



DEPARTMENT OF TAX AND REVENUE

OFFICE OF THE SECRETARY

CECIL H. UNDERWOOD
GOVERNOR

ROBIN C. CAPEHART
SECRETARY

STATE CAPITOL
CHARLESTON, WEST VIRGINIA

January 15, 1999

Delegate Harold Michael
WV House of Delegates
State Capitol, room 464
Charleston, WV 25305

Dear Delegate Michael:

As Chairman of the Governor's Commission on Fair Taxation, I want to thank you for the many tireless efforts you contributed to this Commission's study over the past 17 months, and I am pleased to present to you the **Executive Report** of the Commission's **Agenda for Fair Taxation: Recommendations to Governor Cecil H. Underwood, January, 1999.**

This report contains a synopsis of the recommendations to Governor Underwood's charge of July 25, 1997, to members of the Commission.

The **Executive Report**, in addition to the technical report which we will subsequently provide, represents our best efforts to achieve a deliberate, comprehensive review of our tax structure in order to provide these proposals which we feel best serve the interests of the people of the State of West Virginia.

Governor Underwood has asked me to express to each of you his appreciation for your contribution to the success of this review and your willingness to serve the State of West Virginia. He hopes we will continue to advise him as the process proceeds.

Sincerely yours,

Robin C. Capehart
Chairman
Governor's Commission on Fair Taxation

RCC:a
Enclosure

RECOMMENDATIONS TO THE GOVERNOR

BY

THE GOVERNOR'S COMMISSION ON FAIR TAXATION



**WEST VIRGINIA'S
AGENDA FOR FAIR TAXATION**

EXECUTIVE REPORT

**Presented to
Governor Cecil H. Underwood
January, 1999**

**Robin C. Capehart, Chairman
Michael E. Caryl, Vice-Chairman
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THE GOVERNOR'S COMMISSION ON FAIR TAXATION

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THE GOVERNOR'S COMMISSION ON FAIR TAXATION

EXECUTIVE REPORT

January 11, 1999

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EXECUTIVE REPORT

PART I - BACKGROUND

A. Process

On July 25, 1997, Governor Cecil H. Underwood created the Commission on Fair Taxation ("the Commission"). Governor Underwood charged the Commission to:

- (1) Review our present system of taxation to determine whether it adequately embodies the principles and values of the people of the State of West Virginia, and
- (2) Based upon this review, develop and propose for consideration any modifications that may be found to be necessary to promote these principles and values.

The Commission sought public input through a series of 13 public forums held throughout West Virginia. Following the public forums, the Commission received presentations from 27 resource teams that represented various economic, social, commercial and public interests.

The Commission conducted a series of deliberation and discussion conferences to review the information received and address Governor Underwood's first charge.

The Commission received further input from a group of special advisors and consultants from the Urban Institute, Multistate Tax Commission and the Federation of Tax Administrators in Washington, D.C.

On February 2, 1998, the Commission presented Governor Underwood with a status report that included its findings regarding the principles and values of the people of West Virginia that should be embodied in their tax system. The report also included findings regarding the present tax structure.

Based upon this process, the Commission established a set of six goals to be achieved in order to produce a fair system of taxation. The Commission also

established one or more objectives to serve as the means to achieve each goal. For each objective, the Commission formulated specific strategies. These strategies consisted of recommended methods of taxation and specific structural changes that the Commission believed would create a fairer system of taxation by more effectively embodying the principles and values of the people of West Virginia. The Commission set forth these recommendations in the **Agenda for Fair Taxation** that it presented to Governor Underwood on July 2, 1998.

Following the release of the **Agenda for Fair Taxation**, the Commission pursued further discourse with its resource teams, legislators and the public. Moreover, the Commission held additional deliberation and discussion conferences to review more specific issues and move toward a refinement of its recommendations.

On November 18th through 20th, 1998, the Commission conducted a symposium on tax reform. The symposium included nationally known economists who provided critical insight and analysis regarding the Commission's proposals. The Commission subsequently used many of the observations and commentary provided at the symposium as a basis for additional development of its proposals.

B. West Virginia Values

The predominant value that is desired in any tax system is fairness. The Commission reviewed fairness in three different relationships:

1. Fairness among taxpayers;
2. Fairness between the tax system and taxpayers as a whole; and
3. Fairness in the operation of government.

1. *Fairness among Taxpayers*

In short, fairness among taxpayers means that each taxpayer receives the same or equal treatment. In common parlance, each taxpayer pays his or her fair share.

The Commission adopted four values that pertain to fairness among taxpayers.

a. Ability to Pay

A taxpayer's tax burden should increase as his capacity to pay increases.

b. Match Benefits to Burdens

As much as possible, a taxpayer's burden should reflect the benefits he receives from government.

c. Neutrality

Tax preferences are inherently partial and biased and, thus, create inequities. Therefore, the use of the state and local tax system to achieve social and economic goals should be minimized.

d. Consistency

Like-situated persons with equal economic capacities should pay the same amount of tax. Such consistency creates a level playing field for all taxpayers.

2. *Fairness to Taxpayers as a Whole*

The Commission adopted four values that assure taxpayers as a whole are not treated unfairly.

a. Simplicity

The tax laws and the tax structure developed to implement and enforce such laws should be easily understood by the taxpayers as a whole in order to increase public understanding and support of the tax system.

b. Accountability

Changes in tax rates, tax burdens or the distribution of the tax burden should be the result of explicit legislative action that is easily discernable by the taxpayers.

c. Economic Growth

West Virginia's tax structure should not unduly inhibit the ability of its taxpayers to grow economically.

d. Competitiveness

West Virginia's tax system should not place its taxpayers in an uncompetitive position with those in other states.

3. *Fairness to Government*

Government uses the tax system to generate the revenues necessary to provide the services desired by the people through government. In order to perform its duties effectively and efficiently, it is necessary that the tax system does not place an unfair burden upon government.

Therefore, the Commission identified certain values necessary to achieve such fairness. Previously, we mentioned simplicity and neutrality. A simpler and more neutral tax system makes tax administration and enforcement easier.

However, the Commission identified four values that are specific to government.

a. Revenue Yield

The tax system should be capable of generating the revenue necessary to provide the services people want the government to provide.

b. Stability

A tax system should be designed to create a high degree of certainty and predictability as to the revenue needs of government. Likewise, a taxpayer should, year in and year out, be assured of his tax liability.

c. Enforceability

Tax laws should be easily enforceable at a reasonable cost in order to preserve an equal distribution of tax responsibilities.

d. Local Flexibility

An impartial system of various local taxes should afford each local unit of government sufficient flexibility to generate revenues to provide the services desired by its people.

4. *Balance of Values*

The Commission recognizes that no one tax can embody all of these values and that, in fact, values often conflict. Therefore, the Commission believes it is necessary to seek a balance of values in the tax structure as a whole.

C. Commission's Findings

After applying these values, the Commission found the present system:

1. Too regressive;
2. Contains too many taxes;
3. Contains too many exemptions;
4. Not adaptable to our shifting economy;

5. Lacks sufficient revenue producing capability for local governments;
6. Uses tax appeals processes that are unfair and inequitable; and
7. Needs a constitutional method of funding education.

D. Goals and Objectives

As a result of the foregoing process, the Commission established six goals. These goals represent broadly defined measures of achievement at which the Commission's efforts are concentrated.

For each goal, the Commission established a set of objectives that represent specific measures of achievement. In short, the Commission's objectives are the recommended means for achieving their goals.

Goal No. 1: A simple broad-based tax system with fewer taxes and limited tax preferences

Objective 1: A broad-based consumption tax with few exemptions.

Objective 2: A limited number of broad-based general business taxes with limited exemptions that balance the ability to pay with the matching of burdens to benefits.

Objective 3: A limited number of special revenue taxes imposed to reflect the special burdens placed on government.

Goal No. 2: A less regressive tax system

Objective 1: A progressive personal income tax system consisting of generous exemptions for all taxpayers.

Objective 2: Less reliance upon property taxes.

Goal No. 3: A stable tax system that reflects the shift in the State's economy

Objective 1: A balance of consumption, income and property taxes that more accurately reflects the State's economic activity.

Goal No. 4: Local flexibility to generate revenues

Objective 1: Increased ability of local governments to utilize alternative methods of generating revenues.

Objective 2: Continued availability of the property tax system for funding of local governmental services.

Goal No. 5 Improved tax appeals systems

Objective 1: A state tax appeals system that provides for both the administrative and independent review of disputes.

Objective 2: A property tax appeals system that provides greater due process.

Goal No. 6: A constitutional method of funding education

Objective 1: A fair, stable and accountable source of support for a thorough and efficient system of public education.

Objective 2: A fair, consistent, competitive and accountable property tax structure.

PART II – A FAIR AND SIMPLE TAX SYSTEM

A. A Philosophical Choice

Against the background of its elaborate, but relatively uncoordinated, public revenue system - involving a myriad of narrow-based, high rate taxes – West Virginia has also endeavored to expand its overall base through a plethora of targeted tax relief investment incentives. The Commission has concluded that public revenues should be generated through a structure that is designed to stimulate a growing and broader tax base.

At the heart of such a new approach is the belief that capital investment in plant and equipment is the key to expansion of the tax base. To attract additional capital, West Virginia needs to present potential investors, in both existing and new businesses, with a fair, simple, stable and accountable tax structure.

That approach rests on the view that, with its fiscal limited resources, West Virginia cannot hope to succeed, in the ferocious interstate competition for job-creating investment, by relying so heavily on targeted tax credits. Rather, the Commission

believes that the new tax structure itself, by better providing the elements of fairness to all its taxpayers, can favorably distinguish West Virginia from other states. This should, in turn, make the State more attractive to many potential investors from both within and outside its borders.

To act on that philosophical change, it is recommended that the process to replace the current system be both cautious and systematic. Further, the Commission believes that to remain credible, West Virginia must keep its word. Thus, implementation of a new tax system should fully preserve, for affected taxpayers, the economic benefit of previously earned investment incentives. At the same time, those current programs should be curtailed in a prospective and orderly manner.

Finally, the Commission recommends that, for long-term stability, the fairness of the new tax structure should be preserved by building, into the State's constitution, a high degree of accountability for any future changes in its basic elements. Such constitutional provisions, once adopted by a vote of the people, would both embody the taxpayers' principles of fair taxation and establish the process by which any future adjustments to that fair structure are to be made.

These provisions for accountability would be designed to assure adequate flexibility for the Legislature to respond to evolving fiscal requirements. Most notably, they would make it more likely that the fundamental political question of changes in the State's annual expenditure-taxation equation will be openly and forthrightly addressed through the tax rates of all taxpayers - rather than by selective manipulation of the tax base to alter the burden of particular economic interests.

B. Progressive Income Tax

1. Policy Considerations

West Virginia's strong reliance upon a variety of consumption and property-based taxes has produced a highly regressive tax structure. The Legislature has attempted to balance the overall regressive nature of the tax structure by maintaining a progressive personal income tax.

The present personal income tax structure consists of five marginal tax rates and a \$2,000 exemption for each dependent. This system serves as the primary source of progressivism for the overall tax structure of the State.

However, the present system has two major problems.

First, the \$2,000 per dependent exemption established in 1987 fails to provide the appropriate amount of tax relief to low-income households. Although the Legislature exempted from income tax the earned income of taxpayers with federal adjusted gross income of less than \$10,000, this level is still below the federal poverty standard for West Virginia.

Second, the present tax system provides for discriminatory exclusions for various types of retirement income.

2. Recommendation

Initially, the Commission recommended the use of a flat tax rate. However, upon further examination, the Commission recommends the use of a two-rate system and the use of generous exemptions in order to achieve an effective measure of progressivism.

The recommended rate structure is as follows:

5.0% on the first \$40,000 of taxable income

6.5% on the taxable income in excess of \$40,000

It is the Commission's intent to preserve tax relief presently afforded modest income senior citizens and persons who are permanently and totally disabled and to extend tax relief to low-income individuals and families in West Virginia while increasing the progressive nature of the income tax. Accordingly, the Commission further recommends the use of exemptions linked to the federal poverty level that decrease as a person's (or family's) income increases. Using the 1998 federal poverty level, the following chart illustrates the Commission's recommendation.

1998 Federal Poverty Level (FPL) – One Person: \$8,050

Starting Exemption: 100% of FPL-1

Level of Income for Decrease in Exemption: \$40,000 adjusted gross income
25% for each additional \$4,000 of
adjusted gross income until
exemption becomes \$2,012.

Adjusted Gross Income	1 Exemption*		2 Exemptions*		3 Exemptions*	
	Amount	% FPL	Amount	% FPL	Amount	% FPL
\$40,000 or less	8,050	100	16,100	200	18,112	225
44,000	6,038	75	14,088	175	16,100	200
48,000	4,025	50	12,075	150	14,088	175
52,000	2,012	25	10,063	125	12,075	150
56,000	2,012	25	8,050	100	10,063	125
60,000	2,012	25	6,038	75	8,050	100
64,000	2,012	25	4,025	50	6,038	75

Adjusted Gross Income	4 Exemptions*		5 Exemptions*		6+ Exemptions*	
	Amount	% FPL	Amount	% FPL	Amount	% FPL
\$40,000 or less	20,125	250	22,137	275	24,150	300
44,000	18,112	225	20,125	250	22,137	275
48,000	16,100	200	18,112	225	20,125	250
52,000	14,088	175	16,100	200	18,112	225
56,000	12,075	150	14,088	175	16,100	200
60,000	10,063	125	12,075	150	14,088	175
64,000	8,050	100	10,063	125	12,075	150

* Each senior citizen or person who is permanently and totally
disabled would be allowed two exemptions.

The following chart shows the effect of the Commission's Agenda on low and
middle income individuals and families:

CURRENT LAW VS COMMISSION'S AGENDA

PERSONAL INCOME TAX

OTHER TAXES

JOINT FILER FAMILY OF FOUR	FEDERAL AGI INCOME LEVEL	CURRENT LAW	COMMISSION'S AGENDA	DIFFERENCE	ESTIMATED			ESTIMATED INSUR. TAX REDUCTION	ESTIMATED TAX INCRS. WITH GET	ESTIMATED NET TAX CHANGE	DEDUCTIONS ABOVE \$60,000 ESTIMATED NET FEDERAL TAX SAVINGS	ESTIMATED OVERALL FEDERAL, STATE & LOCAL CHANGE
					AUTO PROP. TAX REDUCTION	ESTIMATED TAX INCRS. WITH GET	ESTIMATED NET TAX CHANGE					
\$10,000		\$-	\$-	\$-	\$(20)	\$(10)	\$10	\$(30)				\$(30)
\$15,000		\$212	\$-	\$(212)	\$(60)	\$(12)	\$30	\$(254)				\$(254)
\$20,000		\$382	\$-	\$(382)	\$(100)	\$(15)	\$40	\$(457)				\$(457)
\$25,000		\$582	\$244	\$(338)	\$(135)	\$(20)	\$55	\$(438)				\$(438)
\$30,000		\$782	\$494	\$(288)	\$(165)	\$(30)	\$65	\$(418)				\$(418)
\$35,000		\$990	\$744	\$(246)	\$(180)	\$(35)	\$75	\$(386)				\$(386)
\$40,000		\$1,215	\$994	\$(221)	\$(195)	\$(40)	\$85	\$(371)				\$(371)
\$45,000		\$1,441	\$1,370	\$(71)	\$(210)	\$(45)	\$91	\$(235)				\$(235)
\$50,000		\$1,697	\$1,745	\$48	\$(225)	\$(50)	\$98	\$(129)				\$(129)
\$60,000		\$2,295	\$2,646	\$351	\$(270)	\$(60)	\$105	\$126			\$(23)	\$103
\$70,000		\$2,905	\$3,427	\$522	\$(315)	\$(65)	\$120	\$262			\$(58)	\$204
\$80,000		\$3,555	\$4,077	\$522	\$(360)	\$(70)	\$135	\$227			\$(45)	\$182
\$90,000		\$4,205	\$4,727	\$522	\$(405)	\$(75)	\$145	\$187			\$(33)	\$154
\$100,000		\$4,855	\$5,377	\$522	\$(450)	\$(75)	\$155	\$152			LITTLE CHANGE	\$152
Actual net changes will vary.												

Actual net changes will vary.

NOTE: The above personal income tax comparison also applies to a joint return filed by two senior citizens (or one senior citizen and one permanently disabled person). However, the net tax effect on them of the income tax change and other tax changes under the Commission's Agenda will be different because these filers have different spending patterns than a typical married couple with two adolescent children.

C. General Excise Tax

1. Policy Considerations

Given its relative ease of compliance and administration, and its capacity to spread the burden of financing government to virtually all elements of society, a broad-based consumption tax is an important component of any state's tax system. Unfortunately, West Virginia's current version of such a tax fails to fully realize those fundamental benefits.

Specifically, the ever-expanding list of exemptions and exceptions to our sales and use taxes both complicates compliance and administration, and unfairly and arbitrarily, lifts the burden of taxation from certain sectors which benefit as much from government services as do those who have to pay the tax. For example, how can we justify imposing tax on the purchase of groceries but not on the service of a haircut?

2. Recommendation

Accordingly, the Commission recommends replacing the current sales and use tax with a broader-based General Excise Tax (GET) to be imposed on the purchase, sale or use of tangible personal property and services. The recommended rate of the GET is 6% of the purchase price of such goods and services - the same rate as the current sales and use taxes. Just as is the case under those current taxes, rentals of tangible personal property will be treated as purchases, but transactions involving interests in intangible assets and real estate will not be taxed.

Significantly, the Commission recommends elimination of most, but not all, of the current array of exemptions from such tax. Furthermore, the Commission firmly believes that mitigation of the regressive effect of taxing the purchase of most of life's necessities, such as food and clothing, is more efficiently addressed through the Progressive Income Tax.

However, under the Commission's proposal, additional relief from the regressive effect of a consumption tax for purchases of health care services and medicine would be provided. Additionally, the GET would also recognize a few other exemptions to reduce the adverse economic impact of pyramiding tax burdens and to avoid the

inefficiency that inherently results when one unit of government taxes the purchases of another.

Among the principal current exemptions, which would not continue under the GET, are those for non-health care professional services (e.g. legal, accounting, engineering, etc.) and for various utility services (e.g. water, sewer, gas electric, transportation, communication, etc.). As explained elsewhere in this report, the imposition of the GET, on most regulated utility services, would be appreciably mitigated by the concurrent repeal of the current State business and occupation tax, the telecommunications tax and other business taxes, all of which are embedded in the prices consumers now pay for such services.

As under our current sales and use taxes, the obligation to pay the GET would be imposed on and collected from either (but not both) parties to a transaction. In most cases, it will be expected that the seller of goods or services will collect the tax from the customer and remit it to the State. A discount would be offered to sellers who promptly remit the GET.

However, if a seller fails to collect and remit the tax, or fails to retain proper documentation of the customer's exemption or direct payment of the tax to the State, the seller will be liable for the tax, interest and likely, penalties. Alternatively, the State could also pursue the customer for payment.

In the case of an out-of-state seller, whose contacts with West Virginia are insufficient to bring it under the State's taxing jurisdiction, the in-state purchaser would, as a practical matter, be the only one legally obligated to pay the tax on goods or services purchased elsewhere. As a corollary, fairness mandates giving credit against the GET for sales taxes legitimately paid on purchases in another state.

This has important and favorable implications for newcomers who title their vehicles here after having already paid an excise tax on them in another state. Instead of having to also pay the current motor vehicle title tax, new residents would only be liable for any amount by which the GET, on their vehicle's current remaining value, exceeds the excise tax they had already paid on its original purchase price.

However, to generally protect all in-state sellers from unfair, out-of-state competition, a non-intrusive, but determined, effort must continue to be made by the

Department of Tax and Revenue to enforce the use tax portion of the GET on other goods and services. Taking a broader view, the Commission also firmly believes that the overall impact of the proposed new tax structure – particularly relief from personal property tax on inventories, machinery and equipment – will generally tend to make West Virginia retailers more competitive than under the current system. That is important because who actually bears the economic burden of the GET (or any tax for that matter) will depend, in part, on the relative competitiveness of the market.

Ultimately, depending on competitive circumstances, the party who immediately pays the tax may, instead of absorbing it, be able to shift its economic incidence to others through pricing adjustments. While, because of the complexity of our economy, it is generally impossible to precisely project where the actual economic incidence of a tax falls, in the few instances where pyramiding of the GET burden can be firmly demonstrated, exemptions are recommended.

3. *Limited Exemptions*

To avoid demonstrable adverse competitive impact of double taxation, exemptions will be provided for purchases of advertising and goods and services purchased for resale or direct use in the production of natural resources, manufactured goods and agricultural products. Likewise, purchases of goods and services, by the affiliated units of a single economic interest, should be exempt from paying tax on such items more than one time.

Similarly, because employees' compensation will form part of the base of the Single Business Tax paid by their employers, it will not again be taxed under the GET. On the other hand, in most cases, services rendered to businesses by independent contractors will be subject to the GET.

Further, an exemption will be provided for all purchases of goods and services by government entities to avoid the inherent inefficiency of having funds flow through the hands of multiple government agencies. Similarly, non-profit, charitable organizations will be exempt from the GET on their purchases of goods and services directly used in performing functions which are, otherwise, the traditional obligation of government. Examples of such functions include public safety, education and assistance of the needy and handicapped.

Likewise, isolated or occasional sales by such organizations, for legitimate fundraising purposes, and by others, not in the business of regularly selling particular goods and services (e.g. family garage sales, bulk sales of business operating assets), would continue to be exempt from the GET.

Given both the inherent administrative complexities and pervasive government involvement surrounding most payments for health care services and prescription medicines, an exemption for such charges will also be included. This exemption also recognizes that these are unavoidable expenses that cannot be controlled by the user.

Finally, purchases made with food stamps and WIC vouchers, and any other transaction exempted by federal law, will not be subject to the GET.

D. Single Business Tax

1. Policy Considerations

As separate entities, business enterprises receive the benefits afforded by both state and local government. These publicly funded social costs include access to a jurisdiction's court system, education, roads, police and fire protection, infrastructure development and other public services. The purpose of levying taxes against business entities is to pay for these services.

The Commission believes that, under a fair system of taxation, the extent of a business's tax burden should accurately reflect the benefits received from government. The Commission feels that this objective can be met through the use of a few broad-based taxes.

West Virginia's present tax system of numerous narrow-based taxes does not embody this philosophy. Instead, taxation in West Virginia is based upon such artificial criteria as the efficiency of a business enterprise in the marketplace, its form of organization or the nature and composition of its resources.

For example, only certain types of businesses (so-called C corporations) pay the corporation net income tax. The personal property tax on inventory falls only on merchants such as shoe stores and flower shops and hardly at all on service-oriented businesses such as lawyers and accountants. The personal property tax on machinery and equipment and the business franchise tax are disproportionately borne by capital-

intensive business. An efficient C corporation that makes a profit will pay a business profit tax, while a similar but inefficient business that does not make a profit but incurs the same social costs and places the same demands for services on government will not.

2. *Recommendation*

The Commission recommends the adoption of a single business tax (SBT) at a rate of 2% on all business enterprises in West Virginia¹. The tax would be imposed upon the privilege of doing business in West Virginia. The exercise of this privilege would be measured by the extent of the firm's participation in the State's economy during the year. In particular, the SBT base would consist of the amount of compensation, rents and royalties paid, interest paid, depreciation and profit made in a given year. These payments by a business enterprise represents the costs of labor and capital used by the organization providing the goods and services it sells. It excludes the costs of previously taxed inputs. The SBT also permits deductions for the cost of current capital expenditures in West Virginia when determining the West Virginia SBT base of the business. Unused deduction may be carried over until used.

Due to the unique nature of businesses that serve as financial intermediaries, banks and insurance companies would not include interest they pay on deposits and financial assets in determining the SBT base. They would include interest paid in other contexts – just as other businesses would.

The Commission further recommends a small business exemption that would provide relief to new or existing businesses with a limited SBT base or a small amount of gross receipts. The Commission determined small businesses warrant this type of relief due to the administrative costs that would be incurred and to permit new businesses a chance to become established and grow. As a result, the exemption is designed to decrease as the SBT base or gross receipts increase. A business may qualify by electing to use either its SBT base or its gross receipts.

¹ This rate is 2.1% the first year.

SBT Base	Gross Receipts	Percentage of SBT Base Exempted
\$ 50,000 or less	\$100,000 or less	100%
\$50,001 to \$100,000	\$100,001 to \$200,000	80%
\$100,001 to \$150,000	\$200,001 to \$300,000	60%
\$150,001 to \$200,000	\$300,001 to \$400,000	40%
\$200,001 to \$250,000	\$400,001 to \$500,000	20%
\$250,001 or greater	\$500,001 or greater	0%

E. Special Revenue Taxes

1. Policy Considerations

Certain types of economic activity or particular circumstances present government with burdens beyond the usual or customary responsibilities.

2. Recommendations

In such cases, the Commission recommends that the following special revenue sources be retained as under current law.

1. Gasoline Excise Tax
2. Gasoline Sales Tax
3. Severance Tax
4. Liquor Tax
5. Nonintoxicating Beer Tax
6. Wine Tax
7. Estate Tax
8. Racing Fees
9. Bingo Fees
10. Lottery Proceeds

The Commission recommends expanding the present cigarette tax to a tobacco products tax, which includes other tobacco products.

Under present law, a corporation purchasing 10,000 acres or more of property in West Virginia are subject to a one-time tax of \$.05 per acre on the privilege of owning such property. This tax has remained unchanged since 1905. The Commission recommends increasing this tax to a level commensurate with the benefits received

under present standards. The Commission also recommends that (1) the State collect this tax on an annual basis instead of one time and (2) the Legislature adopt attribution rules similar to those used by the Internal Revenue Service in order to prevent tax avoidance through the construction of various ownership structures.

F. Summary of Tax Proposals

A summary of the Commission's recommendations appear on the following page.

Examples illustrating how these changes affect five businesses appear in Appendix D.

Present Tax System	Proposed Tax System
<i>Property Taxes</i>	<i>Property Taxes</i>
Real Property Tax	Retained Primarily for Local Use
Personal Property Tax on Automobiles	Repealed
Personal Property Tax on Machinery	Phased-out over 3 years
Personal Property Tax on Equipment	Phased-out over 3 years
Personal Property Tax on Inventory	Phased-out over 3 years
Tax on All Public Utility Property subject to limitations of federal law	Retained for Education
Business Franchise Tax	Repealed
Corporate Charter Tax	Repealed
State Property Tax	Used for Education 10% of Local Maximum Levy
Estate Tax	Retained
Property Transfer Tax	Retained for Local Use
<i>Income Taxes</i>	<i>Income Taxes</i>
Personal Income Tax	Replaced by Progressive Income Tax Rates: 5% and 6.5%
Corporation Net Income Tax	Replaced by Single Business Tax Rate: 2% (2.1% first year)
<i>Consumption Taxes</i>	<i>Consumption Taxes</i>
Consumers Sales and Use Tax	Replaced by General Excise Tax Rate: 6%
Gasoline Excise Tax	Retained
Gasoline Sales Tax	Retained
Severance Tax	Retained partially for local use, balance for state use
Cigarette Tax	Replaced by Tobacco Tax on cigarettes and other tobacco products
Nonintoxicating Beer Tax	Retained
Liquor Profits	Retained
Wine Tax	Retained
Business Registration Tax	Repealed after 3 years
Telecommunications Tax	Phased out over 5 years
Health Care Provider Tax	Repealed for individual practitioners; Phased out over 5 years for institutions
Insurance Premiums Tax	Reduced to retaliatory tax
Auto Privilege Tax	Replaced by GET
Business and Occupation Tax	Phased out over 5 years; replaced with Generation Tax of \$3.25 KW
Soft Drink Excise Tax	Repealed
Excess Acreage Tax	Reformed

G. The Use of Tax Incentives

1. Policy Considerations

Like many states, West Virginia has enacted a host of tax and nontax incentives designed to attract or retain business investment within the State. In all, West Virginia offers 22 different types of tax credits, each designed to encourage particular types of economic activity. Proponents feel that credits are necessary to attract new industry and expand existing ones. Moreover, supporters contend that a system of tax credits is necessary to make West Virginia economically competitive noting that all the states with which West Virginia competes have tax credit systems. In addition, defenders assert that the lack of level sites for industrial expansion creates a cost disadvantage for West Virginia that may be offset by tax credits.

West Virginia's use of tax incentives is typical of a tax structure that utilizes a number of narrow-based taxes with relatively high tax rates. In short, the credits are used to offset the high tax rates by giving preferential treatment to selected business activities.

2. Recommendation

The Commission recommends a shift away from this philosophy. Instead, the Commission recommends a tax structure consisting of a few broad-based taxes, with lower rates and few tax preferences. This recommendation includes the orderly discontinuation of the use of tax credits.

In general, the Commission believes that a simple broad-based tax system with fewer taxes and lower tax rates provides businesses with a sense of stability and accountability that is at least as attractive as a system based upon volatile taxes and tax credits. In addition, the Commission offers several other reasons.

First, **tax credits violate most of the values of fair taxation**, including all the values that determine fairness among taxpayers such as neutrality, consistency, simplicity, and revenue yield. Moreover, the use of tax credits is not based upon the ability to pay nor does their use result in an equitable matching of benefits to burdens. Supporters may note that tax credits do promote economic growth and competitiveness.

However, the Commission believes that the availability of tax incentives actually plays only a small part in a business's decision where to locate or expand. Besides, the proliferation of tax credits in competing states further minimizes the effects of the incentives offered in West Virginia.

Second, there is the **questionable effectiveness of tax incentives**. Numerous studies have challenged the economic benefits that tax credits purport to generate and the costs entailed with respect to both state revenues and the national economy. Studies have also concluded that tax incentives have not produced the intended effect of expanding economic activity and overall job production.

Whether or not tax incentives are effective tools for economic development could be a moot issue in light of a third compelling reason to discontinue the use of tax credits – **the questionable legal validity of tax credits under the Commerce Clause of the United States Constitution**.

In recent years, a number of well-reasoned commentaries have concluded that the Commerce Clause will likely serve as the basis for nationwide legal challenges to a state's use of tax incentives by public interest groups representing the beneficiaries of state government expenditures.

The Commission's concern is that the proliferation of these lawsuits throughout the country could ignite similar litigation in West Virginia and threaten the present structure. Obviously, in light of the extensive use of tax incentives over the last 20 years, a significant economic and fiscal crisis could develop. This crisis can be avoided by adopting a philosophical shift toward a simple broad-based tax system with lower rates for everyone and fewer tax credits.

H. Appeals Process Reform

The Commission, just as did its predecessor in the 1980s, finds that the current system for administrative review of State tax disputes suffers from the appearance of bias and lack of independence. While such a review process, conducted within the taxing agency, can be a valuable arrangement to identify and correct erroneous assessments, it is no adequate substitute for review by a truly independent body.

Despite the fact that the current in-house administrative review system likely satisfies minimal due process standards, it inherently lacks the independence necessary to earn any taxpayer's confidence in the fairness and objectivity of the review process.

Even more troublesome is the current system for reviewing challenges to property tax assessments. With its inadequate notice, institutional bias, illusory hearing opportunities and lack of uniformity and accountability, the current system may well violate minimal due process standards. Perversely, this system also exposes local government units to fiscal uncertainty and the risk of catastrophic disruption when assessments are overruled upon appeal.

Accordingly, the Commission recommends the establishment of an independent State board of tax appeals to hear challenges of both state and local tax assessments. The Governor with the advice and consent of the Senate would appoint the members of such a board. Parties, appearing before such board, would have the right to obtain review of its decisions before the Circuit Court of their home county, and, if necessary, the Supreme Court of Appeals.

Additionally, several related proposals, long advanced by the West Virginia Law Institute, should also now be adopted to improve fairness for taxpayers and to help assure stability in local government finances. Specifically, with more adequate pre-assessment notices, improved availability of general assessment information and more objective and consistent county commission hearing procedures, far greater fairness and accountability for taxpayers can be achieved without losing the advantage of their informality or disrupting the current fiscal timetables of local government.

At the same time, the Law Institute's related recommendations requiring payment of taxes as they come due during the course of an appeal, and allowing an orderly deferred pay-back of larger refunds, should also be adopted to protect the integrity of local government finances.

PART III – PROPERTY TAX and LOCAL GOVERNMENT FINANCE

A. Personal Property Taxes

1. Policy Considerations

Most states have repealed in total or in part the tax on personal property. In West Virginia the personal property tax falls predominately on vehicles, inventories, equipment and fixtures. The car tax is one of *the most* despised levies in the State. In a state with a mountainous terrain where much of the population is dependent on their automobiles for transport to work or for medical care, this tax should be repealed.

The personal property tax has a very strong negative effect on business. This tax has been correctly labeled as a tax on jobs. The tax on inventories discourages retail and wholesale operations. It discriminates against firms which must carry large inventories relative to sales and weighs in favor of firms which need to have little or no stock. Out-of-state mail order and Internet sellers also are helped as they pay no West Virginia tax on their inventories.

The personal property tax on equipment and fixtures discourages investment in capital. This investment is needed to raise productivity of West Virginia workers and to make the State's producers more competitive. With the vast majority of West Virginia's output being sold in other states or in foreign nations, being competitive is essential.

2. Recommendations

The Commission recommends the immediate repeal of the personal property tax on vehicles. The personal property tax on inventories, machinery and fixtures would be phased out over a three-year period. The lost revenues to local governments would be made up from the use of the vacated portion of the real property tax previously used for local schools and, where needed, the severance tax.

B. Local Finance

1. Problems of Local Finance

Local governments have depended on the sources of revenue which most clearly violate the principles established by the Commission. Counties and cities, as well as

special entities, such as park districts and libraries, have used the property tax on both real and personal property. Of the \$775 million (1996) billed from the property tax, cities received \$59 million, and counties \$190 million. The remaining \$523 million went to schools with a token \$3.1 million reverting to the State. The Commission has advocated repeal of the tax on tangible personal property. Such property constitutes 42.86 percent of the property tax base. Unless replaced, this would cost cities \$25 million and counties \$81 million using 1996 billings.

The Commission noted a further problem. Local governments are hamstrung by having virtually no flexibility to use different sources of revenue to meet their needs. The Commission found that West Virginia provides less local revenue flexibility than any state in the union.

The State Constitution establishes the maximum levies that can be applied by local governments to property. Competitive pressure and limited enforcement capabilities restrict the use of city business and occupation taxes. While cities can levy user charges to defray the costs of some municipal services, these charges cannot exceed the cost of the service and are limited to certain types of services such as garbage collection, sanitation and fire protection.

2. Holding Local Governments Harmless

The first method recommended by the Commission to hold counties and cities harmless for the loss of the personal property tax is to permit them to use a portion of the real property tax vacated by State assumption of education finance. The real property tax for education being vacated totaled approximately \$230 million in 1996. Under this recommendation, there would be no increase in real property tax levies compared to current limits. The Commission proposes that 60 percent of the vacated education levy be made available to the counties (except for Class III property where 90 percent would be available for counties), 30 percent available to the cities and 10 percent to the State for education. Special provisions may need to be enacted to prevent windfalls that may occur in certain circumstances using this approach.

Since not all counties and cities will be able to raise sufficient revenue by using the vacated education real property levy, the Commission also proposes the limited, additional use of the severance tax on coal and natural gas (\$175 million 1996) as

another source of replacement revenue. Currently, all counties and cities share a portion of the severance tax, but the majority goes to the State general fund. Of the 5 percent severance tax on coal, 0.35 percent is distributed to counties and cities with 75 percent of the 0.35 percent going to the counties where the coal is produced. The other 25 percent of the current local share goes to all cities and counties based on population. Ten percent of the oil and natural gas severance tax goes to cities and counties using the same distribution formula.

The replacement process works as follows. Current local levies for schools now range from 22.95 cents per \$100 valuation for Class I property to 45.90 for Class II with Class IV property subject to a rate of 91.80 cents per \$100 valuation. These levies would be turned over to the counties (60%) and cities (30%). The current levy rate for schools on Class III property may not exceed 91.80 cents per \$100 valuation. Ninety percent of this levy would be turned over to counties. The remaining 10 percent of these levies would revert to the State for education. In no case would the new maximum levies exceed the total levies now allowed under the West Virginia Constitution.

After repeal of the levy on real property for local schools the maximum levy for a county could increase from 14.30 cents per \$100 valuation on Class I property by 13.77 cents for a total maximum county levy of 28.07 cents. For Class II real property, the levy increases by 27.54 cents and, when added to the current county maximum levy of 28.60 cents, yields a total Class II levy of 56.10 cents. For Class III property, the county levy increases 82.62 cents and, when added to the current county maximum rate of 57.20, yields a total Class III county levy of 139.82 cents. For Class IV property, the maximum county levy increases by 55.08 cents for a total county levy of 112.20 cents.

The new maximum levies for cities can be calculated in the same way. For Class I property, the rate rises from 12.50 cents to 19.39. For Class II property, the rate goes from 25.00 to 38.77 cents. For all other real property, the municipal rate expands from 50.00 to 77.50 cents.

Each city or county would then apply the new maximum rates against its assessed valuation. If the yield were not equal to the combined real and personal property tax before the repeal of personal property taxes, then the county or city would

be eligible for replacement monies from the State's current portion of the severance taxes. The amount of replacement monies from the severance tax could not exceed the shortfall as calculated above.

When local real property taxes increase due to an increase in assessed valuations, counties and cities, which nonetheless remain eligible for replacement monies, would not be penalized by having their severance tax replacement monies decrease. The Commission recommends that the amount of severance tax replacement monies going to a city or county increase by half the percentage that assessed valuation of real property increase. This means that a 2 percent increase in real property assessed valuations would result in a 1 percent increase in replacement monies from the severance tax in those counties and cities eligible for replacement monies.

3: *Providing Local Flexibility*

The second problem related to local governments was to increase their fiscal flexibility to finance the services they provide. This is to be done by allowing the localities to piggyback on the State GET and PIT. This would allow each local government to decide, based on its particular situation, which tax base is the most appropriate. The Commission makes no recommendation as to whether the rate for local piggybacking should be capped. The Commission does feel that the imposition of piggyback taxes should be subject to referendum.

The GET and the PIT were considered to be the better bases for local use than the SBT. Local governments could decide if either of these are appropriate depending on local conditions. If a county piggybacks a State tax, the revenue raised would have to be shared with incorporated cities based on population. Allocating the SBT base among the various jurisdictions that might seek to use it poses insurmountable administrative difficulties.

In order to provide an undiminished amount of local flexibility, the Commission recommends that municipalities retain the ability to impose a business and occupation tax. However, the Commission further recommends that the Legislature amend State law to require a municipality imposing the business and occupation tax to impose the tax on all businesses in the municipality, not just some. The Commission also

recommends that the current maximum rates be retained. Cities currently using the B&O tax may wish to substitute a piggyback tax as replacement revenues.

Two final recommendations were made by the Commission. The first would allow cities and counties to impose excess real property levies if passed by a majority of the voters in their jurisdictions. Current law requires 60 percent approval. The second recommendation is to reduce the vote required to pass a bond levy from 60 to 50 percent. In both instances, these changes conform with the current requirement for school bonds and school excess levies. Both of these actions would further increase the financial options available to the local governments.

4. Transition

The Commission recognizes that there will be a transition period as local governments move into the new fiscal environment. There will be a phase-in period of three to five years to permit an orderly transition from the old system to the new. The Commission working with the Governor and the Legislature will develop the details of that transition.

There are also special situations regarding park districts and libraries that must be resolved. The way these are funded differs as each was established under special legislation and there is no uniform method by which they are financed. Some have their own separate levy. Others share the levy for the schools counties or municipalities. For that reason, holding them harmless must be handled on a case-by-case basis.

C. Funding Education

1. Policy Considerations

There are two separate but related issues that need to be addressed when considering West Virginia's responsibility to provide a system of education.

The first issue is providing an education system that is "thorough and efficient" as required under Article XII, Section 1 of the West Virginia Constitution. The determination of this standard is subjective in nature. It is based upon a review of not only the resources put into the system, but also an assessment of the system's output.

True, public monies are necessary to provide the personnel, facilities, materials and other elements necessary to achieve such a standard. However, the level of

resources is but one factor in making such an assessment. Such an evaluation cannot be made based solely upon the level of spending for education.

The Commission's purpose is not to determine the composition of a "thorough and efficient" system of education or whether or not the present system meets such a standard or, if it does not, recommend changes to attain such a standard. Moreover, this Commission is not charged with determining the appropriate level of spending on education.

Rather, the purpose of this Commission is to propose a fairer method of funding government, including the responsibility of public education. This consideration would include the second issue - how to constitutionally pay for education. While the level of spending alone does not establish constitutionality or unconstitutionality, a system of funding education may face constitutional problems if its method of paying is found to be discriminatory. The West Virginia Supreme Court of Appeals has found the State's system of funding education unconstitutionally discriminatory.

In West Virginia, counties pay for education through four mechanisms - the local regular levies; a special or excess levy; bonded indebtedness; and State foundation aid. Most counties can meet State standards for funding through the regular levy and State aid. However, many property-poor counties must rely upon excess levies to fund the basic needs of its school system. Thus, many counties must rely upon the passage of an excess levy every five years, while in other counties the regular levy is sufficient.

In short, the West Virginia Constitution places the responsibility squarely on the shoulders of the State while not providing, in certain circumstances, the ability to provide the necessary resources.

2. Recommendations

The Commission recommends three specific changes to our tax structure to assure constitutionality and to improve the fairness of the way our tax structure raises money for public schools. These changes are among several other highly interdependent components of the comprehensive proposal to restructure our entire tax system.

First, the problems associated with relying on the property tax, in general, and on local excess levies, in particular, to fund public schools should be addressed by

eliminating the local regular education levy as a source of funding the "thorough and efficient" public education system required of the Legislature. As a consequence, the quarter or so of the public school budget presently supported by local property taxes would be replaced by State level funding.

The Commission recommends providing this additional State funding through (1) the reformed State tax structure proposed by the Commission; (2) a State education levy upon real property that would consist of 10% of a board of education's current maximum levy allocation; and (3) all property tax revenues presently attributable to public utilities.

As a result, no person or firm would endure a property tax increase. Moreover, educational funding would maintain a higher degree of stability through reliance upon all three sources of tax revenue: income, consumption and property.

Second, the Commission recommends that local voters retain the right to approve excess levies to pay for educational programs that are not required to be furnished or supported by the State. This capability will allow these voters and local boards of education a meaningful degree of educational decision-making power.

Subject to Supreme Court standards, the Legislature presently controls how local share and State aid to education dollars are spent and sets the tax rates for the part of the regular local property tax that goes to schools.

The Commission further recommends that current school excess levies be retained, utilizing their current tax base minus the tax base attributable to the personal property tax on vehicles. Losses from this tax base would be made up by the State until the expiration of the present levy. At such time as current excess levies expire, all new and renewed levies shall be based upon real property only with an increase in the allowable excess levy rate to provide sufficient replacement revenue.

Third, the Constitution should be amended to make the Legislature - not the courts - the sole and final arbiter of what spending plan is necessary to provide a thorough and efficient public school system. West Virginia will never have a fair, stable, and competitive tax structure until control of the public school budget - which represents the majority of its overall budget - is fully subject to the democratic process. Likewise, this State will never have a thorough and efficient system of public schools until the

institution having the constitutional responsibility for funding that system is given the clear authority to periodically adjust educational priorities based on accurate measures of the results of the present programs.

Recognizing that public school funding is an inherently political question, to be decided by the Legislature, would not, in any manner, alter the power of the judiciary to require adherence to constitutional principles of equal protection in the distribution of funding among the school districts.

PART IV – ECONOMIC AND CONSTITUTIONAL CONSIDERATIONS

A. The Economic Case for Tax Reform

1. Jobs

The proposed changes in the State's tax structure not only meet the criteria for a fair tax system, but give the West Virginia economy an expansionary boost as well. The Commission found that the current tax structure is "anti-jobs." What is needed is a system that would increase investment in the State, improve the competitive position of its industries and lower the costs of doing business in the State. If this could be accomplished, the State would then generate better and more employment opportunities. The result would be higher wages and more jobs.

2. Economic Efficiency

The current tax structure penalizes the efficient businesses that operate in the State. The corporate net income tax, which is among the highest in the nation, is a tax on efficiency as well as a "red flag" for businesses seeking to locate here. The business franchise tax, which has been repealed in virtually every other state, is levied on the value of business assets, further discouraging investment and job creation. By placing heavy tax burdens on investment and profits, the State sends a message that use of new technology will be punished with an increased tax burden.

3. *Revenue Stability*

Any government should welcome the opportunity to trade a revenue system that produces an unstable revenue yield for one that is more dependable. The Commission's proposals offer that opportunity. The broader the base of a tax the less susceptible it is to wide swings in receipts. The use of broad base taxes is one way a state can insulate itself from the business cycle. While the State has seen significant increases in revenue over the past few years, these increases have represented the general prosperity of the nation which has created a growing market from the resources and products West Virginians produce. But when the economy turns down, the current cycle sensitive tax structure will leave the State with increased demand that cannot be met.

4. *Simplicity*

Another compelling reason for replacing the current array of confusing and contradictory taxes in the State with the Commission's proposal is simplicity and administrative ease. The taxes now used in West Virginia are difficult for taxpayers to calculate and for administrators to enforce. The repeal of the various business taxes and the use of a single business tax would reduce administrative burdens for firms and the State. In addition, taxpayers would find the system more comprehensible.

5. *Equity*

The Commission was in agreement that the current tax structure is highly discriminatory. Firms pay taxes based on their form of business organization, not on the benefits they receive from the State or the burdens they create. The growth of "pass through" entities, such as limited partnerships and "Subchapter S" corporations, designed to avoid federal income taxes, is automatically accepted under the current West Virginia system. The SBT captures that income for the State by taxing each firm on its economic presence, not on its legal form of organization.

The revisions in the personal income tax improve the overall equity of the system. Currently, approximately 110,000 working West Virginians live near or below the poverty level pay State income tax. The Commission's suggestion for more generous exemptions for low-income families removes those below poverty from the tax roles while reducing the tax for others.

6. *Economic Realities*

The Commission's proposals recognize the economic change that has transpired over the past decades in West Virginia. The State has experienced economic and employment growth below both the national and regional averages that resulted in one of the nation's highest unemployment rates. Part of the blame must rest with the tax system.

The State's population is now the oldest of any in the nation. This puts increased pressure on government to provide social services including health care. The highly dispersed population of the State, with many of its people living in places of difficult access, creates problems for transportation, infrastructure and delivery of services not faced in other states. As studies have shown, we are a high need but low revenue capacity state.

Even more important is the shift in the State's economy from manufacturing to services. Consistent with national trends, West Virginia's economy is becoming more dependent on service industries such as medicine, education, finance, real estate, communications and consulting. The current tax structure was designed for an economy that is based on heavy industry and manufacturing. For that reason, the tax system needs to tax fairly the new economy of the State.

It must always be remembered that there are two West Virginia's. The 17 more urbanized counties have income and employment levels that closely resemble those of the nation. The other 38 counties are caught in a poverty trap with little current tax capacity to pay for the essential services that would assist their transition to economic growth. The Commission's proposals recognize that difference and address it.

7. *Economic Impact of Tax Reform*

While principally advocated as a means of achieving fair taxation, the Commission's proposals will also be of significant economic benefit to the State. Employment will increase by over 15,000 over the next five years compared to what the present system would be if the present system were maintained. State output will rise by 2 billion more than if the State does not change. The disposable income of the people will go up by almost 1 billion if these recommendations are accepted. West Virginians will not only be taxed more fairly, they will be more prosperous as well.

The economic impacts of the Commission's recommendations have been estimated using econometric modeling. The results are given in the table which follows. What the table shows is the change that is projected to take place due to the change in the tax structure. The "baseline" is the projection if the tax system remains unchanged. "Predicted" is the estimation if the tax reform is adopted. "Change" refers to the projected increase due to the new tax changes. That increase is also expressed as a percentage. Estimates are given covering the period 2001-2015.

The Economic Impacts of Tax Reform

		2001	2002	2003	2004	2005
Employment (Number of Employees in thousands)	BASELINE	857.820	860.593	862.364	863.107	863.158
	PREDICTED	872.510	875.913	877.924	878.727	878.648
	CHANGE	14.690	15.320	15.560	15.620	15.490
		1.71%	1.78%	1.80%	1.81%	1.79%
Disposal Personal Income (In Billions of 1992 Dollars)	BASELINE	33.149	33.461	33.771	34.079	34.380
	PREDICTED	33.864	34.230	34.580	34.927	35.258
	CHANGE	0.715	0.770	0.809	0.848	0.878
		2.16%	2.30%	2.40%	2.49%	2.55%
Population (Population in Thousands)	BASELINE	1,759.101	1,751.067	1,744.303	1,738.383	1,733.402
	PREDICTED	1,764.151	1,762.087	1,759.623	1,757.543	1,755.832
	CHANGE	5.050	11.020	15.320	19.160	22.430
		0.29%	0.63%	0.88%	1.10%	1.29%
Total Economic Output (In Billions of 1992 Dollars)	BASELINE	67.226	68.208	69.045	69.820	70.484
	PREDICTED	68.524	69.760	70.811	71.773	72.594
	CHANGE	1.298	1.552	1.766	1.953	2.110
		1.93%	2.28%	2.56%	2.80%	2.99%

Virtually every sector of the State's economy will be better off due to these changes. Output will grow in every sector with manufacturing leading the way. Growth rates of more than 4 percent greater than under the current system are predicted for non-durable manufacturing, retailing and wholesale trade. Construction will grow by a projected 6.8 percent. Durable manufacturing, telecommunications and utilities, as well as agriculture and forestry, will expand output by a predicted 2 percent or more if the proposals are in place.

Changes in Output under Tax Reform

SECTOR		2001	2002	2003	2004	2005
Durables Manufacturing (in Billions of 1992 dollars)	BASELINE	6.519	6.553	6.560	6.558	6.522
	PREDICTED	6.593	6.658	6.690	6.710	6.691
	CHANGE	0.074	0.105	0.130	0.152	0.170
		1.13%	1.60%	1.99%	2.32%	2.60%
Non-Durables Manufacturing (in Billions of 1992 dollars)	BASELINE	8.3203	8.4348	8.5302	8.6208	8.7382
	PREDICTED	8.442	8.640	8.806	8.957	9.127
	CHANGE	0.122	0.205	0.276	0.336	0.389
		1.46%	2.43%	3.23%	3.90%	4.45%
Mining (in Billions of 1992 dollars)	BASELINE	8.274	8.299	8.301	8.285	8.235
	PREDICTED	8.328	8.381	8.406	8.411	8.378
	CHANGE	0.054	0.082	0.106	0.126	0.143
		0.65%	0.99%	1.27%	1.52%	1.73%
Construction (in Billions of 1992 dollars)	BASELINE	4.120	4.155	4.182	4.202	4.218
	PREDICTED	4.451	4.474	4.490	4.499	4.504
	CHANGE	0.331	0.319	0.308	0.297	0.286
		8.03%	7.67%	7.36%	7.07%	6.78%
TCPU (in Billions of 1992 dollars)	BASELINE	10.074	10.323	10.553	10.777	10.997
	PREDICTED	10.271	10.571	10.847	11.111	11.368
	CHANGE	0.197	0.249	0.294	0.335	0.371
		1.95%	2.41%	2.78%	3.10%	3.37%
FIRE (in Billions of 1992 dollars)	BASELINE	8.604	8.738	8.860	8.978	9.085
	PREDICTED	8.688	8.829	8.956	9.078	9.187
	CHANGE	0.084	0.091	0.096	0.100	0.102
		0.97%	1.05%	1.09%	1.11%	1.13%
Retail Trade (in Billions of 1992 dollars)	BASELINE	6.095	6.168	6.232	6.289	6.315
	PREDICTED	6.284	6.377	6.459	6.533	6.572
	CHANGE	0.189	0.209	0.227	0.244	0.257
		3.10%	3.40%	3.65%	3.88%	4.07%
Wholesale Trade (in Billions of 1992 dollars)	BASELINE	3.370	3.421	3.463	3.503	3.537
	PREDICTED	3.469	3.537	3.594	3.647	3.693
	CHANGE	0.099	0.116	0.131	0.145	0.156
		2.94%	3.40%	3.79%	4.13%	4.40%
Services (in Billions of 1992 dollars)	BASELINE	11.722	11.991	12.238	12.482	12.712
	PREDICTED	11.868	12.164	12.433	12.697	12.946
	CHANGE	0.146	0.173	0.195	0.216	0.234
		1.24%	1.44%	1.59%	1.73%	1.84%
Agriculture and Forestry (in Billions of 1992 dollars)	BASELINE	0.126	0.127	0.127	0.127	0.126
	PREDICTED	0.129	0.130	0.130	0.130	0.130
	CHANGE	0.003	0.003	0.003	0.003	0.004
		2.16%	2.38%	2.55%	2.69%	2.78%

New and better paying jobs will result as well from tax reform. Projections from the table *below* show employment rising over the next five years in every sector of the State if the proposals are adopted. These are employment increases above the

baseline projections. The most impressive gains are in construction, non-durable manufacturing and agriculture/forestry. There has always been the desire to create jobs to keep the State's young people home. The Commission's recommendations will do that!

Changes in Employment under Tax Reform

SECTOR		2001	2002	2003	2004	2005
Durables Manufacturing (In Thousands of Employees)	BASELINE	43.790	42.697	41.514	40.262	38.933
	PREDICTED	44.229	43.197	42.043	40.798	39.458
	CHANGE	0.439	0.500	0.529	0.536	0.525
		1.00%	1.17%	1.28%	1.33%	1.35%
Non-Durables Manufacturing (In Thousands of Employees)	BASELINE	34.872	34.825	34.726	34.554	34.449
	PREDICTED	35.370	35.579	35.669	35.634	35.626
	CHANGE	0.499	0.754	0.943	1.080	1.177
		1.43%	2.16%	2.71%	3.13%	3.42%
Mining (In Thousands of Employees)	BASELINE	26.506	25.673	24.802	23.880	22.896
	PREDICTED	26.575	25.732	24.846	23.904	22.900
	CHANGE	0.069	0.059	0.044	0.024	0.004
		0.26%	0.23%	0.18%	0.10%	0.02%
Construction (In Thousands of Employees)	BASELINE	46.860	47.164	47.401	47.517	47.600
	PREDICTED	50.549	50.641	50.683	50.609	50.500
	CHANGE	3.689	3.477	3.282	3.092	2.900
		7.87%	7.37%	6.92%	6.51%	6.09%
TCPU (In Thousands of Employees)	BASELINE	45.758	45.613	45.393	45.070	44.746
	PREDICTED	46.454	46.338	46.121	45.782	45.428
	CHANGE	0.696	0.725	0.728	0.712	0.682
		1.52%	1.59%	1.60%	1.58%	1.52%
FIRE (In Thousands of Employees)	BASELINE	43.188	43.601	43.959	44.283	44.598
	PREDICTED	43.546	43.938	44.264	44.554	44.833
	CHANGE	0.358	0.337	0.305	0.271	0.235
		0.83%	0.77%	0.69%	0.61%	0.53%
Retail Trade (In Thousands of Employees)	BASELINE	157.167	156.649	155.951	154.989	153.637
	PREDICTED	161.348	160.686	159.803	158.646	157.064
	CHANGE	4.181	4.037	3.852	3.657	3.427
		2.66%	2.58%	2.47%	2.36%	2.23%
Wholesale Trade (In Thousands of Employees)	BASELINE	31.458	31.270	31.025	30.708	30.372
	PREDICTED	32.234	32.047	31.787	31.444	31.070
	CHANGE	0.777	0.777	0.763	0.736	0.698
		2.47%	2.48%	2.46%	2.40%	2.30%
Services (In Thousands of Employees)	BASELINE	263.473	269.102	274.297	279.195	283.904
	PREDICTED	266.991	272.896	278.257	283.290	288.100
	CHANGE	3.518	3.794	3.960	4.095	4.196
		1.34%	1.41%	1.44%	1.47%	1.48%
Agriculture and Forestry (In Thousands of Employees)	BASELINE	6.539	6.588	6.627	6.659	6.685
	PREDICTED	6.679	6.743	6.794	6.835	6.868
	CHANGE	0.140	0.155	0.167	0.176	0.183
		2.14%	2.36%	2.52%	2.64%	2.73%

The State needs a system that is fairer and simpler. But equally important it needs a system which recognizes that times have changed and the economy is different from what it was when most of the current tax system was adopted. New times demand new ideas. Old problems demand new solutions. The Commission's recommendations provide both.

B. Constitutional Reform

Introduction

Among the several purposes of a state's constitution is to assure that the government it establishes adequately embodies certain fundamental principles of the governed. While the constitution must afford the people's representatives adequate flexibility to meet evolving circumstances, those fundamental principles must always be honored as that legislative authority is exercised.

Most constitutional experts also agree that the power to tax is an inherent aspect of a state's sovereignty. Accordingly, absent express constitutional limitations to the contrary, such power may be exercised in any manner, as to any subject. Thus, so long as such unrestrained taxation is implemented according to the constitutional process established for the enactment of laws generally, it will be valid.

West Virginia's current constitutional provisions, limiting this State's taxing power, first require the Legislature to impose, by general law, an ad valorem property tax. Beyond that, it simply authorizes the Legislature to enact other taxes on "privileges, franchises and incomes."

Regarding the property tax, the Constitution provides a rather atypical detailed structure of maximum rates in each of four classifications, along with the legislative authority to exempt certain identified categories of property. As to the other kinds of taxes, which it authorizes, West Virginia's Constitution merely allows for graduated rates and low-income exemptions in any income tax the Legislature might adopt. Importantly, the Constitution does mandate that all taxes, which the Legislature might impose, shall be equal and uniform throughout the State.

Outside of the property tax, for which the Constitution has laid out a more elaborate set of constraints, the Legislature has historically exercised its taxing power in a manner that demonstrates the absence of any meaningful State constitutional limits.

The West Virginia Supreme Court of Appeals has, likewise, consistently concurred in the Legislature's authority to pursue such an expansive approach to its taxing power.

The Commission does not criticize either the Legislature, for exercising the broad power of taxation, or the Supreme Court of Appeals, for confirming that such taxation does not exceed any limits currently established in the Constitution. Rather, based on its study, the Commission has concluded that the current provisions of the Constitution, purporting to limit the power of taxation, have not effectively assured adherence to the fundamental principles that the people of West Virginia expect in their tax structure.

The Commission believes that the Constitution can be improved to better foster the high principles of accountability, simplicity, consistency and stability, while preserving fully the Legislature's capacity to annually adjust the taxation-expenditure equation through legitimate political process.

Likewise, greater fairness among taxpayers, once established, based on the principles of ability to pay, matching burdens to benefits and neutrality, would be more permanently preserved by adopting meaningful constitutional constraints on the State's taxing power.

Finally, given the interest that investors of capital have in such a stabilized, constitutionally embedded tax system, the principles of competitiveness and economic growth should also be advanced by such improvements. For all these reasons, the Commission recommends the following constitutional reforms.

2. Recommendations

It is recommended that the Constitution be amended to expressly re-authorize the imposition of only the particular kinds of taxes, which the Commission proposes be retained in a reformed tax structure. Furthermore, the bases of all taxes, which the Legislature may impose, should be defined in the Constitution in terms which are, at once, sufficiently general to permit legislative adjustment to evolving economic circumstances, but adequately specific to assure accountability, simplicity, consistency and stability.

Once the bases of the major taxes that would make up a reformed State tax structure are determined, the Commission recommends that a provision be added to the Constitution that more effectively restrains deviations from those bases. In that way, a

strong public policy case would have to be made to enact any exemptions, credits, etc., which provide selective relief from those taxes. Likewise, before any of the exemptions, credits, etc., to be retained in the reformed tax structure, could later be removed, a similarly strong case would have to be made.

The rationale for such an approach is that the bases of the major taxes will, inherently, define fairness in taxation, by virtue of the deliberative and democratic process through which they are established - a popularly adopted amendment to the Constitution. Accordingly, if any changes are to be made in such a fair structure, they should be able to win the approval of at least two-thirds of the people's elected legislative representatives. This will assure a far greater degree of accountability, simplicity, consistency and stability in our tax structure than our current constitutional provision offers.

The Commission further believes that once a fair tax structure is established by a vote of the people, the relative burden of taxation among all taxpayers - both businesses and individuals - resulting from that structure should be generally preserved. Only by setting that fair tax balance in the Constitution can all taxpayers be assured that their representatives will be fully accountable to them.

Nothing in the recommendation will unduly restrict the capacity of the Legislature to raise or lower taxes as the evolution of fiscal circumstances may indicate. It will simply require that, if more revenues are needed, all taxpayers will, within the fair tax structure, contribute their fair share through modest, across-the-board rate increases. Likewise, if tax relief can be extended, all will commensurately benefit through reduced rates.

Such an arrangement will require that the basic political question, of the appropriate level of public expenditure and taxation, be resolved in a far more forthright manner than is presently the case. Indeed, the political accountability, contemplated by the fundamental principles of the classic model of representative democracy, will be honored.

Finally, the Commission believes that, once a constitutional amendment is adopted by the voters to reform the State's tax structure, July 1, 2001 should be set as a date certain to effect the people's will. Establishing that date more than two years

from now should provide adequate time to test and refine, if necessary, the implementing details of the new fair State tax structure. Indeed, given the scope of the proposed reforms, and the Commission's strong commitment to avoid any unfair, retroactive consequences to any taxpayer, even implementation on July 1, 2001, will necessarily only commence an even longer transition period to allow certain features of the new structure to be more gradually deployed.

C. Fiscal Considerations

In preparation for the presentation of its recommendations, many Commission members have reviewed past tax study commissions conducted by both the executive and legislative branches of government. Only on a rare occasion has faint consideration been given to the ability of a proposed change or system to generate revenues sufficient to operate government at the same level as of the time of the recommendation.

However, this Commission believes that in order to maintain the integrity of its deliberations, it must provide proposed rates and estimated revenues in order to avoid allegations that its efforts were influenced solely by the need to increase or decrease taxes.

The rates for the new taxes have been provided both in the text and in a summary (see Appendix B). The estimated revenues are provided hereafter (see Appendices A and C). The West Virginia Department of Revenue using all of the data at its disposal has calculated these estimates.

The proposed tax structure not only adequately replaces existing revenue, in future years it will provide the State with additional revenue beyond that which the existing system will generate.

APPENDIX A**STATE TAX COLLECTIONS IN FY 1995-96**

Tax Type	(\$ Millions) Actual Collections	New System as of 1/8 Collections
Education Property Tax	\$ 240.539	\$
Single Business Tax	N/A	336.000 (2.1%)
Sales/Use Tax (General Excise)	809.289	1,145.500 (6.0%)
Personal Income Tax	756.862	712.000 (6.5%)
Gasoline Excise Tax	206.363	206.363
B&O (Generation/Gas Storage)	190.274	160.923
Severance	174.932	174.932
Corporation Net Income	156.258	
Auto Privilege Tax	120.450	
Health Care Provider Taxes	118.269	82.000
Business Franchise	78.865	
Insurance Premiums	71.377	50.000
Gasoline Sales Tax	64.234	77.000
Cigarette Excise/Tobacco	33.652	40.752
Special Revenue (Insurance)	30.889	
Telecommunications Tax	12.866	9.650
Alcohol Drink Excise Tax	12.093	
Estate Tax	10.266	10.266
Beer Barrel Tax & Licenses	7.622	7.622
Liquor Profits	7.009	7.009
Property Transfer Tax	4.935	local tax
Corporate Charter Tax	4.659	
State Property Tax	2.929	51.780
Education Tax	N/A	82.800
Timber Severance Tax	2.213	2.213
Business Registration Fees	1.575	1.575
Wine Liter Tax	1.090	1.090
STATE TOTAL	<u>\$3,119.510</u>	<u>\$3,159.475</u>
Education Excess Levies	256.823	228.000
Municipal B&O	108.245	108.245
County & City Property	231.864	214.798
County Excess Acreage Tax Distribution	N/A	1.000
Property Transfer Tax Gain	-----	4.935
County Severance Tax	13.982	13.982
Municipal Severance Tax	1.447	1.447
GRAND TOTAL	<u>\$3,731.871</u>	<u>\$3,731.882</u>

APPENDIX B**TAX RATES AS OF 1/8/99**

<u>TAX STRUCTURE</u>	<u>STATE TAX RATE</u>
Single Business Tax	2.1% (year 1) 2.0% (yr 2) Small business exemption set at \$50,000
General Excise Tax	6.0%
Progressive Income Tax	5.0% on first \$40,000 of income 6.5% on income over \$40,000
B&O - Electric Generation Tax	\$22.78/KW (year 1) \$17.09/KW (year 2) \$11.39/KW (year 3) \$ 5.70/KW (year 4) \$ 3.25/KW (thereafter)
B&O - Gas Storage Tax	\$0.0500/dekatherm (year 1) \$0.0375/dekatherm (year 2) \$0.0250/dekatherm (year 3) \$0.0125/dekatherm (year 4) \$0.0000/dekatherm (thereafter)
Severance Tax	5.0% [3.22% for timber]
Insurance Premium Tax	2.5% premium tax (year 1) retaliatory tax (thereafter)
Health Care Provider Tax (institutions) (With credit against SBT)	100% of current tax (year 1) 70% of current tax (year 2) 40% of current tax (year 3) 20% of current tax (year 4) 0% thereafter
Cigarette Excise Tax	\$ 0.17 per pack
Tobacco Products Tax	25% of wholesale price
Telecommunications Tax	four-year phase-out
State Real Property Tax	Leftover allocation maximum regular levy (year 1) 10% - total maximum regular levy yield (thereafter)
Gasoline Excise Tax	Same as current law
Gasoline Sales Tax	Replaced by GET
Estate Tax	Same as current law
Beer Tax & Licenses	Same as current law
Liquor Profit Fees	Same as current law
Wine Liter Tax	Same as current law
Business Registration Fee	Eliminated After Three Years

TAX RATES AS OF 1/8/99
(Continued)

LOCAL TAXES

Excess Education Levies	Same Tax (less tax on autos) until expiration Then Tax on Real Property pending voter approval
County & City Property	Reallocation of Maximum Real Property Tax (Less State Share) Personal Property Tax Phase-out over 3 years (autos exempt in year 1)
Property Transfer Tax	All fees remain at local level
County Excess Acreage Tax	State fee imposed on excess acreage for Distribution to counties & municipalities \$0.50/acre if ownership exceeds 1,000 acres
Severance Tax	0.75% out of the 4.65% state coal severance tax Available for local distribution (16.1% of tax)
B&O Tax	Retained pending resolution of municipal finance issues

BALANCE SET - 1997

COMMISSION'S AGENDA CURRENT LAW IF IN EFFECT

	1995-1996	Year 1	Net Change	Year 2	Yr 2 Change	Year 3	Yr 3 Change	Year 4	Yr 4 Change	Year 5	Yr 5 Change
Single Business Tax	N/A	\$ 338,000	\$ 336,000	\$ 340,000	\$ 4,000	\$ 360,000	\$ 20,000	\$ 380,000	\$ 20,000	\$ 400,000	\$ 20,000
Sales and Use Tax	\$ 809,289	N/A	\$ (809,289)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
General Excise Tax	N/A	\$ 1,145,500	\$ 1,145,500	\$ 1,200,000	\$ 54,500	\$ 1,250,000	\$ 50,000	\$ 1,310,000	\$ 60,000	\$ 1,370,000	\$ 60,000
Personal Income Tax	\$ 756,862	\$ 712,000	\$ (44,862)	\$ 760,000	\$ 48,000	\$ 815,000	\$ 55,000	\$ 875,000	\$ 60,000	\$ 935,000	\$ 60,000
Gasoline Excise & Use Tax	\$ 206,363	\$ 206,363	\$ -	\$ 203,313	\$ (3,050)	\$ 210,000	\$ 6,687	\$ 212,000	\$ 2,000	\$ 213,000	\$ 1,000
Business and Occupation Tax	\$ 190,274	\$ 180,923	\$ (29,351)	\$ 114,300	\$ (46,623)	\$ 68,500	\$ (45,800)	\$ 23,200	\$ (45,300)	\$ 24,000	\$ 0,800
Severance Tax	\$ 174,932	\$ 174,932	\$ -	\$ 149,689	\$ (25,243)	\$ 149,689	\$ -	\$ 149,689	\$ -	\$ 149,689	\$ -
Corporation Net Income Tax	\$ 156,258	N/A	\$ (156,258)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Auto Privilege Tax	\$ 120,450	N/A	\$ (120,450)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Health Care Provider Tax	\$ 118,269	\$ 82,000	\$ (36,269)	\$ 61,800	\$ (20,200)	\$ 35,000	\$ (26,800)	\$ 18,000	\$ (17,000)	\$ -	\$ (18,000)
Business Franchise Tax	\$ 78,865	N/A	\$ (78,865)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Insurance Premium Tax	\$ 71,377	\$ 50,000	\$ (21,377)	\$ 40,000	\$ (10,000)	\$ 39,000	\$ (1,000)	\$ 38,000	\$ (1,000)	\$ 35,000	\$ (3,000)
Gasoline Sales Tax	\$ 64,234	\$ 77,000	\$ 12,766	\$ 77,800	\$ 800	\$ 78,500	\$ 700	\$ 79,300	\$ 800	\$ 80,000	\$ 700
Cigarette Excise/Tobacco Tax	\$ 33,652	\$ 40,752	\$ 7,100	\$ 40,500	\$ (252)	\$ 40,300	\$ (200)	\$ 40,200	\$ (100)	\$ 40,100	\$ (100)
Special Revenue (Insurance)	\$ 30,889	N/A	\$ (30,889)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Estate Tax	\$ 10,266	\$ 10,266	\$ -	\$ 17,367	\$ 7,101	\$ 18,000	\$ 633	\$ 18,500	\$ 500	\$ 19,000	\$ 500
Telecommunications Tax	\$ 12,866	\$ 9,650	\$ (3,216)	\$ 6,800	\$ (3,050)	\$ 3,400	\$ (3,200)	\$ -	\$ (3,400)	\$ -	\$ -
Soft Drink Excise Tax	\$ 12,093	N/A	\$ (12,093)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Beer Tax and Licenses	\$ 7,622	\$ 7,622	\$ -	\$ 7,859	\$ 237	\$ 7,700	\$ (159)	\$ 7,800	\$ 100	\$ 7,800	\$ -
Liquor Profit Transfers	\$ 7,009	\$ 7,009	\$ -	\$ 7,012	\$ 3	\$ 7,100	\$ 89	\$ 7,200	\$ 100	\$ 7,300	\$ 100
Property Transfer Tax	\$ 4,935	N/A	\$ (4,935)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Charter Tax	\$ 4,659	N/A	\$ (4,659)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
State Real Property Tax	\$ 1,451	\$ -	\$ (1,451)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Personal Property Tax	\$ 1,051	\$ 0,500	\$ (0,551)	\$ 0,250	\$ (0,250)	\$ -	\$ (0,250)	\$ -	\$ -	\$ -	\$ -
State Education Property Tax**	N/A	\$ 134,080	\$ 134,080	\$ 111,528	\$ (22,552)	\$ 128,470	\$ 16,942	\$ 140,690	\$ 12,220	\$ 154,920	\$ 14,230
Timber Severance Tax	\$ 2,213	\$ 2,213	\$ -	\$ 2,850	\$ 637	\$ 3,100	\$ 250	\$ 3,300	\$ 200	\$ 3,500	\$ 200
Business Registration Fees	\$ 1,575	\$ 1,575	\$ -	\$ 1,600	\$ 25	\$ 1,800	\$ 200	\$ -	\$ (1,600)	\$ -	\$ -
Wine Lifer Tax	\$ 1,090	\$ 1,090	\$ -	\$ 1,021	\$ (69)	\$ 1,025	\$ 4	\$ 1,025	\$ -	\$ 1,025	\$ -
STATE TOTAL	\$ 2,878,544	\$ 3,159,475	\$ 280,931	\$ 3,143,089	\$ (16,386)	\$ 3,216,384	\$ 73,295	\$ 3,303,904	\$ 87,520	\$ 3,440,334	\$ 136,430
Real Estate Tax - Education	\$ 119,250	N/A	\$ (119,250)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal Property - Education	\$ 86,250	N/A	\$ (86,250)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public Utility Property - Educ.	\$ 35,000	N/A	\$ (35,000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real Est. - Educ. Excess Levies	\$ 127,000	\$ 127,000	\$ -	\$ 133,000	\$ 6,000	\$ 139,300	\$ 6,300	\$ 145,800	\$ 6,500	\$ 152,700	\$ 6,900
Per. Prop. - Educ. Excess Levies	\$ 95,800	\$ 67,000	\$ (28,800)	\$ 67,000	\$ -	\$ 44,000	\$ (23,000)	\$ 31,000	\$ (13,000)	\$ 16,000	\$ (15,000)
Pub. Util. - Educ. Excess Levies	\$ 34,000	\$ 34,000	\$ -	\$ 34,000	\$ -	\$ 22,000	\$ (12,000)	\$ 16,000	\$ (6,000)	\$ 8,000	\$ (8,000)
LOCAL EDUCATION TOTAL	\$ 497,300	\$ 228,000	\$ (269,300)	\$ 234,000	\$ 6,000	\$ 205,300	\$ (28,700)	\$ 192,800	\$ (12,500)	\$ 176,700	\$ (16,100)
County Real Estate	\$ 77,200	\$ 133,765	\$ 56,565	\$ 140,000	\$ 6,235	\$ 146,500	\$ 6,500	\$ 153,500	\$ 7,000	\$ 161,000	\$ 7,500
County Personal Property Tax	\$ 57,300	\$ 30,000	\$ (27,300)	\$ 15,000	\$ (15,000)	\$ -	\$ (15,000)	\$ -	\$ -	\$ -	\$ -
County Public Utility Tax	\$ 42,400	N/A	\$ (42,400)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Additional Property Transfer Tax	N/A	\$ 4,935	\$ 4,935	\$ 5,500	\$ 565	\$ 6,100	\$ 600	\$ 6,500	\$ 400	\$ 6,850	\$ 350
County Coal Severance - Prod.	\$ 11,577	\$ 11,577	\$ -	\$ 29,980	\$ 18,403	\$ 29,980	\$ -	\$ 29,980	\$ -	\$ 29,980	\$ -
County Coal Severance - All	\$ 2,405	\$ 2,405	\$ -	\$ 5,165	\$ 2,760	\$ 5,165	\$ -	\$ 5,165	\$ -	\$ 5,165	\$ -
County Oil and Gas Sev. - Prod.	\$ -	\$ -	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ -	\$ 1,500	\$ -	\$ 1,500	\$ -
County Oil and Gas Sev. - All	\$ -	\$ -	\$ -	\$ 0,312	\$ 0,312	\$ 0,312	\$ -	\$ 0,312	\$ -	\$ 0,312	\$ -
Excess Acreage Tax Distribution	N/A	\$ 1,000	\$ 1,000	\$ 0,800	\$ (200)	\$ 0,800	\$ -	\$ 0,800	\$ -	\$ 0,800	\$ -
LOCAL COUNTY TOTAL	\$ 190,882	\$ 183,682	\$ (7,200)	\$ 198,257	\$ 14,575	\$ 190,357	\$ (7,900)	\$ 197,757	\$ 7,400	\$ 205,607	\$ 7,850
Municipal Real Estate Tax	\$ 30,300	\$ 42,133	\$ 11,833	\$ 44,100	\$ 1,967	\$ 46,200	\$ 2,100	\$ 48,400	\$ 2,200	\$ 50,600	\$ 2,200
Municipal Personal Prop. Tax	\$ 19,300	\$ 8,900	\$ (10,400)	\$ 4,450	\$ (4,450)	\$ -	\$ (4,450)	\$ -	\$ -	\$ -	\$ -
Municipal Public Utility Tax	\$ 5,400	N/A	\$ (5,400)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Municipal Coal Severance Tax	\$ 1,447	\$ 1,447	\$ -	\$ 8,539	\$ 7,092	\$ 8,539	\$ -	\$ 8,539	\$ -	\$ 8,539	\$ -
Municipal Oil and Gas Tax	\$ -	\$ -	\$ -	\$ 0,188	\$ 0,188	\$ 0,188	\$ -	\$ 0,188	\$ -	\$ 0,188	\$ -
Business and Occupation Tax	\$ 108,245	\$ 108,245	\$ -	\$ 112,000	\$ 3,755	\$ 115,500	\$ 3,500	\$ 119,000	\$ 3,500	\$ 123,000	\$ 4,000
LOCAL MUNICIPAL TOTAL	\$ 164,692	\$ 160,725	\$ (3,967)	\$ 169,277	\$ 8,552	\$ 170,427	\$ 1,150	\$ 176,127	\$ 5,700	\$ 182,327	\$ 6,200
Local Total	\$ 852,874	\$ 572,407	\$ (280,467)	\$ 601,534	\$ 29,127	\$ 566,084	\$ (35,450)	\$ 566,884	\$ 0,800	\$ 564,634	\$ (2,250)
State, City and County Total	\$ 3,731,418	\$ 3,731,882	\$ 464	\$ 3,744,623	\$ 12,741	\$ 3,762,468	\$ 37,845	\$ 3,870,588	\$ 88,120	\$ 4,004,988	\$ 134,380

** Includes State Real Property Tax & Public Utility Property Tax

RETAIL RESTAURANT

Assumptions

Gross Receipts:	\$2.400 million
Payroll:	\$0.600 million
Interest & Rent Paid:	\$0.500 million
Profits:	\$0.500 million
Net Capital Expense Deduction:	\$0.056 million
WV Apportionment:	100%
Federal Taxable Income:	\$0.350 million
Net Equity:	\$1.000 million

Assets:

Land:	Rented
Building:	Rented
Machinery & Equipment:	\$0.500 million
Inventory:	\$0.040 million

Current Law Tax Liabilities

Registration Tax:	\$ 15
Charter Tax:	25
Business Franchise Tax:	7,000
Corporation Net Income Tax:	31,500
Property Tax:	10,000
Sales Tax:	5,000
Total Current Law Tax:	\$53,540

Fair Taxation Tax Liabilities

Single Business Tax: (2.1%)	\$32,424
General Excise Tax:	7,500
Property Tax:	0
Total Fair Taxation Tax:	\$39,924
DIFFERENCE:	(\$13,616)

COAL MINING COMPANY**Assumptions**

Gross Receipts:	\$20.000 million
Payroll:	\$ 6.000 million
Interest & Rents Paid:	\$ 1.000 million
Profits:	\$ 0.600 million
Net Capital Expense Deduction:	\$ 1.300 million
WV Apportionment:	100%
Federal Taxable Income After NOL	\$ 0.200 million
Net Equity:	\$ 5.000 million

Assets:

Land & Building:	\$0.500 million
Machinery & Equipment:	\$3.000 million
Inventory:	\$0.800 million

Current Law Tax Liabilities

Registration Tax:	\$ 15
Charter Tax:	500
Business Franchise Tax:	35,000
Corporation Net Income Tax:	18,000
Severance Tax:	1,000,000
Property Tax:	64,500
Sales Tax:	600
Total Current Law Tax:	\$1,118,615

Fair Taxation Tax Liabilities

Single Business Tax: (2.1%)	\$ 132,300
General Excise Tax:	3,000
Severance Tax:	1,000,000
Property Tax:	7,500
Total Fair Taxation Tax:	\$1,142,800
DIFFERENCE:	\$24,185