

Fundamental Tax Reform in West Virginia

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Guiding Principles of Sound Tax Policy:

Simplicity
Efficiency
Fairness

Sound Tax Policy: Simplicity

- **Simplicity**
 - **Inherently Valuable**
 - **More Transparent Government**
 - **Lower Compliance Cost**
 - **Reduces Evasion**
 - **Manipulation is more difficult with a simpler structure**

Sound Tax Policy: Efficiency

- **Taxes distort the way people behave. Our general goal is to minimize these distortions.**
- **We typically do not want to affect decisions such as:**
 - **Where should I live?**
 - **Should I work? How much?**
 - **Should I buy a home or rent?**
 - **How much should I save?**
 - **Should I start a small business?**
 - **Should I move my existing business?**
 - **How much risk should I tolerate?**
- **Broad Tax Base and Low Tax Rate**

Sound Tax Policy: Fairness

- **Fairness**
 - **Horizontal Equity**
 - **Vertical Equity**
- **Progressive, Proportional, Regressive**
- **Questions of fairness often depend on value judgements**
- **Role of federal government in tax policy**

Consumption Taxation versus Income Taxation

- **A consumption tax does not tax savings.**
- **Doug Holtz-Eakin:**
 - **A consumption tax (sales tax) is based on what you take from society.**
 - **An income tax is based on what one puts into society – reflective of work.**
- **But be cautious**

Other Principles

- **Taxes and Mobility**
 - Avoid taxes on mobile tax bases.
- **Benefits Taxation**
 - Toll Roads and Gasoline Excise Tax
- **Taxes and Negative Externalities**
 - Cigarette Excise Tax
- **Relative Roles of State Gov. versus Local Govs.**
 - West Virginia is a relatively centralized state.