

Report on Findings from Governor Manchin's Tax Modernization Project

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Recommendations from Tax Modernization Project

- “the systematic research and analysis of State and local taxation resulting in the creation of a more equitable and improved tax structure which encourages economic growth”
- Two sets of recommendations
 - Changes that may be implemented immediately
 - Areas of concern that require in-depth analysis and study before implementation

Personal Income Tax

- Based on the federal personal income tax adjusted gross income (AGI) with limited exemptions and deductions.
- Could lead to problems if there are major federal changes.
- While the rates are not out of line, failure to provide same deductions and credits as federal government and other states makes the tax less progressive

Personal Income Tax: Short Terms Recommendations

- Family tax credit based on family size and poverty. Would phase out as AGI increased. Cost \$20-\$24 million
- Repeal Alternative Minimum Tax based on federal, complex, few use it, cost \$1 million
- Increase Personal Income Tax Credit up to \$20,000 of assessed value. (\$33,000 market value) for seniors and disabled. Does not reduce local property tax income
- Withholding compliance on non-residents for income earned in WV
- Eliminate Rehab Residential Building Investment credit

Personal Income Tax: Future Study

- Reduce the number of tax brackets
- Reduce or completely eliminate the marriage penalty
- Equal treatment for public and private pensions
- Mechanisms to ensure that taxable income received by-nonresidents is collected

Business Taxes

- Despite the elimination of the business franchise tax and reductions in the corporate rate, business taxes in total remain higher than those in surrounding states and the national average.
- Goals
 - Reduce the burden on capital formation and job creation
 - Reduce compliance costs and have a friendlier business environment
 - Eliminate certain tax loopholes and credits

Business Taxes: recommendation's Short Run

- Adopt “throwback rule” which would have profits earned in WV but not taxed in other states taxable in-state
- Counter tax avoidance for passive investment companies by creation of royalty expenses, intangible licensing and trademark expenses as tax deductions
- Enhanced ability to tax capital gains resulting from the sale of corporate subsidiaries
- Require filing of consolidated Corporate Net Income Tax returns

Alternatives to the Corporate Income Tax

- Ohio Commercial Activities Tax (CAT) imposed on all commercial activities at a rate of 0.26 percent. Taxes has a similar law
 - Is a gross receipts tax similar to the B&O tax in WV repealed in 1987 for the state but allowed for local governments
 - Exemptions allowed for small businesses and certain other businesses
 - Not recommended
 - Pyramiding of tax since it does not allow for deduction of gross receipts paid on previous sales
 - Would make WV an “outlier” among the states and make difficult interstate tax cooperation

Alternatives to Corporate Income Tax

- Single Business Tax (recommended by Commission on Fair Taxation)
 - Used in New Hampshire as a “Business Enterprise Tax”
 - Most popular tax used in other countries as a “value added tax”
 - Tax on all entities which use labor and capital in production
 - Eliminates most “loopholes”
 - Very broad base tax allowing for low rates
- Major disadvantage is that it would make WV unique among the states
- Was not recommended “at this time”

Severance Taxes

- Tax Modernizations Project made no short term recommendations for change in the severance taxes on coal, natural gas and timber but did recommend study of them
- The markets for coal and natural gas have changed dramatically since 2006
- Considering that the combined severance taxes on coal and natural gas are among the highest (if not the highest) in the nation future investigation of both these taxes is warranted

Health Care Provider Tax

- Half of all states have similar taxes
- Used exclusively to match federal funds 3:1
- Repeal was not recommended unless an alternative source of revenue was founds

Business Tax Credits

- 13 tax credits eliminated in 2002 and replaced with three others
- Little evidence that most of these are effective
- Recommended
 - Repeal of the Capital Company Tax Credit
 - Repeal Economic Opportunity Tax Credit
 - Natural Gas Jobs Industry Retention Tax Credit eliminated along with the B&O Tax on gas storage

Consumer Sales and Excise Taxes

- Repeal of the food tax cost the state 14 percent of collections and was not recommended by either of the studies
- Expand the “direct use in manufacturing” exemption to contractors as is now available for manufacturers
- Increase taxes on cigarettes and tobacco products to those of surrounding states

Property Taxes and Local Government Finances

- Goals
 - Improve assessment and collection of property taxes and municipal fees
 - Provide greater flexibility and fiscal capacity for local governments

Property (Ad Valorem) Taxes

- While property taxes on owner occupied homes are among the lowest (if not the lowest) in the nation, property taxes on business property are well above average
- Repeal of the property tax on inventories and reducing or eliminating the property taxes on machinery, equipment and fixtures would place WV in a considerably more favorable business climate and in line with other states.
- But this can't be considered unless a replacement for the lost revenues to schools, counties, municipalities is found.

Property Taxes: Short Run

- Allow Sheriffs and City Finance Officers access to property tax information
- Permit the State Tax Department to enter into agreements with local governments to exchange information including Federal Employer Identification Numbers to aid in collection of taxes and fees
- Costs of collection of tax delinquencies would be shared among all the local governments receiving property taxes based on revenue received
- Municipal liens on property for uncollected fees should be allowed

Property Taxes: Short Run

- Clarify definition of property “exemptions” for charitable, education, religious and other property. No consistency among the 55 counties.
- Revisit the definition of a “farm” for far use valuation.
 - Current threshold is \$1,000 in income or if less than 5 acres \$500
 - Results in holding off the market small tracts bordering cities until developed.
- Property taxes on owners of severed mineral interests should be paid by the operator on behalf of the owner rather than sending tax tickets to multiple owners many of which go unpaid. This would also significantly reduce administrative costs

Property Taxes: Study

- Change Constitution to allow local governments to pass GO bonds with 50 percent majorities as can school districts
- Report delinquent taxes and fees to credit reporting agencies
- Study taxation of “Voice Over Internet Protocol”
- County governments should be allowed to levy sales and use taxes
- Establish a separate State Board for appeal of property valuations on minerals and industrial property valued by the State Tax Department
- Establish a “recapture” provision for taxes when a property’s valuation changes from use to market