

WEST VIRGINIA 
DEPARTMENT OF REVENUE

**Joint Select Committee on Tax Reform
Current Tax Structure**

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

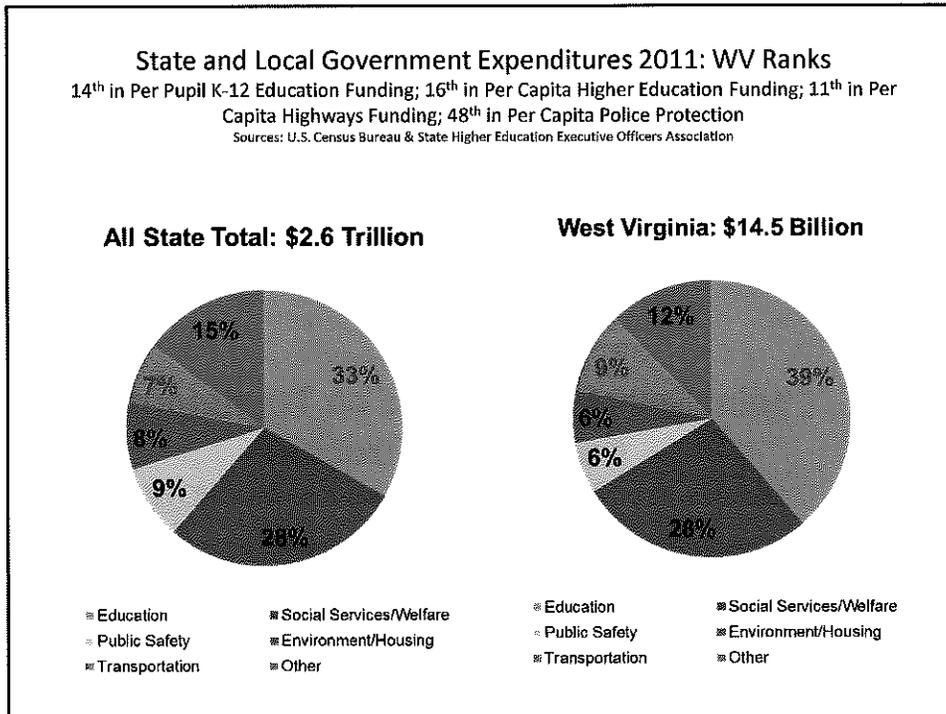
West Virginia State Capitol
May 4, 2015

Secretary **Robert S. Kiss**

Governor **Earl Ray Tomblin**

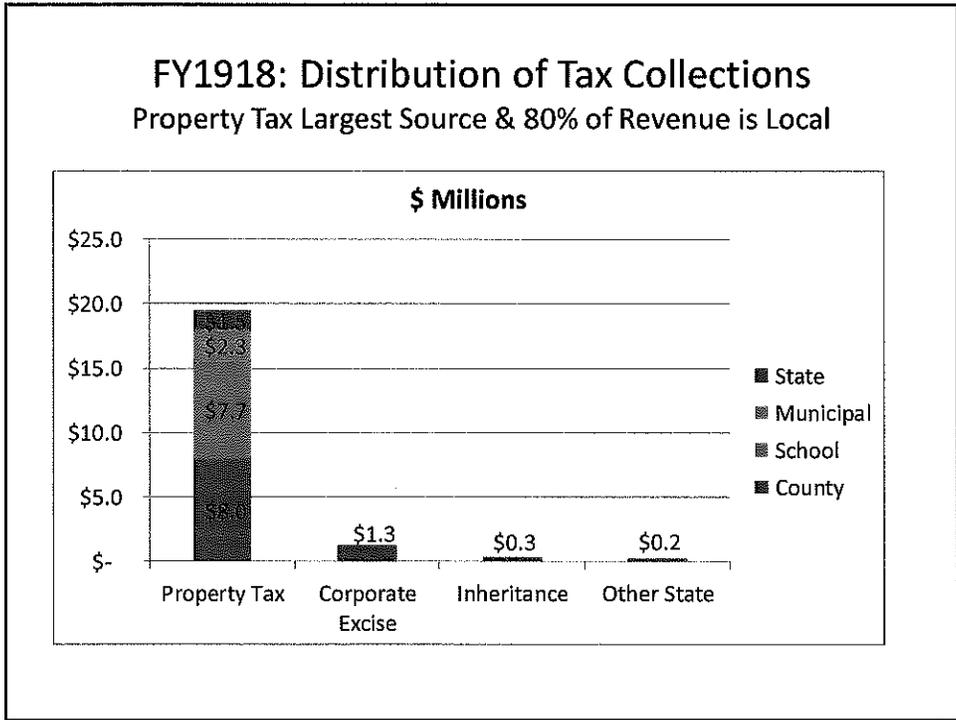
Some Notes Concerning Taxation

- Tax = price paid for government goods and services
 - Higher price = less demand (budget surplus)
 - Lower price = more demand
 - Federal deficit spending
 - Exporting of tax (e.g., Destination gaming, tourism, certain taxes)
- All taxes are paid by individuals – economic incidence
- Two principles of taxation
 - Ability to Pay (Federal Government)
 - Benefits (State and Local Governments)
- Three broad categories of taxation
 - Property (Real estate taxes, ad valorem tax, franchise tax)
 - Consumption (General sales, gross receipt, excise)
 - Income (personal income, profits, wages, dividends)



Historical Events Shape Tax System

- **Prohibition: (WV goes Dry in 1914: New Tax System)**
 - Move to State consumption taxes (B&O and gasoline)
- **Great Depression of the 1930s**
 - Property Tax Revolt (Move toward government centralization)
 - Move to more State consumption taxation (Sales Tax and more)
 - Roads transferred from counties to State
- **Educating Baby Boomers in 1960s:**
 - Higher sales tax rates
 - Introduction of personal income tax and corporate income tax
- **1970s Energy Boom Followed by Bust in 1980s**
 - Significant growth in B&O taxes due to energy and inflation
 - Removal of sales tax on groceries and increase in tax rate
 - Shift from consumption tax (B&O) to income taxes
 - Reinstatement of grocery tax and higher sales tax rate
- **2000s Energy Boom Followed by Recent Downturn**
 - Removal of sales tax on groceries
 - Repeal of a number of taxes and other tax relief
 - Record levels of severance tax collection

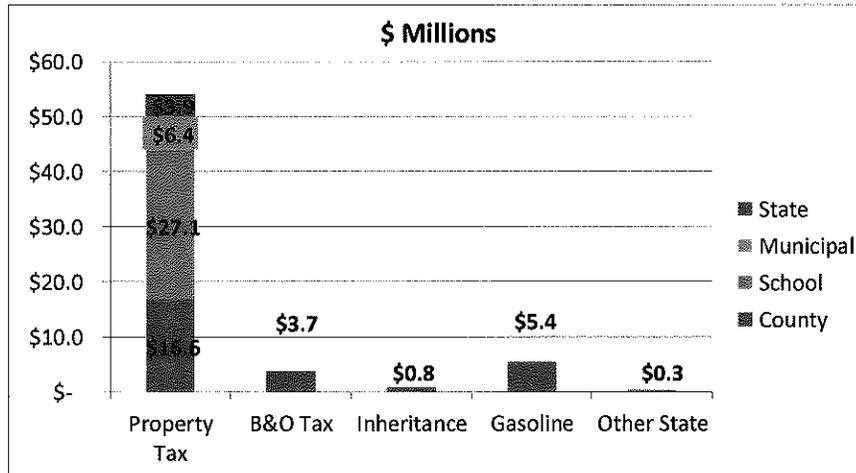


Origin of the State B&O Tax

State Went Dry in 1914 - Gross Sales Tax Law - 1921

- The “fairest tax” replaced a tax on corporate profits & an unconstitutional gas pipeline tax as of July 1, 1921
- Base of tax was business gross receipts > \$10,000
- Mining: 0.40% of gross receipts
- Manufacturing: 0.20% of gross receipts
- Retail: 0.20% of gross receipts
- Wholesale: 0.33% of gross receipts
- Banks & Utilities: 0.20% of gross receipts
- All Other Business: 0.20% of gross receipts

FY1930: Distribution of Tax Collections Property Tax Largest Source & 80% of Revenue is Local

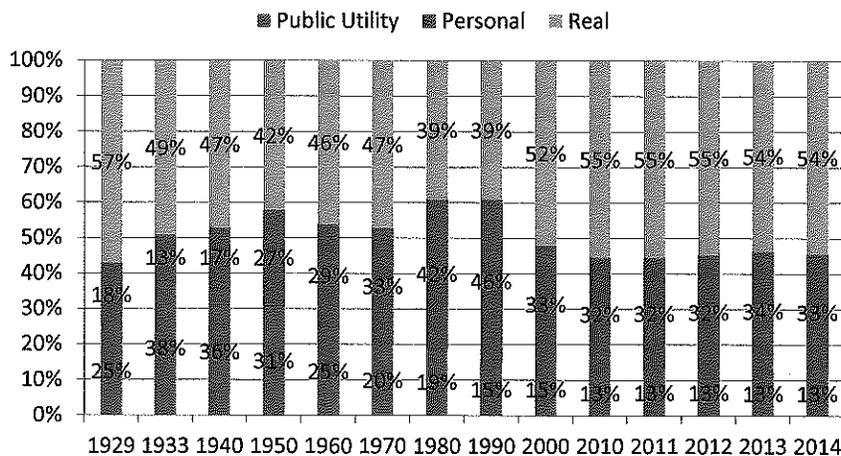


Property Tax Limitation Amendment: 1932

- Reduced average tax rates by roughly 50%
 - Revenue falls from \$54 million in FY1930 to \$27 million in FY1934
- Single tax rate structure replaced by three-tier rate system outlined in four classes
 - Tier 1- Intangibles and Farm Personal Property: 0.5% max rate
 - Tier II – Farm Real Property and Residential Homes: 1.0% max rate
 - Tier III – All Other Property: 2.0% max rate
- Individual Government level rate restrictions at maximum
 - Schools receive 45.9% (urban) and 61.2% (rural) share
 - Counties receive 28.6% (urban) and 38.1% (rural) share
 - Cities receive 25% share and just 46.6% on non-education local share
- Tax rates capped with option for voter approved excess levies

Sources of WV Property Taxes

Sources: *Biennial Report Tax Commissioner of West Virginia and Classified Assessed Valuations*



Voters Account for Nearly 40% of WV Property Taxes

	Rural WV	All WV
Share of Tax Imposed by Voters:	40%	39%
Share of Tax Imposed by Legislature:	35%	34%
Share of Tax Imposed by County Commissions:	24%	23%

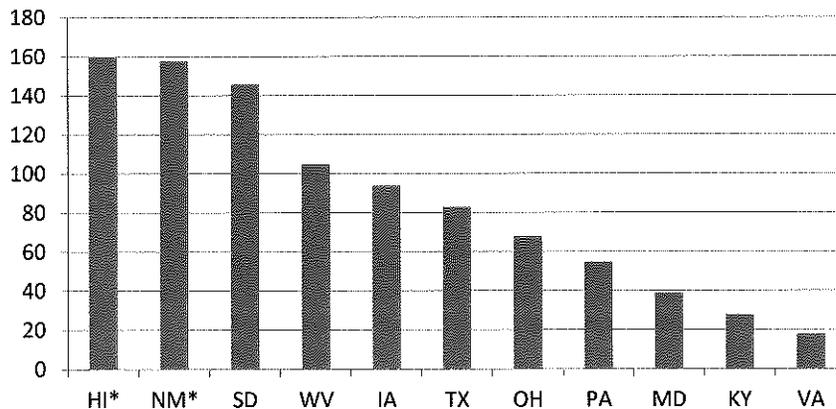
Origin of Consumer Sales Tax

- April 1, 1934 at a rate of 2% on goods & services
- Major exemptions (sales for resale, sales to government, isolated transactions)
 - Public utility services [Electric, gas, water, telephone, transportation] (B&O Tax & Excise Tax)
 - Professional & personal services (Health Care Provider Tax in 1993)
 - Real property contracting services (contractor purchases subject to tax)
 - Gasoline (until wholesale sales tax in 1983)
 - 1937-Motor Vehicles (Motor Vehicle Sales Tax)
 - 1955-Business inputs & charitable organizations
 - 1963-Newspaper Carriers
 - 1969-Prescription Drugs with expanded definitions in 1979 and 2007
 - 1974-Day Care, advertising space
 - 1981-1989 Groceries and 2013-
 - 1987-Electronic Data Processing Services
 - 1992-Personalized Health Fitness Services
 - Digital goods not defined in tax base
- Tax rate increases
 - 3% as of July 1, 1961
 - May 31, 1981 to 5% following grocery tax exemption
 - June 1, 1988 to 6%
 - Local 1% sales tax begins October 1, 2011 (Williamstown)

Number of Services Taxed Out of 168

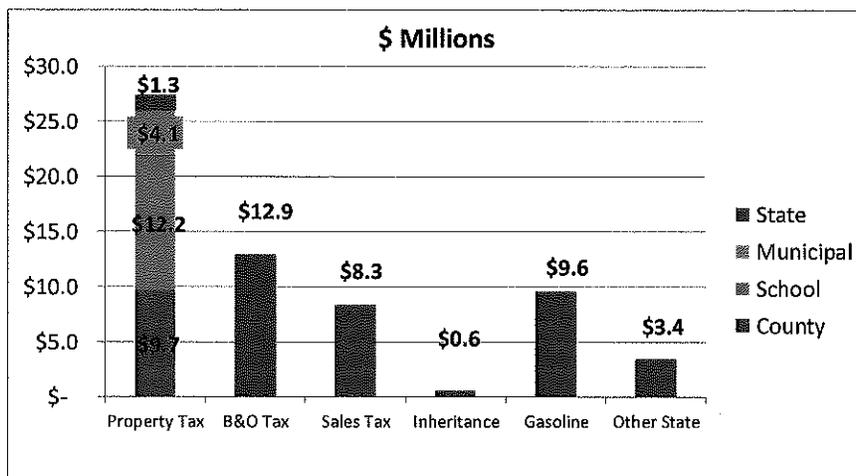
* Sales Tax Liability on Vendor, Not Consumer
 Source: Federation of Tax Administrators Survey : July 2007 Update

Taxable Services Under General Sales Tax



FY1938: Distribution of Tax Collections

Property Tax Largest Source & 40% of Revenue is Local

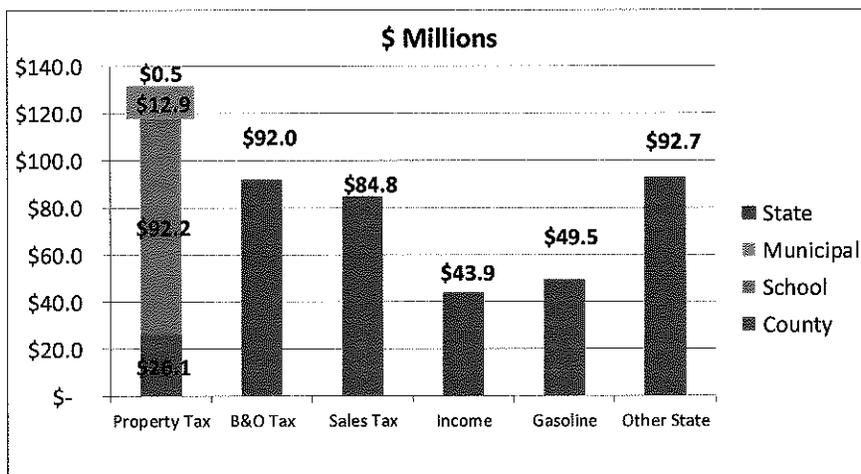


Origin of State Personal Income Tax

- 1935-1943: tax tied to Federal Income Tax
 - Graduated rates: income in excess of \$1,000/\$2,500
 - 7 rate brackets ranging from 1% to 6% on income > \$6,000
- 1961: Income Tax – Federal Adjusted Gross Income
 - 6% of federal tax liability to graduated tax on WV taxable income by 1963
 - Rate increases in 1970, 1971 & 1983
 - 1983: 17 rate brackets from 2.1% to 14.56% (\$60,000/\$120,000) & State AMT
 - Itemized deductions or \$1,000 standard deduction & \$600 personal exemption
 - 1973: \$4,000 senior citizen modification- raised to \$8,000 in 1976
 - 1974: Certain public sector pension exclusions codified
 - 1986 Federal Tax Reform: broadened base & lowered rates
 - 1987 West Virginia Tax Reform: Broadened Base and lowered rates-5 brackets [6.5% max]
 - Eliminated itemized deductions, reduced most pension exclusions
 - 1996: Low-Income Earned Income Exclusion
 - 2001: Homestead Exemption Tax Credit – doubled in 2006
 - 2009: Low-Income Family Tax Credit
 - 2010: Repealed State AMT

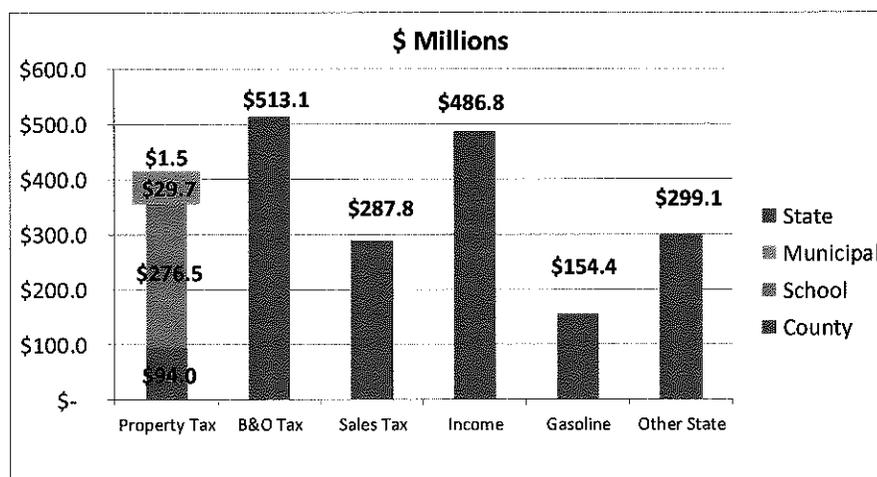
FY1970: Distribution of Tax Collections

Property Tax Largest Source & 30% of Revenue is Local



FY1986: Distribution of Tax Collections

B&O Tax Largest Source & < 25% of Revenue is Local

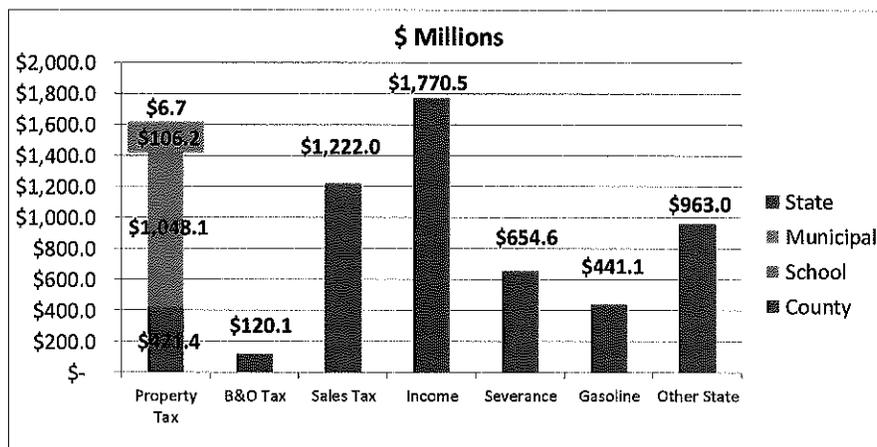


The Current System

State Tax Collections: All Funds

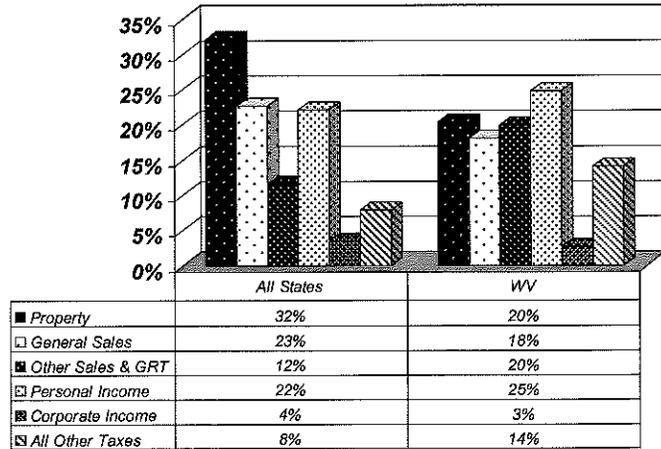
Source of Revenue	\$ Millions				
	FY 2010 Actual Collections	FY 2011 Actual Collections	FY 2012 Actual Collections	FY 2013 Actual Collections	FY 2014 Actual Collections
Personal Income Tax	\$1,642,252	\$1,688,569	\$1,784,383	\$1,745,587	\$1,770,486
Consumers Sales and Use Tax*	\$1,156,522	\$1,210,253	\$1,277,328	\$1,255,970	\$1,221,981
State Road Fund					
Motor Vehicle Sales Tax (Road Fund)	\$ 148,314	\$172,463	\$188,293	\$187,436	\$194,463
Motor Fuel Excise Taxes (Road Fund)	\$ 390,916	\$397,740	\$397,041	\$408,015	\$441,095
License & Registration Fees (Road Fund)	\$ 87,388	\$91,195	\$90,693	\$90,252	\$97,329
Highway Litter Control Fees	\$ 1,539	\$1,912	\$1,686	\$1,724	\$1,830
Severance Tax*	\$ 425,161	\$485,390	\$461,754	\$433,877	\$511,685
Workers' Comp Severance Tax (Special-Temporary)	\$ 61,673	\$93,113	\$93,847	\$94,963	\$109,460
Mining Reclamation/DEP Fees (Special Fund)	\$ 21,120	\$22,276	\$20,780	\$33,459	\$33,496
Corporate Income/Business Franchise Tax	\$ 237,159	\$307,278	\$192,386	\$242,430	\$203,508
Health Care Provider Taxes (State Share Fund)	\$ 160,306	\$164,855	\$168,894	\$217,586	\$192,363
Business and Occupation Tax	\$ 133,388	\$127,591	\$121,091	\$127,112	\$120,143
Insurance Tax	\$ 105,232	\$109,640	\$111,218	\$114,179	\$115,783
Additional Insurance Tax (Local Pension & VFD)	\$ 37,754	\$37,971	\$38,282	\$38,401	\$38,928
Tobacco Products Tax (Cigarette & Other)	\$ 114,128	\$110,760	\$109,509	\$107,022	\$101,780
Solid Waste Fees (Special Revenue)	\$ 14,188	\$18,036	\$16,712	\$16,583	\$20,300
Soft Drinks Excise Tax (Special Fund)	\$ 15,432	\$18,215	\$15,495	\$15,039	\$14,179
Property Transfer Tax*	\$ 7,933	\$8,108	\$8,128	\$8,776	\$10,392
Beer Tax and Licenses	\$ 8,435	\$8,479	\$8,416	\$8,415	\$8,302
Property Tax*	\$ 6,834	\$8,016	\$8,051	\$8,149	\$5,652
Business Franchise Fees	\$ 2,125	\$2,239	\$1,193	\$0,892	\$0,698
Wine Litter Excise Tax	\$ 1,841	\$1,788	\$2,065	\$2,108	\$2,146
Estate Tax	\$ 0,100	\$0,000	\$0,016	\$0,002	\$0,000
Charter Tax	\$ 0,178	\$0,151	\$0,074	\$0,062	\$0,228
Telecommunication Tax	\$ 0,075	\$0,023	\$0,099	\$0,061	(\$0,261)
Sub-Total	\$4,788,681	\$5,050,057	\$5,133,421	\$5,157,579	\$5,216,827

FY2014: Distribution of Tax Collections B&O Tax Largest Source & 25% of Revenue is Local



Distribution of S&L Taxes by Type in FY2012

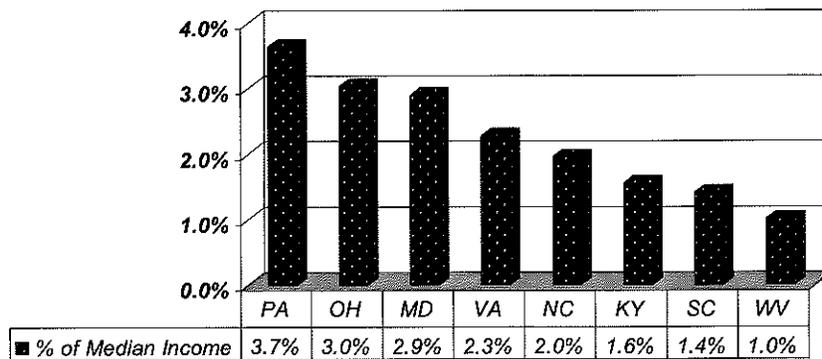
Source: U.S. Census Bureau: State and Local Government Finances

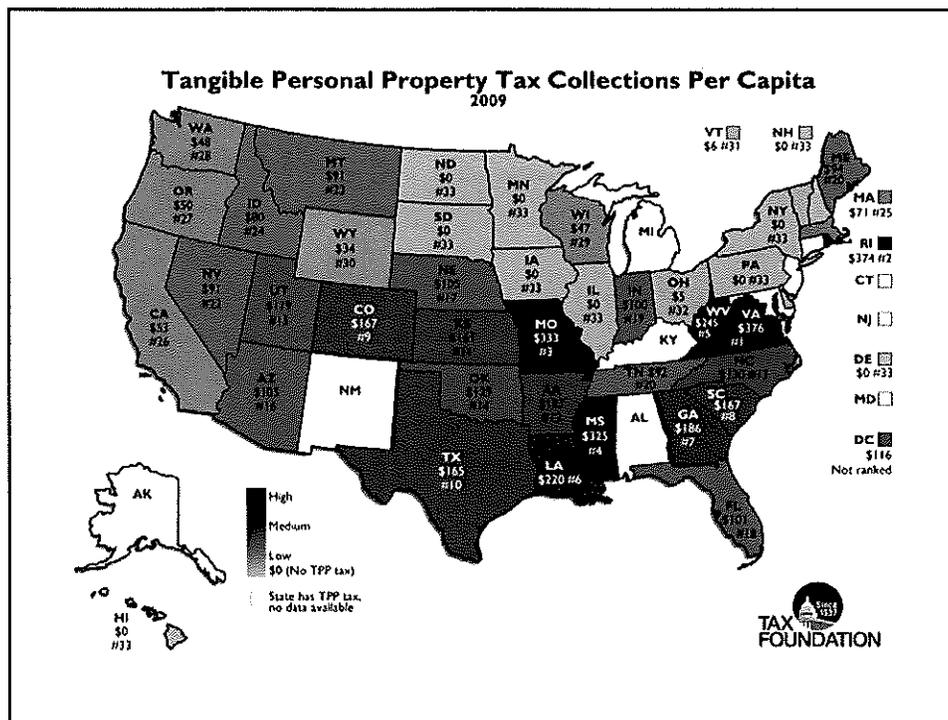


Property Taxes on Owner-Occupied Housing by State: 2006

Source: Tax Foundation

Tax as % of Median Family Income



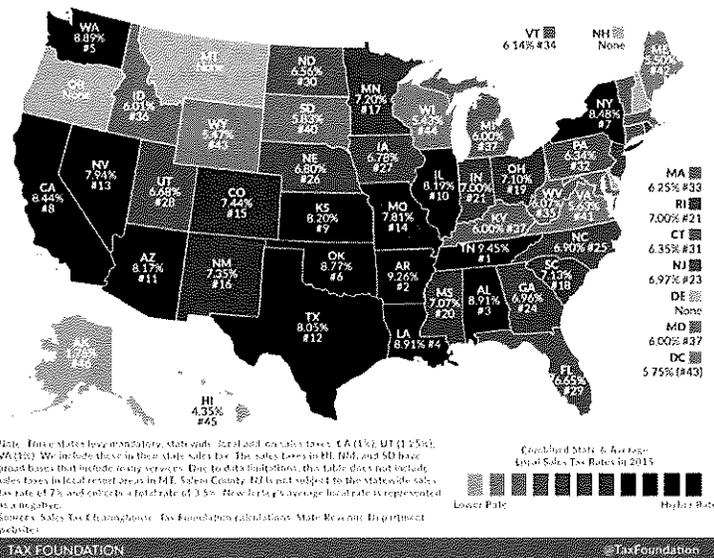


WV Business Real Property Tax Burden Relatively Low

- West Virginia ranked 12th lowest according to results of 2006 study by Ernst & Young, entitled *Property Taxes on Business Capital: Large and Growing Share of State and Local Business Taxes*
 - Tax burden measured at 29% below average for all states
- Minnesota Center for Fiscal Excellence *50 State Property Tax Study 2013* ranked West Virginia as follows:
 - Urban-Charleston: \$100,000 commercial property; tax burden was just 75% of the 50 state average and ranked 33rd
 - Urban-Charleston: \$1,000,000 commercial property; tax burden was just 74% of the 50 state average and ranked 35th
 - Rural-Elkins: \$100,000 commercial property; tax burden was just 71% of the 50 state average and ranked 32nd
 - Rural-Elkins: \$1,000,000 commercial property; tax burden was just 69% of the 50 state average and ranked 32nd
 - This study did not compare tax burden in unincorporated areas where tax burden is lower

How High Are Sales Taxes In Your State?

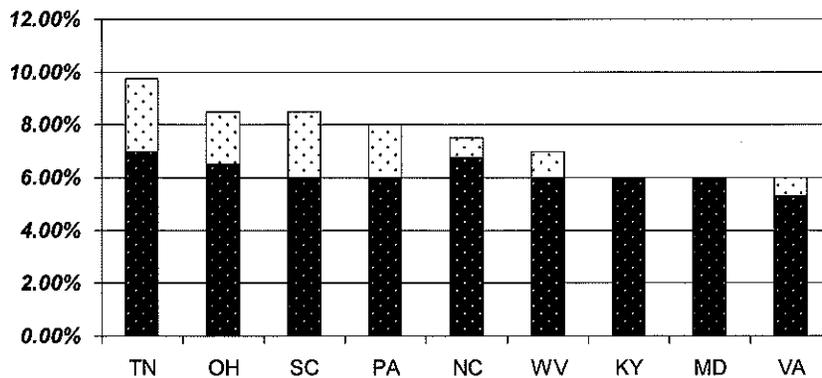
Combined State & Average Local Sales Tax Rates in 2015



State and Local Sales Tax Rates: 2015

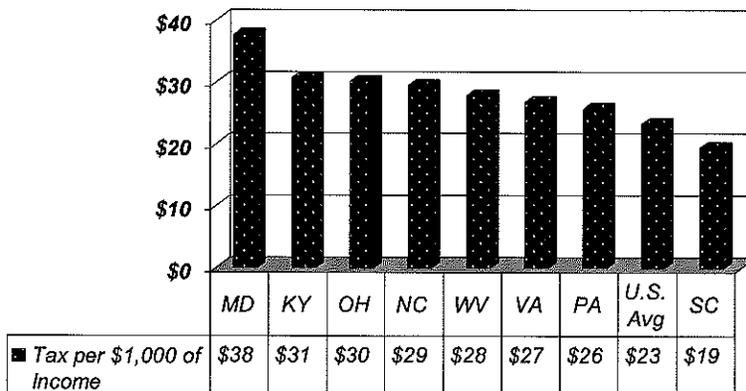
Source: Individual State Web Sites

Minimum & Maximum Tax Rates



State and Local Personal Income Tax Burden Per \$1,000 of State Personal Income: FY2012

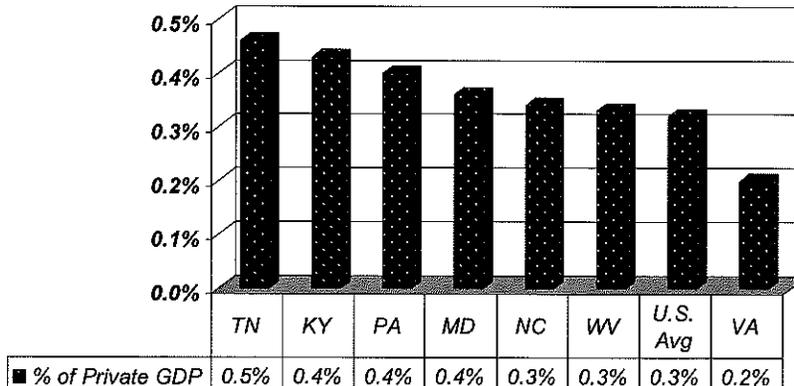
Source: U.S. Census Bureau, State and Local Government Finances & BEA



Corporate Taxes as a Percent of Private Sector Gross Domestic Product: FY2014

Source: U.S. Census Bureau, State Government Tax Collections 2014 and Bureau of Economic Analysis GDP 2013

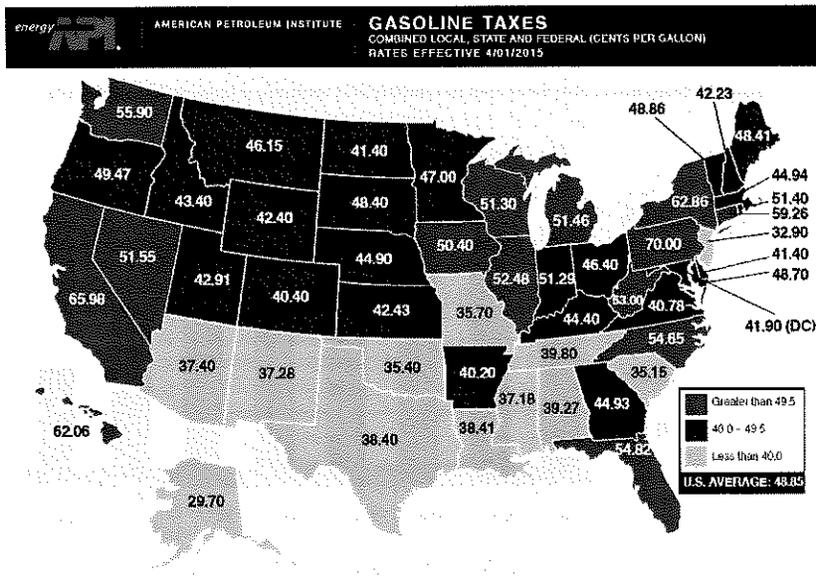
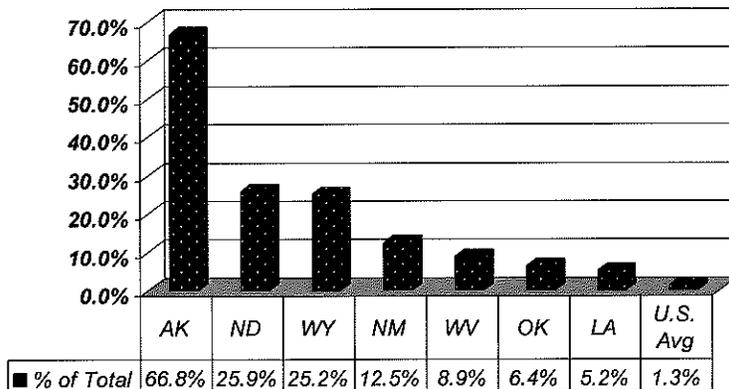
Tax as % of Private Industry GSP



Severance Taxes as a Share of Total State & Local Tax Collections: FY2012

Source: U.S. Census Bureau, State Government Tax Collections and State and Local Government Finances 2012

Severance Tax as Share of Total Tax Collections



Source: U.S. Energy Information Administration, State and Local Government Tax Collections and State and Local Government Finances 2012

West Virginia Tax Structure Overview

25% of taxes imposed by local governments [31st in per capita tax burden]

<u>Tax Type</u>	<u>Share</u>	<u>Per Capita</u>	<u>Average Tax (\$130K Household)</u>
Property	20%	\$ 774 (45)	\$1,560 (50) [1.2% income]
Income:	25%	\$ 946 (26)	\$7,472 (11) [5.8% income]
CNIT-Franchise:	3%	\$ 104 (34)	
Sales:	18%	\$ 689 (44)	
Other Sales/GR	20%	\$ 755 (6)	
Other:	14%	\$ 536 (8)	

Other Tax Information

Average Sales Tax Rate:	6.07% (35)
Number of services taxed (FTA):	105 (6)
Motor Fuel Tax (API):	\$0.346 (9)
Centralization (State tax share @75%):	6 th



Sources: U.S. Census Bureau (FY2011-2012), Tax Foundation, Internal Revenue Service, FTA, API

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Questions?

Mark B. Muchow | Deputy Secretary of Revenue | 304-558-8730 | Mark.B.Muchow@wv.gov

