

Mountain State Education and Research Foundation

A Guide for Answering the WV Tax Modernization Questionnaire

Introduction

Earlier this year Governor Manchin launched his “Tax Modernization Project” with the goal of identifying potential state and local tax reforms. To accomplish this task Manchin put together a project work group, made up of (15) state tax department officials and two university professors, and has asked for suggestions from stakeholders across the state.

The State Tax Department has urged West Virginians to visit their website (www.state.wv.us/taxdiv) and complete the online Tax Modernization Project Informational Questionnaire. Information gathered from the questionnaire will be used in developing the team’s report and recommendations.

In mid November, Gov. Manchin will ask lawmakers to “modernize” the state tax structure at a special session based on the recommendations of the West Virginia Tax Modernization Work Group and other stakeholders around the state. This project is a top priority for the Manchin Administration this year.

This document is to assist people in answering the questionnaire. Below is a menu of sample answers that reflect the concerns of many stakeholders in West Virginia. The answers are written from the point of view of individual taxpayers, not someone representing a business, a professional organization, a non-profit organization or a government entity. **Sample answers appear in blue font below each question along with explanations for each answer when appropriate. (Please remember that the questionnaire only allows up to 800 characters per question, therefore answers need to be brief.)** By providing this menu of sample answers we hope to give ordinary West Virginians a greater voice in the development of any tax reforms that might be pursued over the next year.

If you have any questions about the menu of sample answers given below please contact Ted Boettner at:

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Terms: A **regressive** tax makes middle- and low-income families pay a larger share of their incomes in taxes than the rich.

A **progressive** tax is one in which upper-income families pay a larger share of their incomes in tax than do those with lower incomes.

The Questionnaire

1. In what ways does the current WV State and local tax structure affect you or the operation and investment decisions of your organization?

1A. Please provide the positive aspects

State Tax Structure:

- ***Our graduated, progressive personal income tax helps (somewhat) offset our regressive taxes that reduce the standard of living of many working West Virginians.*** This feature of our state tax structure means upper income families pay a larger share of their personal income in tax than those with lower incomes. This progressive aspect of our state tax structure also helps to somewhat offset our regressive taxes, like the sales, excise (example: gasoline tax), and property taxes that reduce the standard of living of a majority of working West Virginians. Over the past two decades,

the incomes of the richest families in West Virginia climbed substantially, while the incomes of the middle- and lower-income families saw only modest increases.

Local Tax Structure:

- ***Low property taxes help ensure equality in how are public schools are funded.*** If local schools in West Virginia were funded primarily by local property taxes than there would be an unequal distribution of wealth between rich and poor school districts, leading to inequitable schools. . If property taxes are raised many people won't be able to pay their property taxes and they could lose their homes.

1B. Please provide the negative aspects

State Tax Structure:

- ***The food tax, low income tax threshold, and overall regressive state tax structure leaves low and middle income families paying more in taxes as a share of their income than wealthier families.*** The tax on food falls more heavily on low and moderate income families than on wealthier families. However, working West Virginians would wind up losing more than they gain if repeal of the food tax means cuts to schools, higher education, and social services. The income tax threshold is too low and doesn't help West Virginia's hardworking families. West Virginia's income tax threshold for families of four has been fixed at \$10,000 since 1996. Eliminating state income taxes on working families with poverty-level incomes gives a boost in take-home pay that helps offset higher child care and transportation costs that families incur as they strive to become economically independent. Relieving state income taxes by raising the threshold on poor families can make a meaningful contribution toward "making work pay." Despite our progressive income tax structure, it fails to offset the regressive impact of our sales and excise taxes, leaving low and middle income taxpayers paying more as a share of their income than wealthier families. Income paid in taxes should rise as income grows, not fall as it does in West Virginia. According to the Institute on Taxation and Economic Policy, the richest West Virginia taxpayers—with average incomes of \$207,000—pay 8.7% of their income in state and local taxes (or 6.5% after federal itemized deductions), compared with 9.7% for those with incomes between \$20,000 and \$33,000 and 9.3% for families earning less than \$6,900.

Local Tax Structure:

- ***The property tax is regressive*** and should be as low as possible while maintaining vital government services like education, police protection, and sewage. The chief reason property taxes are regressive is that they are based on home values rather than on income levels—and home values do not always reflect income levels. Home values represent a much larger share of income for middle- and lower-income families than for the wealthy. For example, it is common for a middle income family to own a home valued at two or three times their annual income, but wealthier taxpayers are less likely to own homes worth as much relative to their income levels. Moreover, property taxes are not responsive to changes in taxpayers' income: someone who suddenly loses his job will find that his property tax bill is unchanged, even though his ability to pay it has drastically fallen. (By contrast, income tax bills depend on the level of earned income, so income taxes are much more sensitive to taxpayers' ability to pay—an important consideration in times of economic hardship.) And the property tax can be especially burdensome for elderly taxpayers at the end of their working careers who find themselves "property rich" but "cash poor."

2A. What suggestions for WV State and local tax structure would you make?

- ***1. Don't shift costs to cities and counties. 2. Enact a state Earned Income Tax Credit or raise the income tax threshold. 3. Close corporate tax loopholes by enacting combined reporting. 4. Increase income tax rates for high income brackets 5. Do not cut business taxes at the expense of public investment and jobs. 6. Collect lost property/severance tax revenue from natural resources.***

- ***Avoid cuts at the state level that shift costs to cities and counties.*** This will result in mounting property tax bills that will hit low and middle-income taxpayers harder than wealthy taxpayers. Increasing property taxes at the local level can also lead to inequitable school funding.
- ***Offer a refundable state Earned Income Tax Credit (EITC) that supplements the federal credit.*** One of the most successful federal programs for working families has been the Earned Income Tax Credits (EITC), which provides tax reductions and wage supplements for low- and moderate-income working families, which supports hard work and reduces poverty. The success of the federal EITC has led a number of states to enact state Earned Income Tax Credits that supplement the federal credit. So far, seventeen states now offer state EITCs based on the federal credit but West Virginia isn't one of them. This would be great way to help combat poverty in the mountain state.
- ***Raise the state income tax threshold above the federal poverty line.*** Currently, West Virginia has the highest income tax on single parent, two child families with income at the poverty line; the highest income tax on families of three with full time minimum wage earnings; and is the only state that levies income tax on families of four with full time minimum wage earnings. To combat this problem, WV could raise the state tax threshold.
- ***Provide refundable Child and Dependant Care Tax Credits,*** which will help low-wage families with expenses for child care or the care of other family members.
- ***Close corporate tax loopholes by enacting combined reporting*** so multi-state businesses don't get away with only paying a portion of their state corporate income tax, while small businesses pay taxes on all of their earnings. Exiting loopholes cost West Virginia millions of dollars in lost revenue each year and is put small businesses at a competitive disadvantage.
- ***Increase by a small percentage the income tax rates for high income brackets,*** so low and middle-income families in West Virginia pay the same share of their income in state and local taxes as the richest taxpayers. According to the Institute on Taxation and Economic Policy, the richest West Virginia taxpayers—with average incomes of \$207,000—pay 8.7% of their income in state and local taxes (or 6.5% after federal itemized deductions), compared with 9.7% for those with incomes between \$20,000 and \$33,000 and 9.3% for families earning less than \$6,900. According to the WV State Tax Dept, if the personal income tax rate was increased by 1/2 percent for persons with incomes between \$ 200,000 and \$ 250,000, increased by 1 percent for persons with incomes between \$ 250,001 and \$ 300,000, and by 2 percent for persons with incomes over \$ 300,000, this would yield an additional \$89 million a year from fewer than 10,000 taxpayers.
- ***Increase sales tax on cigarettes and smokeless tobacco to \$1.00*** to promote safe and healthy communities by lowering product use, especially among youth and low-wage consumers, and invest a portion of earned revenue in treatment and prevention programs.
- ***Do not cut corporate taxes at the expense of public investment and jobs.*** In the end, the number of jobs that might be gained by cutting taxes would be significantly less than the number of jobs lost as a result of cuts in public services. It's important to recognize that corporations rely on a state's education system to provide a trained workforce, use a state's transportation system to move their products from one place to another, and depend on the state's court system and police to protect their property and business transactions and that corporations have special privileges—limited liability and unlimited life, for example—that individuals do not have.
- ***Collect lost property tax revenue from natural resources.*** West Virginia has valuable coal, gas and timber, in the billions of dollars. Currently, we only collect a fraction of the property tax that should be collected because of a lack of enforcement.
- ***The timber severance tax system should be reformed and loopholes should be removed*** so that the Division of Forestry can be adequately funded and West Virginia taxpayers don't have to foot the bill. Because most timber isn't taxed at the point of milling, this reduces tax revenues by 63 percent, according to estimates by the Tax Department.

2B. What suggestions would you make under the requirement that any tax reduction(s) be off-set by equal revenue?

- ***A prudent approach would be revenue neutral in both the long and short-term. Any decreases in business taxes should be offset by revenue that doesn't unfairly tax low and middle-income individuals.*** If we decrease the corporate net income tax and eliminate the business franchise tax, we should offset it by closing corporate tax loopholes [like passive investment companies] that put small businesses at a competitive disadvantage. We could also collect lost property tax revenue from natural resources, reinstate an estate tax which would only

affect a tiny proportion of families in the state. WV families would get a deduction against their federal taxes for estate taxes paid.

3. What do you feel are the current strengths and weaknesses of local, school, municipal, and county government revenue systems?

3A. Please provide any positive issues

- *Somewhat low property taxes*

3B. Please provide any negative issues

- *Most local taxes are regressive*

3C. How could these problems be addressed?

- *Cap property taxes at a percentage of a taxpayer's income, instead of capping property taxes at some percentage of the property value.* By capping property taxes at a percentage of a taxpayer's income, instead of capping property taxes at some percentage of the property value, this helps make property taxes less regressive.

4. What are the top three tax issues in our state?

- *Corporate tax loopholes*
- *High taxes on low and middle-income working families*
- *The need to maintain or increase our investment in public infrastructure at all levels*
- *Lack of accountability for current system of tax credits, loans and abatements*

5. By altering the types and/or rates of taxes, fees and exceptions, how might the state foster business retention, expansion, and/ or job creation? What one change would be most likely to cause your firm or other businesses to expand their West Virginia operations?

6. *Taxes are levied for a very important purpose: to help fund the public services that make a state more attractive to business. Good roads and bridges, a well-educated and trained workforce, along with other government services, are essential to business productivity and profitability. Providing businesses with a low-tax, low-service environment is not likely to be a winning strategy for attracting significant new investment. Make our state more attractive by increasing the quality of life, which ensures that the industries we hope to attract have the means to survive and grow.* The factors that really drive location decisions include the quality of life in the community, a good supply of highly skilled and educated men and women to fill demanding technical and management positions, good roads and adequate transportation, public safety, and the quality of health care. Some CEOs and site-selection experts publicly acknowledge that taxes are not the deciding factor in site location decisions. Former U.S. Treasury Secretary and former Alcoa CEO Paul O'Neill stated "I never made a business decision based on the tax code...[I]f you are giving money away, I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements..." Robert Ady, who's probably the leading expert on corporate site location in the US, argues that taxes are a relatively minor factor when compared to labor and occupancy costs. Furthermore, he believes taxes are only significant criteria on the intrastate level — meaning, taxes are only an important factor when a company is choosing between two counties, for example, not between two states. Ady finds that "the single most important factor in site selection today is the quality of available workforce. ...in fact, a qualified work force may be the single most important determinant in the economic development success of any community."

7. Please provide any other comments you may have regarding the current WV state and local tax structure that were not addressed in the previous questions?

- *West Virginia needs accountability when providing economic development subsidies. When economic development subsidies are used to subsidize activity in the private sector;*

companies and public officials must be held accountable for creating family-wage jobs and other community benefits. According to a recent report (2001) by the state Tax Department West Virginia has given over \$90 million in tax credits to companies in our state. In addition there are many things done in the name of economic development (low interest loans, grants, etc) that easily make this a \$100 million category. These may be excellent investments but we really have no data to let us know.

Resources:

- Institute on Taxation and Economic Policy, “*ITEP Guide to Fair State and Local Taxes,*” <http://www.itepnet.org/guide.htm>
- Robert Lynch, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute, 2004.
- Center on Budget and Policy Priorities, “State Taxes on Inherited Wealth Remain Common:24 States Levy An Estate or Inheritance Tax,” <http://www.cbpp.org/5-31-06sfp.htm>
- Institute on Taxation and Economic Policy, “West Virginia Taxes Hit Poor & Middle Class Harder than the Wealthy,” <http://www.itepnet.org/wp2000/wv%20pr.pdf>
- Center on Budget and Policy Priorities, “West Virginia: Poor Families in West Virginia Are Hit Harder by the Income Tax Than Those in Most Other States,” <http://www.cbpp.org/states/2-22-06sfp-fact-wv.pdf>.
- Center for the Study of Social Policy, *Policy Matters: Twenty State Policies to Enhance States’ Prosperity and Create Bright Futures for America’s Children, Families and Communities*, Jan. 2006.
- Mazerov, Michael, Center on Budget and Policy Priorities, “Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States,” <http://www.cbpp.org/4-9-02sfp.htm>, May 23, 2003.
- “The Charleston Gazette,; Sept. 5, 2005, “Statehouse Beat: Manchin faces a juggling act” by Phil Kabler.
- Greg LeRoy in *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation*, Berrett-Koehler Publishers, Inc., 2005.
- Center on Budget and Policy Priorities, “West Virginia,” <http://www.cbpp.org/states/5-17-05sfp-fact-wv.pdf>
- “The Charleston Gazette,; June 20, 2006, “W.Va. tax credit list from 2001 shows AEP biggest beneficiary,” by Joe Morris.
- The West Virginia Highlands Conservancy; January 2002, “Collecting the Timber Severance Tax: Are We Getting Cheated?” <http://www.wvhighlands.org/PDFs/TimberSeveranceReport.pdf>

For more information on state economic policy visit these websites:

The Center on Budget and Policy Priorities: www.cbpp.org

Economic Policy Institute: www.epinet.org

Good Jobs First: www.goodjobsfirst.org

Institute on Taxation and Economic Policy: www.itepnet.org

Citizens for Tax Justice: www.ctj.org

United for a Fair Economy: www.faireconomy.org