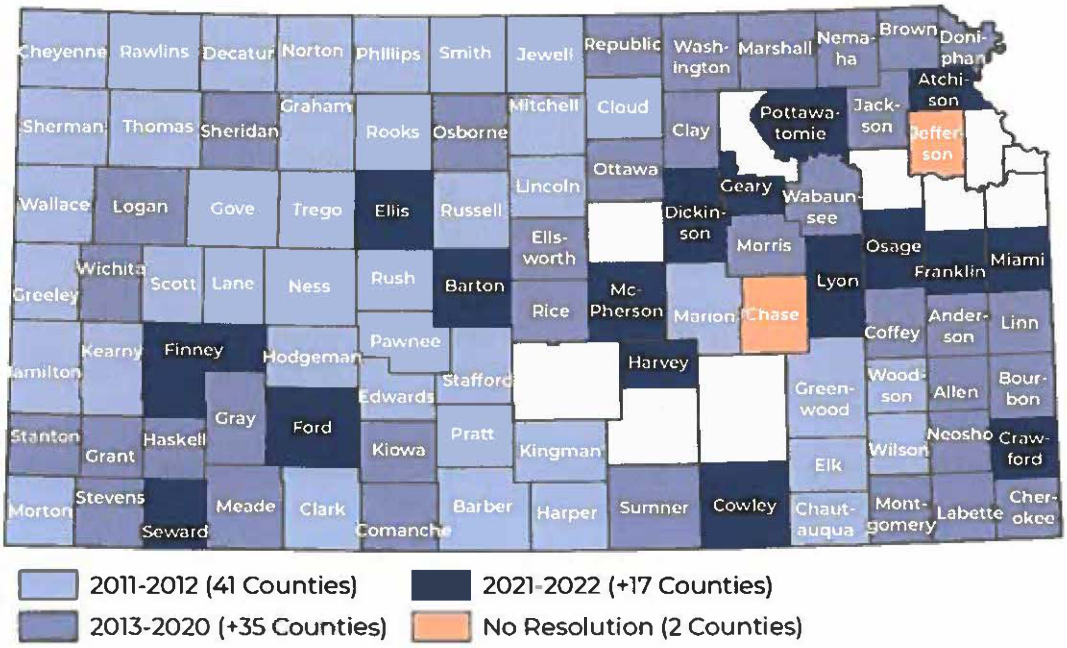
    - If there are more people who want to participate than the county can afford, some will have to wait until more local funds are available to participate.

- If a ROZ county does not pass a resolution, then no individual who moves to that county can participate in the student loan part of ROZ.

- However, Commerce allows ROZ counties to pass a "$0 resolution." This type of resolution doesn't require the county to share program costs with the state. Instead, it allows other entities in the county that want to sponsor a ROZ participant, like cities and private employers, to share 50% of program costs with the state. We refer to any entity that has agreed to share student loan repayment assistance costs with the state as a "sponsor." Commerce has approved 9 cities, 5 foundations, and 147 employers to sponsor participants.

- As **Figure 1** shows, 93 of the 95 counties designated as rural opportunity zones adopted a ROZ resolution in or before 2023. The only 2 counties that haven't adopted a resolution are Chase and Jefferson counties. That means individuals that move to Chase or Jefferson County cannot receive student loan assistance reimbursements as part of ROZ. However, these participants may be eligible to receive ROZ income tax credits.

Figure 1. All but 2 of the state's 95 ROZ-eligible counties have submitted a resolution (a).



(a) Counties in white are not ROZ-eligible.

Source: LPA analysis of program data provided by the Department of Commerce (unaudited).
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ROZ participants may receive up to a total of $15,000 in student loan repayment assistance over 5 years.

- An individual who moves to a ROZ county can apply to Commerce for student loan repayment assistance. Successful applicants may receive annual reimbursements on student loan payments of up to $3,000 for 5 years. For Commerce to approve an application, an individual must meet the following criteria:

  - The individual must move to a ROZ county after it adopted a resolution. An individual can move to a ROZ county from out-of-state or from another Kansas county, including another ROZ county. However, an individual cannot move within a single ROZ county and qualify for the program.
  - The individual must have earned at least an associate's degree before moving to the ROZ county.
  - The individual must have outstanding student loan debt. An individual's annual reimbursement will be the lesser of $3,000 or their outstanding student loan debt divided by 5.

- If an individual meets the above criteria, then Commerce approves them to participate in the program. Otherwise, Commerce denies the individual's application.
- Commerce requires program participants to stay in compliance with the program. Commerce told us they require participants to prove they made student loan payments each year they receive a reimbursement. Commerce also told us they require participants to annually attest to living in the ROZ county they applied for. State law requires Commerce to disqualify participants who leave the ROZ counties they applied for.
  - Commerce makes an exception for individuals sponsored by private employers. If their employer sponsor agrees to it, an individual can move to another ROZ county and continue receiving reimbursements.

Some counties don't have enough money to sponsor everyone who's applied for student loan repayment through the ROZ program.

- A participant must have a sponsor to receive student loan repayments. However, counties don't have unlimited funds to sponsor ROZ participants. Sometimes that means ROZ counties don't have funding to sponsor everyone who moves to the county and meets the program eligibility criteria.
- Commerce places an individual on a county's waitlist if funding isn't available to cover their reimbursement costs. Individuals will stay on a waitlist until funding becomes available. Individuals are generally moved off county and city waitlists on a first-come-first-serve basis.
- For example, a ROZ participant who has $15,000 in student debt would be able to get an annual $3,000 reimbursement. Half ($1,500) would come from the state and half would come from the county (or another local sponsor). If the ROZ county has $1,500 in funding available, then the individual begins receiving

reimbursements. If the county doesn't have funding available, (e.g., because funds have already been allocated to other participants), then the individual can't begin receiving reimbursements. Instead, they're placed on the county's waitlist.

- However, employer and foundation sponsors don't have waitlists. That's because Commerce allows private entities like employers to choose a specific person they want to sponsor.

Between 2012 and 2022, about 1,670 individuals participated in the student loan part of ROZ and received about $13.3 million in repayment assistance.

- We reviewed Commerce data to determine how many individuals participated in the student loan part of ROZ. We reviewed data from between when the program started through calendar year 2022. 2022 is the most recent year for which complete data was available.

- We counted any individuals whose applications Commerce approved as program participants. Some individuals we counted as participants didn't receive any student loan reimbursements. That's because those individuals were on waitlists. It was important to count these individuals because they met program criteria and may have moved to a ROZ county because of the program.

- At the time of our review, about 1,670 individuals had participated in the student loan part of ROZ. Those individuals fell into the following categories:

    - About 600 (36%) had completed the program. These individuals received all 5 years of student loan repayment reimbursements the program allows.

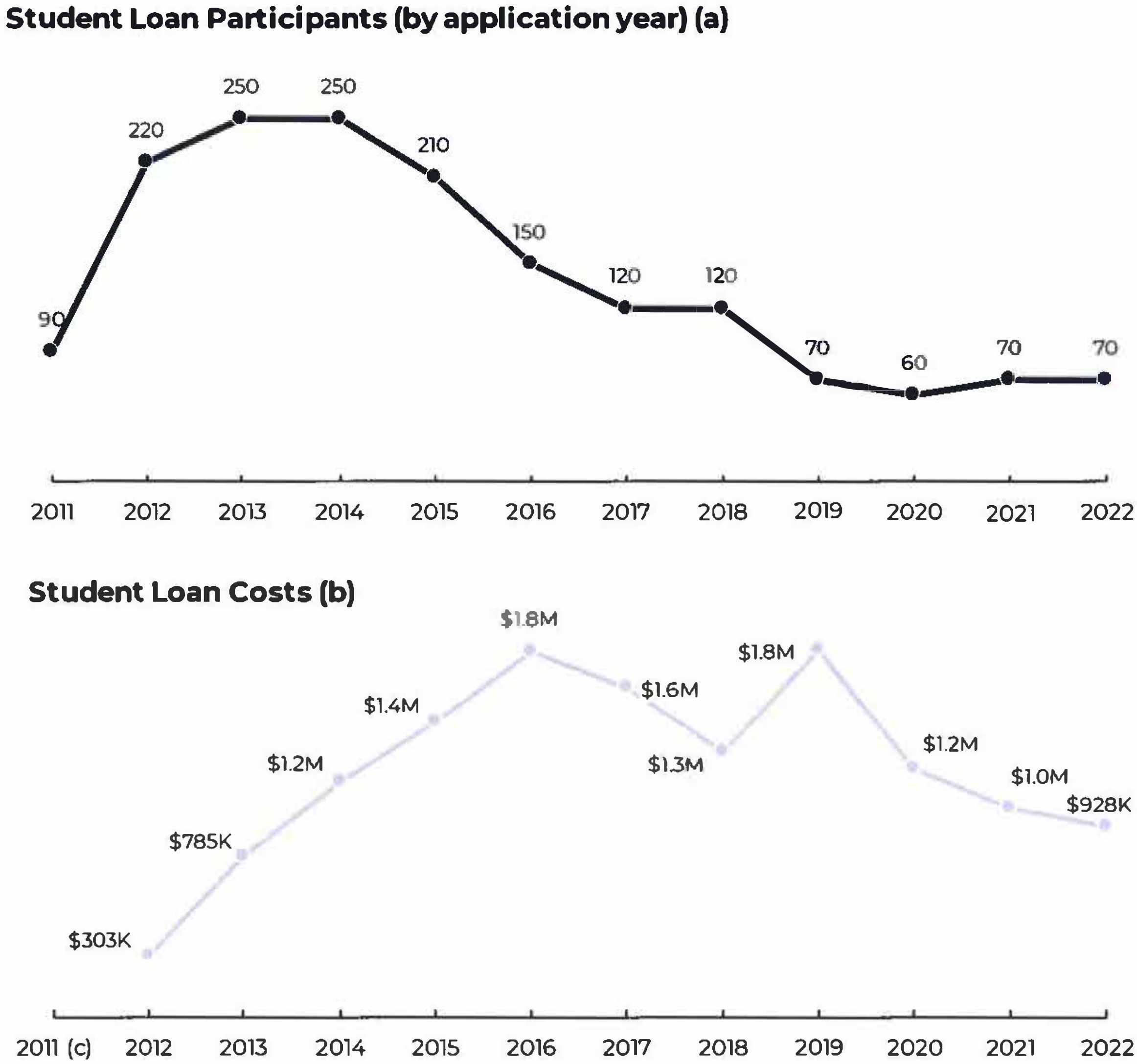
    - About 560 (34%) had withdrawn or been disqualified from the program after receiving at least 1 reimbursement. An individual might withdraw or be disqualified because they moved out of the ROZ county they applied for. They also may not have had additional student loan payments to claim reimbursement for.

    - About 260 (16%) are currently participating in the program. These individuals were currently receiving annual reimbursements as of the end of 2022.

    - About 160 (10%) withdrew from the program before they received any funding. Most appeared to have waited more than a year before withdrawing. We assumed these individuals were on a waitlist and withdrew because they hadn't received funding.

    - About 90 (5%) are currently on a waitlist.

Figure 2. The number of student loan participants has declined over time.



(a) Participant counts do not sum to 1,670 due to rounding. Participant counts include all individuals approved to participate, including individuals who were on a waitlist or who had withdrawn from the program before receiving funding.
(b) Student loan costs include state costs and local sponsor costs.
(c) The program didn't begin paying out benefits until 2012.

Source: LPA analysis of ROZ program data provided by the Department of Commerce (audited).

- **Figure 2** shows how the number of participants and the cost of the student loan part of the ROZ program has changed over time. As the figure shows, the number of student loan participants has decreased significantly since the early years of the program even as the number of ROZ counties has grown. Commerce officials said this could be because ROZ was promoted most in its early years. Commerce officials also told us the program was set to sunset in 2021. Commerce officials told us they halted marketing of the program in anticipation of the sunset. Commerce officials told us the looming sunset and the COVID-19 pandemic caused fewer people to apply in 2020 and 2021.

- State and local sponsors spent about $13.3 million on participants' reimbursements since the start of the program. The state paid about $6.7 million in reimbursements to participants whereas sponsors spent a total of about $6.6 million. The state spent a little more than sponsors because of miscommunication between Commerce and county sponsors. As the figure also shows, the cost of the ROZ program to state and local sponsors has dropped in the most recent couple of years as the number of participants has dropped.

- **Appendix B** shows student loan participants' states of origin, industries, and education levels.

<u>Income Tax Credit Benefit</u>

Someone who relocates to a ROZ county from out-of-state may receive a 100% state income tax credit for up to 5 years.

- K.S.A. 79-32,267 allows eligible individuals who move to a ROZ county from out-of-state a credit against their state income tax. The credit is equal to 100% of an eligible individual's state income tax, less other credits. An individual can claim the credit for 5 consecutive years. For an individual to get this tax credit, they must meet the following criteria:

    - The individual must have lived outside of Kansas for at least 5 years before moving to a ROZ county.

    - The individual must have earned less than $10,000 in Kansas-source income in each of the 5 years they were living outside of Kansas.

    - The individual must have lived in the ROZ county for the full year (i.e., January 1 through December 31) in which they claim the credit.

    - The individual must have filed their income tax return timely. The individual must also not be delinquent on any Kansas tax return or tax payments.

- Counties do not have to adopt a resolution for individuals to claim the ROZ tax credit. Tax credit participants do not need to have a local sponsor. Any eligible residents of a ROZ county can claim the credit.

- Unless the Legislature extends the sunset year, individuals can only claim the tax credit through tax year 2026.

Between 2012 and 2022, about 1,700 individuals applied for the ROZ tax credit and received about $13.8 million in income tax credits.

- We reviewed Revenue tax data to determine how many individuals claimed the ROZ tax credit between 2012 and 2022. 2012 was the first tax year in which individuals could claim the credit. We cut off our analysis in 2022 because that's the most recent year for which data was available.
- Between 2012 and 2022, about 1,720 individuals applied for the ROZ tax credit.
  - Only about 270 (16%) claimed the credit for 5 years, the maximum allowed.
  - About 700 (41%) claimed the credit between 2 and 4 years.
  - About 550 (32%) claimed the credit for only 1 year.
  - Finally, about 200 individuals (12%) applied for the ROZ tax credit but were denied because they didn't meet program criteria. We counted these individuals as program participants anyway. That was because these individuals may have moved to a ROZ county because they thought they would be eligible for the tax credit, even if they weren't allowed to claim it.
- **Figure 3** shows how the number of ROZ tax credit claimants and costs have changed over time. As the figure shows, the number of claimants grew in the first few years and has remained stable around 400 or more claimants since 2016. The number of 2022 claimants appears low because KDOR hadn't fully processed 2022 tax returns at the time of our analysis.
- These numbers are estimates. We may be understating how many people claimed the tax credit. That's because married couples in which both parties qualify for the tax credit can file their taxes jointly. In these cases, only the primary taxpayer is in the tax data. Based on the data Revenue keeps, we couldn't tell how many individuals represented married couples.
- Further, some ROZ tax credit claimants also claimed other tax credits. That influenced the amount of ROZ tax credits those claimants received. Factors like these make it hard to say exactly how many individuals participated in the tax credit part of ROZ.
- It's unclear why some taxpayers claimed the ROZ tax credit for only 1 or a few years. There are a few possible explanations.
  - Some individuals may have started claiming the credit in a recent year and will continue to claim it in future years.

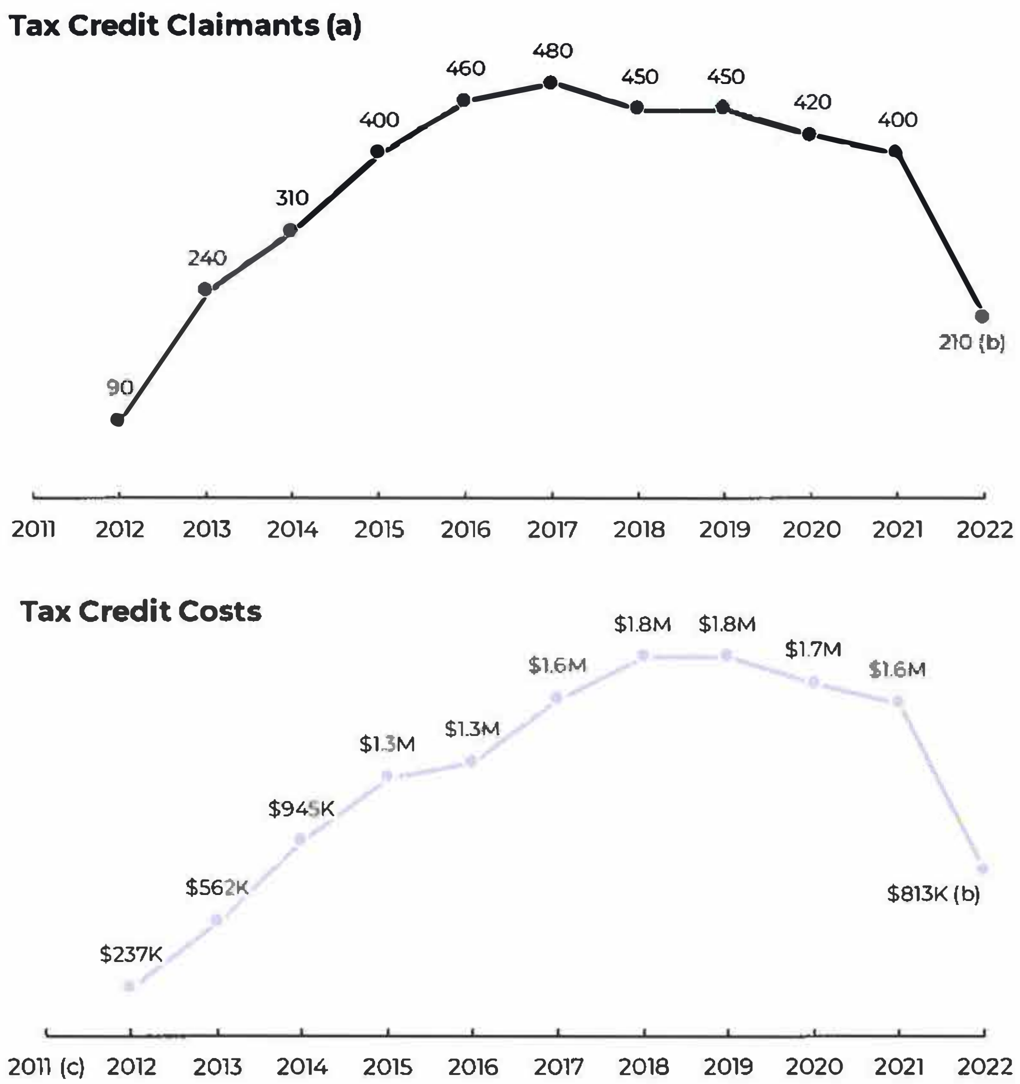
- Some individuals may have failed to file their taxes timely. This would have made them ineligible to claim the tax credit in those years.
- Tax preparation software could prevent someone from claiming the credit. Revenue officials told us some major tax software providers (e.g., H&R Block and TurboTax) don't support claiming the ROZ tax credit. However, Revenue offers a free online tax filing service. Revenue officials told us taxpayers can use this service to claim the ROZ tax credit.
- Some individuals may have moved out of a ROZ county before claiming the credit in 5 years.

- Participants claimed about $13.8 million in ROZ income tax credits from 2012-2022. This cost is borne entirely by the state. It is not a cost to local governments or employers like the student loan part of the program. As **Figure 3** shows, the state awarded about $1.3 million to $1.8 million in ROZ income tax credits each year since 2015.

About 150 individuals may have participated in both parts of ROZ, but this is an estimate due to data limitations.

- As previously mentioned, Commerce and Revenue administer the ROZ program. Commerce administers the student loan part of ROZ. Revenue administers the tax credit. The 2 agencies administer their parts independently from the other.
- Commerce and Revenue should be able to say how many individuals participated in both the student loan reimbursement and tax credit benefits of ROZ. Being able to do so is a fundamental part of understanding the program. It's also relevant to overseeing and evaluating the program.
- Commerce and Revenue didn't have a way to match participants between the student loan and tax credit parts of ROZ. This was because Commerce and Revenue don't maintain the same kinds of data for ROZ participants. For example, Commerce doesn't collect participants' Social Security numbers. This means there's no unique ID we could use to match participants between the program's 2 parts.
- To estimate how many individuals may have participated in both parts of ROZ, we compared the names of the individuals that participated in each part. We identified about 150 individuals who likely participated in both parts of the program since it started. This approach had some drawbacks. For example, some individuals didn't report a middle initial or name to both Commerce and Revenue. It's possible we missed some individuals who participated in both parts of the program. We also may have incorrectly determined 2 people with the same name were the same person.

Figure 3. The number of tax credit participants has remained relatively stable.



(a) This figure includes the total number of times the ROZ tax credit was claimed each year. This figure doesn't represent the total number of unique individual claimants. That's because claimants can claim the ROZ tax credit for up to 5 years. So, some claimants are counted in multiple years. By contrast, each student loan participant is counted only once in Figure 2.
(b) Data for 2022 is incomplete. At the time of our audit, Revenue was still processing returns for tax year 2022.
(c) 2012 was the first tax year in which individuals could claim the tax credit.

Source: LPA analysis of ROZ program data provided by the Department of Revenue (audited).

Program Evaluation Results

Counties lost about 29,400 residents total in the years in which they participated in ROZ.

- We used data from the U.S. Census Bureau to determine how many individuals left each ROZ county. Our base year for each county was the year in which each county first adopted a ROZ resolution. We compared how much each county's population changed between then and 2022.

- ROZ counties lost about 29,400 residents total in the years between their adoption of ROZ resolutions and 2022.

- The Census Bureau data was based on estimates. It therefore has some uncertainty (i.e., ±3%) in it. This data was the best available for us to use. But the data should not be viewed as absolute indicators of how much the populations of Kansas ROZ counties changed.

Due to a lack of detailed data, we used a high-level estimation process to determine ROZ's impact on rural population declines.

- Detailed information relevant to estimating ROZ's impacts on rural population declines wasn't readily available. For example, Commerce and Revenue couldn't clearly identify individuals who participated in both parts of ROZ. Commerce also doesn't collect information for all participants such as how many family members each participant had and whether they stayed in a ROZ county after completing the program. Revenue collects that information through tax returns, but can only feasibly provide it for participants in the tax credit part of the ROZ program.

- Because of that, we developed high-level estimates to determine what impact ROZ may have had on rural population declines.

- We began our analysis by determining the total number of people who participated in some aspect of ROZ from its start in 2012 through 2022. This includes student loan participants and tax credit participants We based our analysis on the Commerce and Revenue data discussed earlier.

- Then, we estimated how many people may have moved with a ROZ participant to a ROZ county. We used data from Commerce's own surveys of student loan participants. On average, respondents said they were part of a 3-member family. That means the average participant represents 3 people moving to a ROZ county, not just 1.

    - Commerce surveyed student loan participants in 2019 and 2021. The individuals who received the surveys were current participants at the time of the survey (i.e., those who received the 2019 survey received a reimbursement in 2019). Commerce's survey didn't include people who only participated in the ROZ tax credit program because Commerce doesn't administer that part of the program. We generalized the results from Commerce's survey to all program participants because it's the best information we had.

  - As part of the surveys, Commerce asked participants about their relationship statuses. Commerce also asked participants how many children they had living with them. We used this data to estimate participants' household sizes.

- Finally, we used data from Commerce's surveys to estimate how often ROZ caused participants to move to their ROZ counties. Based on Commerce's surveys of participants, we estimate ROZ caused between 14% and 29% of participants to move to a ROZ county.

  - In their surveys, Commerce asked participants whether they would have moved to their ROZ counties if the ROZ program hadn't been offered. Commerce also asked participants whether they also claimed the ROZ tax credit. Only 14% of student loan participants (who didn't claim the tax credit) said they would <u>not</u> have moved. And only 29% of respondents who said they also claimed the tax credit alongside student loan reimbursements said they would not have moved. That is, most respondents said they would have moved to their ROZ county, even if the ROZ program hadn't been available to them.

These estimates may overestimate program effects.

- Our estimates don't account for the net population change in Kansas. The student loan part of ROZ sometimes moves people between ROZ counties instead of attracting new people to Kansas. This doesn't help increase Kansas's statewide rural population. For example, about 660 student loan participants (40% of all student loan participants) moved between counties that had become ROZ-eligible by 2021.

- Our estimates assume all ROZ participants stayed in ROZ counties after beginning participation in the program. However, not all ROZ participants stay in the ROZ counties they moved to. We assumed participants stayed because we didn't have clear data showing what each participant did after they stopped participating in ROZ.

  - About 560 (34%) student loan participants withdrew or were disqualified from the program. Some of these individuals were disqualified because they moved out of the ROZ county they applied for. But we can't say exactly how many left their ROZ counties. Some may have stayed. Others may have moved to another ROZ county even though they wouldn't have been eligible for further student loan reimbursements.

  - A small sample indicates many tax credit participants may leave Kansas after claiming the ROZ tax credit. We reviewed tax data for a random sample of 26 individuals who participated only in the tax credit part of ROZ. As of 2022, 18 of those 26 individuals (69%) either moved to another state (17) or a Kansas county that isn't ROZ eligible (1). Only 8 individuals still appeared to be living in a ROZ county. Our sample isn't projectable because it wasn't drawn from the population of all tax credit participants. But it suggests many tax credit participants may leave Kansas after taking advantage of the tax credit.

- Finally, our estimates may double count some program participants. The program data we used didn't show whether each participant was married and, if they were, whether their spouse was also a ROZ participant. Our estimates assume each participant represented a unique household (i.e., that participants weren't married to each other) and brought 2 family members with them to a ROZ county. This means we counted some married participants (e.g., tax credit claimants who were married but filed taxes separately) as 2 households totaling 6 people instead of a single 3-person household.

ROZ appeared to have little overall impact on slowing rural population declines across the state.

- We estimate the ROZ program directly caused about 1,430 individuals (this includes both participants and their family members) to move to a ROZ county between 2012 and 2022. Based on the Commerce surveys, we estimate the other individuals would have moved to a ROZ county even if they hadn't participated in ROZ. Other factors, such as job opportunities or wanting to be closer to family, likely motivated these individuals' moves to a ROZ county.

- On a statewide basis, those 1,430 individuals offset about 5% of the individuals who left ROZ counties for various reasons while those counties were participating in ROZ.

- This means without the program, ROZ counties' populations would have declined by about 30,800 instead of 29,400. This doesn't represent a significant reduction in the rate at which ROZ counties are depopulating.

- If ROZ caused all participants to move to a ROZ county (about 9,750 individuals total, counting both participants and their family members) that would offset about 25% of those counties' population losses. But based on participants' survey responses, ROZ didn't cause all participants to move to a ROZ county.

However, ROZ may have benefitted some individual counties more than others.

- As **Figure 4** shows, ROZ may have had significant effects in 19 counties by either slowing or reversing their population losses or adding to their population gains. Over the 11-year period we reviewed:

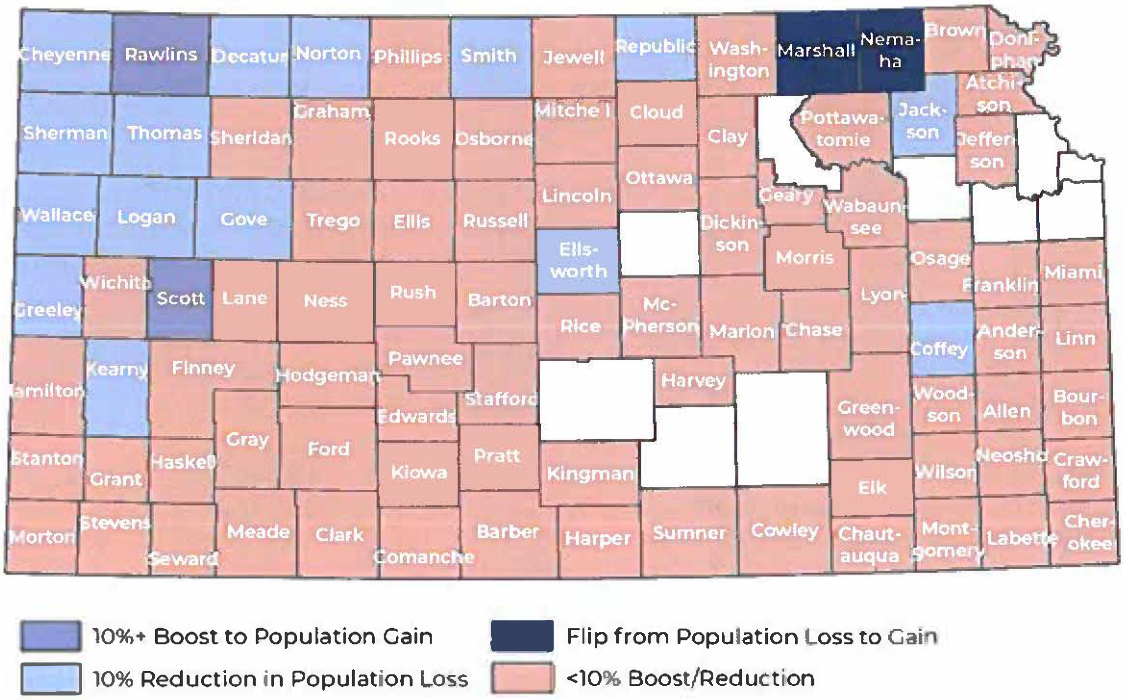
    - ROZ may have caused 2 counties to gain population instead of losing it. For example, Nemaha County gained about 20 people between 2013 (when the county adopted a ROZ resolution) and 2022. Without ROZ, the county may have lost about 15 people in that same period.

- ROZ may have decreased 15 counties' population losses by 10% or more. These counties' population losses were all too big for ROZ to reverse, but without ROZ their population losses may have been even larger. For example, Thomas County lost about 55 people between 2011 and 2022. Without ROZ, the county may have lost about 120 people.

- ROZ may have increased 2 counties' population gains by 10% or more. These counties would have gained population regardless of ROZ, but without ROZ their population gains may have been smaller. For example, Rawlins County gained about 20 people between 2011 and 2022. Without ROZ, the county may have gained about 10 people.

- The estimated effects of the ROZ program in the remaining 76 counties were very small. ROZ likely didn't have a meaningful effect on those counties' population losses or gains.

Figure 4. The ROZ program had the greatest impact on population change in the northwestern part of the state.



Source: LPA analysis of program data provided by the Departments of Commerce and Revenue and population data from the U.S. Census Bureau (audited).

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- The ROZ program likely isn't the sole factor that contributed to counties' population changes. Our analysis doesn't isolate ROZ's effects from other possible effects. Other variables, such as availability of jobs, may have played an influential role in the extent to which ROZ counties gained or lost population.

ROZ stakeholders we surveyed told us the program is one of few targeted to rural Kansas and can help recruit employees or develop stronger communities.

- We held phone surveys with 14 stakeholders to get their perspectives on the ROZ program. We spoke with counties, cities, private employers, and foundations involved with the ROZ program. Most respondents were sponsors. Because of this, their comments mostly relate to the student loan part of ROZ.

- 5 respondents told us ROZ helped them with employee recruitment. For example, 1 respondent told us ROZ helped attract teachers, hospital workers, and attorneys to their county. Another respondent told us ROZ helped attract government administrators and police officers.

- 5 respondents told us ROZ was one of few tools rural counties had to address workforce and population issues. 1 respondent characterized ROZ as one of the few tools rural Kansas has in "an empty toolbox."

- 2 respondents told us ROZ helped with community development. 1 respondent said ROZ helped attract young people to their county. They said this gave the county the opportunity to show young people their county was a good place to live. The other respondent said ROZ helped get teachers who worked in their county to live in the county. They said teachers who live in the county in which they work are more invested in their community.

The stakeholders we surveyed shared several ideas about how to improve the program.

- While many stakeholders supported the ROZ program, they also identified things they said would make the program more useful or produce bigger benefits.

- 8 respondents wanted to see better communication from the state about the program.

    - 5 respondents told us Commerce needed to communicate better with sponsors. This included providing education about how the program works. This would help counteract confusion about how the program works. A few of the stakeholders we surveyed didn't understand how the program works. For example, 1 respondent told us their county thought the student loan part of ROZ was only for people from out-of-state. That misunderstanding made the county reluctant to participate in the program.

    - 4 respondents (including 1 of the 5 above) told us they wanted the state to better promote the program.

- 5 respondents suggested expanding the program.

- 3 respondents suggested the program could offer benefits beyond student loans. These respondents suggested benefits to offset things like childcare, housing, or moving costs. 1 respondent said the focus on student loans penalizes those who paid off or did not take out loans.

- 3 respondents (including 1 of the 3 above) suggested opening the program to people with professional certifications. Some individuals may not have a degree or student loan debt. But they may have some other certification (e.g., a commercial driver's license) they took on debt to get. These individuals may be valuable to rural communities. For example, 1 respondent said their area needed employees with professional certifications. The program has been of limited benefit for that area because it didn't need people with degrees as much.

- 5 respondents suggested restricting the program.

  - 2 respondents suggested restrictions on program participants. For example, 1 respondent said participants should have to work in the ROZ county they live in. That respondent said many ROZ participants that live in their county commute to work outside the county. This doesn't help the county's local workforce.

  - 3 respondents wanted to restrict the program to fewer counties. 1 respondent said the 2021 expansion of the program gave larger counties an even greater advantage over smaller counties. The 2021 expansion made any county with less than 40,000 people a ROZ county. The other respondent told us the program should be restricted to counties that are willing to sponsor (i.e., fund) participants. That is, counties shouldn't be allowed to pass $0 resolutions.

The ROZ program may have other benefits.

- This report focuses on evaluating whether ROZ achieved its goal of reducing or reversing rural depopulation. That's because this goal is unique to the ROZ program and is what sets it apart from other state incentives.

- ROZ may benefit counties in other ways. For example, it may increase local quality of life factors or have other economic effects.

  - It's possible ROZ may provide services to rural Kansas that are currently lacking. For example, some rural communities have a shortage of doctors or teachers. If ROZ incents those positions to move and work in those counties, it may increase the quality of life in those areas. However, this is difficult to measure and would require a robust, lengthy study.

  - It's also possible ROZ may have beneficial economic effects. We didn't estimate economic effects or return on investment because the ROZ program doesn't focus on high-wage job creation or capital investment the way other economic development incentives do (e.g., Promoting Employment Across Kansas or High Performance Incentive Program). Commerce also doesn't collect comprehensive data about ROZ participants' jobs and incomes since that's not the primary goal of the program.

Other Findings

A few aspects of the ROZ program may not be operating as the Legislature intended.

- State law doesn't say whether entities like cities or employers can be program sponsors. State law talks only about counties participating in the student loan part of ROZ. According to Commerce, counties' home rule authority under K.S.A. 19-101 allows counties to partner with entities like cities and employers to pay student loan costs. Allowing entities other than counties to sponsor participants may be beneficial. That's because it may increase the number of individuals the ROZ program can support. Entities other than counties sharing costs with the state is not prohibited in state law.

- However, Commerce allows employers and foundations to choose who they sponsor. In some cases, this has led to situations where someone sponsors him or herself or where family members sponsor other family members. This likely isn't a common arrangement, but it may not be what the Legislature intended.

  - For example, we were told about one foundation that uses donations to sponsor ROZ participants that donors choose. This has resulted in a few donors sponsoring family members or themselves through the foundation. This means some participants leveraged a state match on student loan payments they would have made anyway. Donating to the foundation also may allow the donors to claim a tax deduction.

  - One business owner appeared to have used their business to sponsor themselves. This means the business owner used their business to help pay for their own student loan reimbursements. This meant the business owner leveraged a state match on student loan payments they would have made anyway.

- Regardless of who the sponsor is, their participation in the program may still lead to other benefits for the participants and local communities. For example, participants may eventually open businesses or buy houses, which may provide their communities with additional services or job opportunities.

- State law doesn't envision waitlists. Some individuals spend a long time on a waitlist for student loan repayment assistance. For example, there's 1 individual who's currently participating in the program who first applied to the program in 2012. That individual didn't get their first ROZ student loan reimbursement until 2020—8 years after they first applied to the program. As **Figure 5** shows, at the time of our review, about 75 individuals had applied to the program before 2022 and were still on a waitlist. 25 of these individuals had been on a waitlist since 2012 to 2015.

Figure 5. Some student loan participants spend a long time on a waitlist and many don't complete the program.

Application Year	# Student Loan Participants	# on Waitlist (as of 2023)	# Completed Program (as of 2023)	% Completed Program
2011	90	0	55	61%
2012	220	5	105	48%
2013	250	5	140	56%
2014	250	10	110	44%
2015	210	5	85	40%
2016	150	5	55	37%
2017	120	10	35	29%
2018	120	20	15	13%
2019	70	5	1 (a)	1%
2020	60	5	0	0%
2021	70	5	0	0%
2022	70	15	0	0%
Total	1,670 (b)	90	600	36%

(a) All participant numbers are rounded except for this one.
(b) Participant counts do not sum to 1,670 due to rounding.

Source: LPA analysis of Department of Commerce data (audited).

Kansas Legislative Division of Post Audit

- State law doesn't include criteria for metrics like program completion or how many new people the program aims to bring to Kansas.
  - Many student loan participants don't complete the program. As the figure also shows, no more than about 60% of program participants from any year complete the program. Recent applicants can't have completed the program because they're still receiving reimbursements. But for participants from years 2011 through 2017, only about 45% completed the program.
  - The program is sometimes moving people around rural Kansas rather than moving new people to rural Kansas. As we previously discussed, some program participants moved from one ROZ county to another ROZ county. This isn't against program rules and it may also be beneficial if it keeps people in Kansas when they would have otherwise left the state. However, shifting

- people from 1 ROZ county to another doesn't help increase Kansas's overall rural population.

No other states have programs like ROZ.

- We didn't identify any other states that operated programs like ROZ. We looked for statewide programs that incented individuals to move to rural areas. We didn't find any. However, we learned about some local programs that incent individuals to move to certain areas. For example:
  - An Alabaman economic development organization runs a program to attract individuals to northwest Alabama. Eligible participants can receive $10,000 to move to northwest Alabama.
  - The City of Middle River, Minnesota offers a free 100 x 300-foot lot and building permit to individuals who move to the city and build a house.
- We also didn't identify any literature about the effectiveness of programs like ROZ. Commerce published an evaluation it completed of the ROZ program in 2020. In its evaluation, Commerce concluded the ROZ program had not been effective at reversing or slowing rural depopulation in Kansas.

Conclusion

ROZ started as a program targeted to 50 counties with decreasing populations. The original intent appeared to be to counteract this depopulation. However, ROZ has expanded over time to 95 of the state's 105 counties, essentially making it a statewide program. Participants in the student loan part of the program can and often do move from one ROZ county to another. When this happens, it doesn't bring new residents to Kansas, but may keep Kansans from leaving the state. However, it's not doing that in large enough numbers to offset the number of people leaving Kansas. Participants in the tax credit part of the program must move to Kansas from another state, which results in new Kansas residents to counteract depopulation. It's up to policymakers to decide if these outcomes are in line with their expectations of the program.

Recommendations

If the Legislature extends the ROZ program's sunset:

1. The Legislature should consider amending statute to clarify the ROZ program's goals. This might include specific benchmarks for program success.

2. The Legislature should consider amending statute to say whether cities, employers, and foundations should be allowed to serve as ROZ sponsors in addition to counties. The Legislature should also consider clarifying how non-county sponsorships should work to avoid potential conflicts of interest.

3. Commerce and Revenue should develop a way to identify individuals participating in both parts of the ROZ program to enhance the quality of future program evaluations.

   - Department of Commerce Response: Commerce will further collaborate with the Department of Revenue to align our data collection efforts to better understand the number of beneficiaries.

   - Department of Revenue Response: The Department of Revenue has received the audit, Evaluating the Rural Opportunity Zone Program. The Department of Revenue will work with the Department of Commerce to develop a way to identify individuals participating in both the student loan repayment assistance program and the income tax credit.

Agency Response

On August 2, 2023 we provided the draft audit report to the Departments of Commerce and Revenue. The Department of Commerce's response is below. The Department of Revenue did not provide a written response to the audit, but responded to our recommendation as shown above. Agency officials generally agreed with our findings and conclusions.

Department of Commerce Response

Dear Ms. Clarke:

The Department of Commerce (Commerce) has reviewed the Performance Audit Report titled, "Evaluating the Rural Opportunity Zones Program." The audit objective was to evaluate if the ROZ program effectively slowed rural depopulation. In general, we do not disagree with the statements in the report written by the Legislative Post Audit team. We believe that further clarification on the benchmarks, goals, and the intent of the program could increase its impact. New strategies need to be implemented to help rural communities prosper across the state, and Commerce stands ready to work with the legislature on potential solutions. Additionally, specific clarification regarding sponsorships would allow Commerce to better align the program with the legislature's intent.

As we work with the legislature to find ways to improve the program overall, Commerce will further collaborate with the Department of Revenue to align our data collection efforts to better understand the number of beneficiaries. Additionally, Commerce will continue to conduct outreach to local communities to reduce waiting list times and the overall number of applicants on the waiting list, as well as continue marketing to increase the utilization of the program in all 95 eligible counties.

We understand each of the report's findings and do not disagree that this program needs further review, clarification, and updates to serve rural Kansas communities more effectively. We appreciate LPA's evaluation of ROZ and look forward to working with the legislature and local communities to improve the program.

Sincerely,

David C. Toland
Lt. Governor/Secretary

Appendix A – Cited References

This appendix lists the major publications we relied on for this report.

1. County Population Totals: 2010-2020. (October, 2021). *United States Census Bureau.*

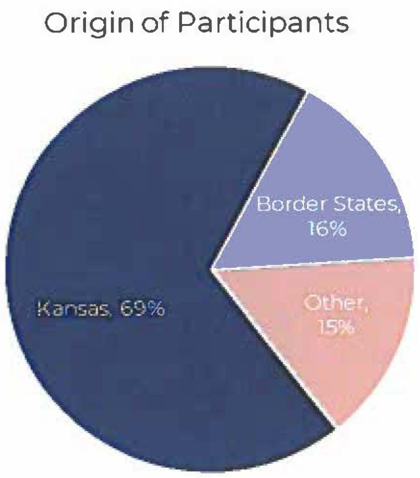
2. County Population Totals and Components of Change: 2020-2022. (June 2023). *United States Census Bureau.*

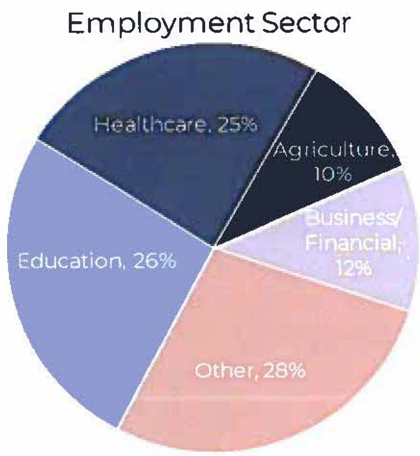
3. Kansas Rural Opportunity Zones: Program Evaluation and Recommendations. (August, 2020). *Kansas Department of Commerce.*

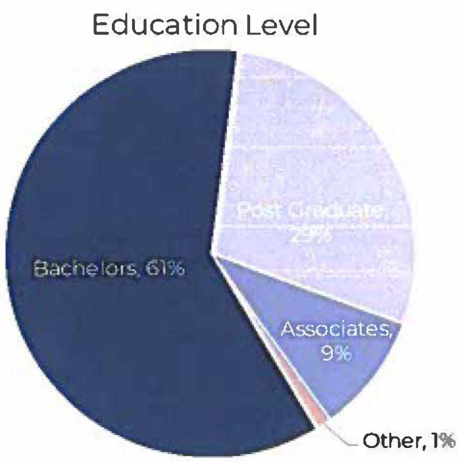
4. Population Change for Counties in the United States: 2000 to 2010. (September, 2011). *United States Census Bureau.*

Appendix B – Student Loan Participant Demographics

This appendix includes information about student loan participants' states of origin, industries, and education levels.







Source: LPA analysis of ROZ program data provided by the Department of Commerce (audited).

Appendix K: WV News, West Virginia Launches ‘Ascend’ Program to Attract Remote Workers

Appendix K

West Virginia launches 'Ascend' program to attract remote workers

- by Charles Young WV NEWS, Apr 20, 2021

CHARLESTON — State officials have invited remote workers to consider taking a "permanent vacation" in the Mountain State with the help of the newly launched Ascend West Virginia program.

Gov. Jim Justice was joined by a diverse group of collaborators and stakeholders as he signed House Bill 2026 into law. The bill is designed to update the state's corporate income tax laws to help attract remote workers from across the country.

"Today, we are rolling out the red carpet and inviting remote workers from across the country to make Almost Heaven, West Virginia their new home," Justice said. "I couldn't be more proud of the dream team that we've assembled to get this program off the ground."

Workers who are accepted into the Ascend WV Program will receive a one-time incentive package valued at more than $20,000, including $12,000 in direct cash payments and a year's worth of outdoor recreational opportunities, officials said.

Applications for Ascend WV's first 50 spots in the initial host city of Morgantown opened at 10:01 a.m. Monday. Application windows for the program's sister cities of Shepherdstown and Lewisburg will be announced at a later date.

State Tourism Secretary Chelsea Ruby said the program is an "extension" of the Almost Heaven tourism and marketing campaign launched by the West Virginia Tourism office in 2017.

"We've been really fortunate to invest in tourism advertising and now much of the nation and the world knows about Almost Heaven West Virginia," she said. "They think about (our) great state as a place you can go to visit to escape the crowds — a place you experience world-class outdoor recreation and a place where you can escape it all to the mountain towns full of culture and the friendliest people on the planet."

HB 2026 "modernizes" the state's corporate tax structure to make it more attractive to companies and individuals looking to resettle, Justice said.

"That, in combination with our broadband (expansion) efforts, will bring so many more people to West Virginia — we hope and pray at least," he said.

The program is supported by and was developed in collaboration with West Virginia native and former Intuit Executive Chairman Brad Smith and his wife, Alys.

"Our vision for Ascend WV is that it will grow to become 55 counties strong," Alys Smith said. "We know that each community in West Virginia has something unique to offer. Whether it's proximity to outdoor recreation or warm small-town charm, our hope is that this program's leadership team can grow Ascend WV's reach to support more workers in more communities in the years to come."

The Smiths recently gave $25 million to West Virginia University to create the Brad and Alys Smith Outdoor Economic Development Collaborative.

https://www.wvnews.com/west-virginia-launches-ascend-program-to-attract-remote-workers/article_7b248985-57ae-5c04-8f76-e2c6af6faa8a.html

Appendix K

“Born and raised in Kenova, it has always been my dream to give back to the state that forever has my heart,” said Brad Smith. “Together, Alys and I set forth a vision to create a program that would allow West Virginia to capitalize on workforce trends by leveraging our incredible outdoor recreation assets. As West Virginians, we ascend mountains every day. Here, we’re inviting remote workers from across the country to join us in our ascent to rise to new heights, together.”

WVU President Dr. E. Gordon Gee said the university said participants in the program will have the chance to earn remote work certifications through WVU along with access to the university’s entrepreneurship ecosystem.

“As a land-grant institution, West Virginia University is committed to supporting the needs of our local communities and our state by providing opportunities to pursue higher education,” Gee said. “Thanks to the support and vision of Brad and Alys Smith, our outdoor recreation initiative, coupled with this remote worker program, is now well-positioned to take advantage of this unique moment in our history. I am confident this program will ignite an interest in West Virginia, as well as boost West Virginia’s economy.”

State Economic Development Secretary Mitch Carmichael said the program is the right step for West Virginia.

“By inviting these high-earning workers to move to the Mountain State, they will generate a significant and lasting economic impact,” he said. “Thanks to the governor’s remote worker legislation, which gained bipartisan support and passage by the Legislature, we’ve taken this incentive one step further and modernized our tax structure to be more friendly to this new and growing line of work. I could not be more excited about this initiative.”

https://www.wvnews.com/west-virginia-launches-ascend-program-to-attract-remote-workers/article_7b248985-57ae-5c04-8f76-e2c6af6faa8a.html

Appendix L: WV News, Ascend West Virginia Program Attracts 42,000 Applications

Appendix L

Ascend West Virginia Program Attracts 42,000 Applications, Boosts State Economy by $580 Million

- WV News Report, Jan 9, 2024

Brad Smith, President of Marshall University, and Chelsea Ruby, West Virginia's Tourism Secretary, recently spoke to lawmakers about the Ascend West Virginia program. This program is doing even better than they had initially imagined.

Ascend West Virginia is a special program. It offers financial incentives and other benefits to people who choose to relocate to West Virginia. It offers $12,000 over a span of two years and free access to various outdoor recreational activities. It also provides workspace options and assistance to those who want to start their own businesses.

Ruby compared the program's selectivity to that of prestigious institutions like Yale or Harvard. Despite having only 1,000 slots, they received a staggering 42,000 applications. Filling out each application requires about 40 minutes.

The massive number of applications indicates that these 42,000 individuals are not just casually interested but seriously considering moving to West Virginia. Applicants hail from all 50 states and 104 different countries.

Those who decide to relocate to West Virginia are encouraged to bring their jobs, families, and hobbies. Sometimes, they even bring along another income-earning individual. Ruby explained that the program helps these newcomers find housing and settle in comfortably.

Program participants have already contributed $580 million to the state's economy. While this does not represent new jobs created within West Virginia, it signifies the transfer of existing jobs to the state. This influx of jobs is a significant injection of fresh capital into the state's economy. Additionally, these individuals are starting families in the state.

Despite the program's focus on attracting outdoor enthusiasts rather than large corporations, Ruby revealed that over 95% of participants remained in the program over two years. She also shared that 44% of participants purchased homes worth an average of $350,000. These newcomers are not only bringing jobs and money to West Virginia but are also planning to stay for the long haul.

West Virginia has become one of the top ten states attracting new residents, outpacing even New York and California. Ruby anticipates this trend may continue.

Even those who were not initially accepted into the Ascend West Virginia program have been targeted. Some of these individuals have relocated to the state and purchased homes.

Smith revealed to lawmakers a new initiative targeting younger individuals after two successful years of Ascend West Virginia. The new program, First Ascent West Virginia, resembles Ascend but also includes mentoring and coaching for success.

https://www.wvnews.com/news/wvnews/ascend-west-virginia-program-attracts-42-000-applications-boosts-state-economy-by-580-million/article_a888e490-af3c-11ee-a87e-d773256b9c14.html

Appendix M: IRS migration data 2021 to 2022–Virginia county-to county

Appendix M

VIRGINIA OUTFLOW

Individual Income Tax Returns: County-to-County Migration Outflow for Selected Income Items, Calendar Years 2021-2022

[Money amounts are in thousands of dollars]

Origin from Virginia		Destination to				Number of returns	Number of individuals [1]	Adjusted gross income
State Code	County Code	State Code	County Code	State	County Name	(1)	(2)	(3)
51	021	96	000	VA	Bland County Total Migration-US and Foreign	120	200	4,686
51	021	97	000	VA	Bland County Total Migration-US	120	200	4,686
51	021	97	001	VA	Bland County Total Migration-Same State	81	137	2,845
51	021	97	003	VA	Bland County Total Migration-Different State	39	63	1,841
51	021	51	021	VA	Bland County Non-migrants	2,032	4,025	122,065
51	021	58	000	SS	Other flows - Same State	81	137	2,845
51	021	59	000	DS	Other flows - Different State	39	63	1,841
51	021	59	001	DS	Other flows - Northeast	d	d	d
51	021	59	003	DS	Other flows - Midwest	d	d	d
51	021	59	005	DS	Other flows - South	39	63	1,841
51	021	59	007	DS	Other flows - West	d	d	d
51	025	96	000	VA	Brunswick County Total Migration-US and Foreign	360	654	14,708
51	025	97	000	VA	Brunswick County Total Migration-US	360	654	14,708
51	025	97	001	VA	Brunswick County Total Migration-Same State	271	499	9,881
51	025	97	003	VA	Brunswick County Total Migration-Different State	89	155	4,827
51	025	51	025	VA	Brunswick County Non-migrants	5,220	9,747	282,433
51	025	51	117	VA	Mecklenburg County	77	167	2,591
51	025	58	000	SS	Other flows - Same State	194	332	7,291
51	025	59	000	DS	Other flows - Different State	89	155	4,827
51	025	59	001	DS	Other flows - Northeast	d	d	d
51	025	59	003	DS	Other flows - Midwest	d	d	d
51	025	59	005	DS	Other flows - South	89	155	4,827
51	025	59	007	DS	Other flows - West	d	d	d
51	027	96	000	VA	Buchanan County Total Migration-US and Foreign	309	609	15,237
51	027	97	000	VA	Buchanan County Total Migration-US	309	609	15,237
51	027	97	001	VA	Buchanan County Total Migration-Same State	219	424	11,056
51	027	97	003	VA	Buchanan County Total Migration-Different State	90	185	4,181
51	027	51	027	VA	Buchanan County Non-migrants	5,749	12,246	302,266
51	027	51	185	VA	Tazewell County	64	149	3,213
51	027	51	167	VA	Russell County	39	77	2,426
51	027	51	191	VA	Washington County	28	57	2,195
51	027	58	000	SS	Other flows - Same State	88	141	3,221
51	027	59	000	DS	Other flows - Different State	90	185	4,181
51	027	59	001	DS	Other flows - Northeast	d	d	d
51	027	59	003	DS	Other flows - Midwest	d	d	d
51	027	59	005	DS	Other flows - South	90	185	4,181
51	027	59	007	DS	Other flows - West	d	d	d
51	036	96	000	VA	Charles City County Total Migration-US and Foreign	141	255	6,521
51	036	97	000	VA	Charles City County Total Migration-US	141	255	6,521
51	036	97	001	VA	Charles City County Total Migration-Same State	141	255	6,521
51	036	51	036	VA	Charles City County Non-migrants	2,720	4,830	218,237
51	036	51	087	VA	Henrico County	33	63	1,564
51	036	51	127	VA	New Kent County	26	54	1,733
51	036	58	000	SS	Other flows - Same State	82	138	3,225
51	036	59	001	DS	Other flows - Northeast	d	d	d
51	036	59	003	DS	Other flows - Midwest	d	d	d

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Origin from Virginia		Destination to				Number of returns	Number of individuals [1]	Adjusted gross income
State Code	County Code	State Code	County Code	State	County Name	(1)	(2)	(3)
51	036	59	005	DS	Other flows - South	d	d	d
51	036	59	007	DS	Other flows - West	d	d	d
51	051	96	000	VA	Dickenson County Total Migration-US and Foreign	202	372	7,472
51	051	97	000	VA	Dickenson County Total Migration-US	202	372	7,472
51	051	97	001	VA	Dickenson County Total Migration-Same State	143	277	4,849
51	051	97	003	VA	Dickenson County Total Migration-Different State	59	95	2,623
51	051	51	051	VA	Dickenson County Non-migrants	3,929	8,599	199,744
51	051	51	195	VA	Wise County	64	117	2,087
51	051	58	000	SS	Other flows - Same State	79	160	2,762
51	051	59	000	DS	Other flows - Different State	59	95	2,623
51	051	59	001	DS	Other flows - Northeast	d	d	d
51	051	59	003	DS	Other flows - Midwest	d	d	d
51	051	59	005	DS	Other flows - South	59	95	2,623
51	051	59	007	DS	Other flows - West	d	d	d
51	105	96	000	VA	Lee County Total Migration-US and Foreign	313	574	11,833
51	105	97	000	VA	Lee County Total Migration-US	313	574	11,833
51	105	97	001	VA	Lee County Total Migration-Same State	126	241	4,305
51	105	97	003	VA	Lee County Total Migration-Different State	187	333	7,528
51	105	51	105	VA	Lee County Non-migrants	6,364	13,665	305,132
51	105	51	195	VA	Wise County	58	107	1,640
51	105	51	169	VA	Scott County	31	69	1,345
51	105	47	163	TN	Sullivan County	22	33	1,828
51	105	58	000	SS	Other flows - Same State	37	65	1,320
51	105	59	000	DS	Other flows - Different State	165	300	5,701
51	105	59	001	DS	Other flows - Northeast	d	d	d
51	105	59	003	DS	Other flows - Midwest	28	50	781
51	105	59	005	DS	Other flows - South	137	250	4,919
51	105	59	007	DS	Other flows - West	d	d	d
51	167	96	000	VA	Russell County Total Migration-US and Foreign	380	645	16,237
51	167	97	000	VA	Russell County Total Migration-US	380	645	16,237
51	167	97	001	VA	Russell County Total Migration-Same State	280	492	11,549
51	167	97	003	VA	Russell County Total Migration-Different State	100	153	4,688
51	167	51	167	VA	Russell County Non-migrants	7,972	17,091	446,048
51	167	51	185	VA	Tazewell County	62	110	2,107
51	167	51	191	VA	Washington County	62	104	3,583
51	167	47	163	TN	Sullivan County	34	48	1,668
51	167	51	195	VA	Wise County	33	65	1,156
51	167	51	520	VA	Bristol city	28	41	1,346
51	167	51	027	VA	Buchanan County	22	46	869
51	167	58	000	SS	Other flows - Same State	73	126	2,488
51	167	59	000	DS	Other flows - Different State	66	105	3,020
51	167	59	001	DS	Other flows - Northeast	d	d	d
51	167	59	003	DS	Other flows - Midwest	d	d	d
51	167	59	005	DS	Other flows - South	66	105	3,020
51	167	59	007	DS	Other flows - West	d	d	d
51	167	57	009	FR	Foreign - Other flows	d	d	d
51	173	96	000	VA	Smyth County Total Migration-US and Foreign	467	778	22,528
51	173	97	000	VA	Smyth County Total Migration-US	467	778	22,528
51	173	97	001	VA	Smyth County Total Migration-Same State	322	547	16,259
51	173	97	003	VA	Smyth County Total Migration-Different State	145	231	6,270

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Origin from Virginia		Destination to				Number of returns	Number of individuals [1]	Adjusted gross income
State Code	County Code	State Code	County Code	State	County Name	(1)	(2)	(3)
51	173	51	173	VA	Smyth County Non-migrants	10,139	20,209	548,532
51	173	51	191	VA	Washington County	135	256	7,780
51	173	51	197	VA	Wythe County	58	106	2,045
51	173	58	000	SS	Other flows - Same State	129	185	6,434
51	173	59	000	DS	Other flows - Different State	145	231	6,270
51	173	59	001	DS	Other flows - Northeast	d	d	d
51	173	59	003	DS	Other flows - Midwest	d	d	d
51	173	59	005	DS	Other flows - South	124	196	5,362
51	173	59	007	DS	Other flows - West	21	35	908
51	183	96	000	VA	Sussex County Total Migration-US and Foreign	335	586	12,357
51	183	97	000	VA	Sussex County Total Migration-US	335	586	12,357
51	183	97	001	VA	Sussex County Total Migration-Same State	288	512	10,692
51	183	97	003	VA	Sussex County Total Migration-Different State	47	74	1,665
51	183	51	183	VA	Sussex County Non-migrants	3,365	6,145	174,844
51	183	51	041	VA	Chesterfield County	33	65	1,489
51	183	51	730	VA	Petersburg city	24	49	854
51	183	51	053	VA	Dinwiddie County	20	36	550
51	183	58	000	SS	Other flows - Same State	211	362	7,800
51	183	59	000	DS	Other flows - Different State	47	74	1,665
51	183	59	001	DS	Other flows - Northeast	d	d	d
51	183	59	003	DS	Other flows - Midwest	d	d	d
51	183	59	005	DS	Other flows - South	47	74	1,665
51	183	59	007	DS	Other flows - West	d	d	d
51	183	57	009	FR	Foreign - Other flows	d	d	d
51	185	96	000	VA	Tazewell County Total Migration-US and Foreign	694	1,284	30,163
51	185	97	000	VA	Tazewell County Total Migration-US	694	1,284	30,163
51	185	97	001	VA	Tazewell County Total Migration-Same State	332	588	12,992
51	185	97	003	VA	Tazewell County Total Migration-Different State	362	696	17,171
51	185	51	185	VA	Tazewell County Non-migrants	12,626	26,480	758,654
51	185	54	055	WV	Mercer County	134	260	4,965
51	185	51	167	VA	Russell County	70	155	2,719
51	185	51	191	VA	Washington County	46	84	-20,158
51	185	51	027	VA	Buchanan County	42	92	1,505
51	185	58	000	SS	Other flows - Same State	174	259	6,350
51	185	59	000	DS	Other flows - Different State	228	436	12,206
51	185	59	001	DS	Other flows - Northeast	d	d	d
51	185	59	003	DS	Other flows - Midwest	25	52	1,159
51	185	59	005	DS	Other flows - South	203	384	11,047
51	185	59	007	DS	Other flows - West	d	d	d
51	185	57	009	FR	Foreign - Other flows	d	d	d
51	195	96	000	VA	Wise County Total Migration-US and Foreign	664	1,181	28,599
51	195	97	000	VA	Wise County Total Migration-US	664	1,181	28,599
51	195	97	001	VA	Wise County Total Migration-Same State	371	684	13,137
51	195	97	003	VA	Wise County Total Migration-Different State	293	497	15,463
51	195	51	195	VA	Wise County Non-migrants	10,838	22,858	576,300
51	195	51	720	VA	Norton city	81	152	2,177
51	195	51	105	VA	Lee County	55	104	2,220
51	195	51	051	VA	Dickenson County	54	98	1,949
51	195	47	163	TN	Sullivan County	42	64	1,741
51	195	51	167	VA	Russell County	31	81	1,244

Appendix M

Origin from Virginia		Destination to				Number of returns	Number of individuals [1]	Adjusted gross income
State Code	County Code	State Code	County Code	State	County Name	(1)	(2)	(3)
51	195	51	169	VA	Scott County	26	66	963
51	195	47	179	TN	Washington County	25	41	1,839
51	195	58	000	SS	Other flows - Same State	124	183	4,584
51	195	59	000	DS	Other flows - Different State	226	392	11,883
51	195	59	001	DS	Other flows - Northeast	d	d	d
51	195	59	003	DS	Other flows - Midwest	25	47	770
51	195	59	005	DS	Other flows - South	179	303	10,252
51	195	59	007	DS	Other flows - West	22	42	862

d - Data has been suppressed to prevent disclosure.

[1] Beginning in 2018, personal exemption deductions were suspended for the primary, secondary, and dependent taxpayers. However, the data used to create the "Number of individuals"—filing status, dependent status indicator, and identifying dependent information—are still available on the Form 1040. This field is based on these data.

NOTE: This table presents aggregates of all returns filed and processed through the Individual Master File (IMF) system during Calendar Years 2021 and 2022.

Source: IRS Individual Master File, Statistics of Income, June 2024.