

# **WEST VIRGINIA TAX POLICY IN A NATIONAL CONTEXT**

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**West Virginia Joint Select Committee on Tax Reform  
May 18, 2015**

**presented by**

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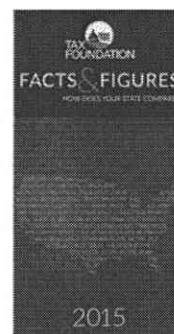
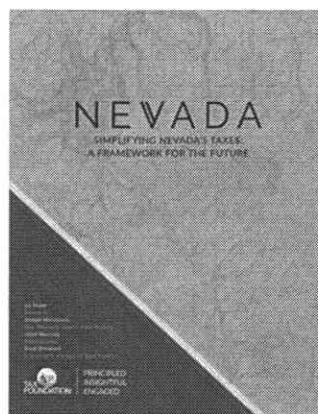
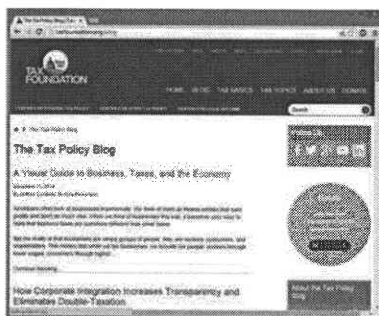
**ABOUT THE  
TAX FOUNDATION**

we are  
**independent  
nonprofit  
nonpartisan**

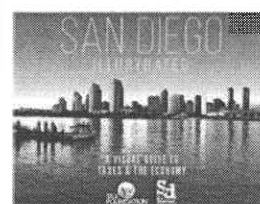
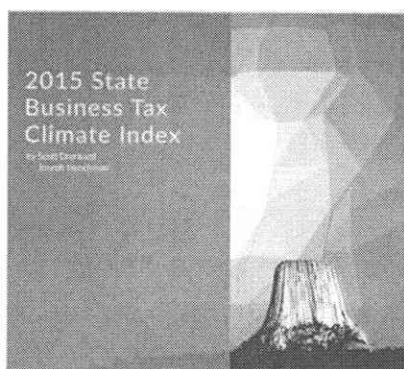
# ABOUT THE TAX FOUNDATION

we value tax  
systems that are

**simple**  
**neutral**  
**transparent**  
**stable**  
**pro-growth**



# ABOUT THE TAX FOUNDATION



we've worked for  
**78 years**  
on objective  
**research,**  
**data,**  
**& analysis**  
at the  
**federal,**  
**state,**  
**& local levels**

# ABOUT THE TAX FOUNDATION

CENTER FOR FEDERAL TAX POLICY  
CENTER FOR STATE TAX POLICY  
CENTER FOR LEGAL REFORM

# ABOUT THE TAX FOUNDATION

CENTER FOR STATE TAX POLICY

promotes competitive  
**state tax reform**  
with our  
**State Business Tax Climate Index**  
& **state comparison reports**

honored as  
**most influential**  
in state tax policy  
for **3** years running

**THE  
TAX FOUNDATION  
RANKS WEST VIRGINIA**

**State-Local Tax Burdens**

**Measure of taxes paid by  
residents of each state**

**THE  
TAX FOUNDATION  
RANKS WEST VIRGINIA**

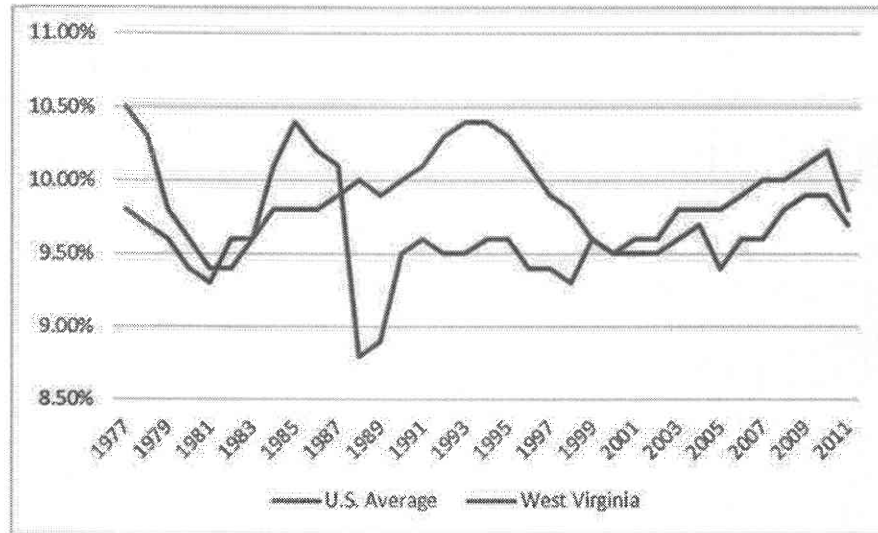
**FY 2011**

**9.7 percent**

**19<sup>th</sup> highest**

# State-Local Tax Burdens

## TAX BURDENS OVER TIME



## State Business Tax Climate Index

**OVERALL: 21st**

**CORPORATE: 17th**

**INDIVIDUAL: 26th**

**SALES: 25th**

**UNEMPL. INSUR.: 23rd**

**PROPERTY: 25th**

**6.5 percent after reduction**

**Graduated, high regionally**

**Well-structured tax base**

→ **6.07%**

**Low rates, but includes  
inventory & equipment**

# State Business Tax Climate Index

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**Well-structured tax base**

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inventory & equipment**

## Location Matters

**CORPORATE HQ: 42nd**

**R&D FACILITY: 48th**

**RETAIL STORE: 35th**

**CALL CENTER: 43rd**

**DIST. CENTER: 33rd**

**CAP. INT. MFG: 43rd**

**LAB. INT. MFG: 47th**

**Drivers of these rankings:**

- **Throwout rule**
- **Double-weighted sales factor apportionment**
- **IPA sourcing rules**
- **Property tax on inventory and equipment**

Note: franchise tax not fully phased out by study snapshot date

## **RECENT TAX REFORMS**

**Reduction in CIT to 6.5 percent**

**Phase-out of franchise tax**

**Rollback of tax incentives**

## **FURTHER OPPORTUNITY FOR GROWTH**

**Phase out local B&O tax**

**Collapse and reduce individual  
income tax rates and brackets**

**Index brackets to inflation**

**Remove business personal  
property from the tax base**

**Repeal the throwout rule**

**FURTHER  
OPPORTUNITY  
FOR GROWTH**

**WEST VIRGINIA'S TOP  
INDIVIDUAL INCOME TAX RATE  
IS THE HIGHEST IN THE REGION**



**FURTHER  
OPPORTUNITY  
FOR GROWTH**

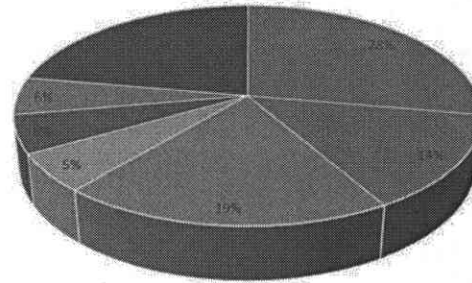
**WEST VIRGINIA'S BRACKETS ARE  
NOT INFLATION-INDEXED**





## FURTHER OPPORTUNITY FOR GROWTH

### PROPERTY TAXES 28% OF BUSINESS TAX BURDEN

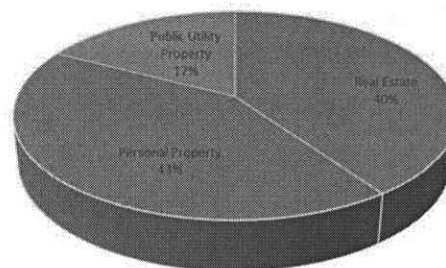


• Property Tax • Sales Tax • Excise Taxes • CNIT • UI Tax • PIT • Other

Source: Council on State Taxation

## FURTHER OPPORTUNITY FOR GROWTH

### PERSONAL PROPERTY TAXES ARE 43% OF CLASS III & IV PROPERTY TAX COLLECTIONS

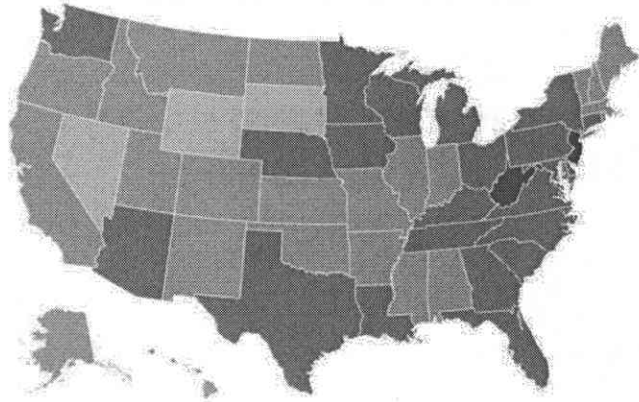


• Real Estate • Personal Property • Public Utility Property

Source: WV State Tax Department (2012 data)

# **FURTHER OPPORTUNITY FOR GROWTH**

**WEST VIRGINIA IS ONE OF ONLY TWO  
STATES WITH A THROWOUT RULE**



WV & NJ have throwout rules; states in dark gray have throwback rules;  
states in light gray forego throwback/throwout rule  
Source: 2015 State Business Tax Climate Index

# **A TALE OF TEN STATES (plus DC)**

# **NORTH CAROLINA**

**impetus:** Texas competition  
Index rank  
using Republican majority & governor  
incentive fatigue

# **NORTH CAROLINA**

**what happened?** Tax Foundation and the Carolina  
Business Coalition jointly authored  
a book reviewing the state economy,  
tax system, and making a range of  
recommendations.

# **NORTH CAROLINA**

**what happened?**

**original Rucho plan:**

- **eliminate income tax**
- **broaden sales tax**
- **impose \$4 billion business tax on “net assets”**

# **NORTH CAROLINA**

**what happened?**

**plan that passed resembled TF “Option B:”**

- **reduce income and corporate taxes**
- **eliminate death tax**
- **“trigger” for further reductions if revenues meet goals**
- **study reform of sales and franchise taxes**

# **NORTH CAROLINA**

**result: if plan were in effect last year,  
North Carolina would have ranked  
17th instead of 44<sup>th</sup> on the  
State Business Tax Climate Index**

# **INDIANA**

**one of the most  
well-managed and innovative  
state governments  
in the country**

# INDIANA

## 2013 reforms:

- repealed death tax
- cut already second-lowest-in-nation individual income tax
- cut corporate rate

# INDIANA

## 2014 reforms:

major reform of  
personal property tax  
(tax on business equipment)

# INDIANA

**result:**  
if reforms were in effect last year,  
Indiana would have ranked  
8th instead of 10th on the  
State Business Tax Climate Index

# NEW YORK

**impetus:** Governor Cuomo's desire to  
make state more business  
friendly (e.g., Tax Free NY)

# NEW YORK

**what happened?** two tax reform commission reports, plus TF suggestions, released

# NEW YORK

**what happened?** reforms implemented:

- reduces corporate rate from 7.1% to 6.5%
- reduces business tax bases from 4 to 2
- eliminates individual AMT and bank tax
- improves net operating loss rules
- increased estate tax threshold



# **NEW YORK**

**result:** if reforms were in effect last year,  
New York would have been the  
4th best corporate tax structure  
in the country

# **RHODE ISLAND**

**impetus:**

- small state with weak jobs base
- trying to match CT and MA on government services
- high tax burdens and high tax rates

# **RHODE ISLAND**

**past reforms:**

- **2006: alternate flat income tax**
- **2010: broadened income tax and reduced top rate from 9.9% to 5.99%**

# **RHODE ISLAND**

**recent reform proposals**

- **2013: Governor proposed reducing corporate tax from 9% to 7% by 2016 and cutting some tax credits, but credit recipient killed it**
- **2013: proposals to reduce or eliminate 7% sales tax**
- **2014: corporate rate cut enacted**

# KANSAS

**impetus: Texas envy**

# KANSAS

- what happened?**
- **Governor Brownback proposed flattening income tax base and reducing top rate of 6.45% to 4.9% (applies to income >\$30k)**

# KANSAS

- what happened?
- Legislature stripped out base broadening, but passed tax cuts
  - Senate killed then resurrected it, expecting conference committee
  - House passed same version and sent to Governor, who signed it

# KANSAS

- what happened?
- \$4.5 billion reduction over 6 years
  - would have needed 50% revenue return from growth to not fall short

# KANSAS

- what happened?
- Governor successfully reduced rate further with base broadening to pare back some of the loss

# KANSAS

- what happened?
- TF critical of pass-income exclusion and revenue irresponsibility
  - feared its failure will doom other proposals

# KANSAS

- result:
- big drop in revenue
  - blamed on federal capital gains change
  - Missouri passed similar proposal in 2014

# NEBRASKA (nonpartisan unicameral legislature)

- what happened?
- 2013: Governor sought comprehensive overhaul but failed
  - state “settled for” better net operating loss treatment and repealed corporate AMT

# NEBRASKA

**what happened?**

- **TF produced a book of options at end of 2013**
- **recommended reducing high individual income and corporate tax rates**

# NEBRASKA

**2014-'15  
dynamic:**

- **decisive vote pushes TF proposal but can't overcome inertia**
- **state "settled for" inflation-indexing brackets**
- **tax reform discussion deadlocked again in 2015**

# MINNESOTA

**what happened?** February 2013 Governor Dayton proposal:

- raise top income tax rate from 7.85% to 9.85%
- expand sales tax to services but keep tax on business inputs
- Increase cigarette tax
- lower corporate tax from 9.8% to 8.4%

# MINNESOTA

**what happened?**

- March 2013: Dayton drops reform parts of reform proposal
- now +\$2.1 billion in higher income and cigarette taxes, plus new taxes on business inputs; tax on warehousing services took effect April 1, 2014



# **MASSACHUSETTS**

## **MASSACHUSETTS**

- what happened?**
- **January 2013: Governor Patrick proposes income tax increase, lower sales tax, higher cigarette tax, higher gasoline tax, and options for transportation revenue**

# MASSACHUSETTS

- what happened?
- July 2013: budget includes higher cigarette and gasoline taxes and extends sales tax to software

# MASSACHUSETTS

## sales tax on computer services

- one of only four states to tax computer services, and only serviced taxed in MA
- never had a public hearing
- took effect seven days after enactment

# **ILLINOIS**

**background:**

**2011:**

- **billions in unpaid bills and unfunded pensions**
- **raised individual income tax from 3% to 5% and corporate income tax from 7.3% to 9.5%**

# **ILLINOIS**

**background:**

- **outflow of jobs**
- **incentive stepped up to retain showcase companies**
- **state consistently misrepresents corporate as 7%**

# ILLINOIS

**what happened? 2014:**

- still have billions in unpaid bills and unfunded pensions
- temporary increases to expire at end of 2014

# ILLINOIS

**what happened? 2014:**

- progressive income tax proposal floated
- would need public vote, but legislature declined to pass

# **ILLINOIS**

**what happened? 2014:**

- **Speaker Madigan proposes high-earner surtax, loses every Republican and some Democrats**
- **corporate tax cut floated**
- **Governor Quinn seeks making tax increase permanent**

# **ILLINOIS**

**what happened? 2015:**

- **temporary tax increases allowed to expire, lowering the PIT to 3.75% and the CIT to 7.75%**
- **Governor Rauner, elected on tax spending reform platform, takes office**

# ILLINOIS

**what happened? 2015:**

- sales tax base broadening options floated, along with temporary reinstatement of higher PIT, CIT rates
- Governor Rauner insists that reforms must be considered before taking up potential revenue increases

# NEVADA

**background:**

**2014:**

- 2% margin tax on Nov. 2014 ballot
- poorly designed

# NEVADA

- What happened?**
- **margin tax overwhelmingly defeated**
  - **Governor proposes alternative GRT**
  - **GRT bill stalls in Assembly**

# NEVADA

- What happened?**
- **Assembly leadership backs better structured alternative (no GRT)**
  - **Governor offers “compromise” bill (currently pending)**

# **DISTRICT OF COLUMBIA**

- background:**
- **Tax Revision Commission recommendations to improve competitiveness with neighbors**

# **DISTRICT OF COLUMBIA**

- what happened?**
- **reduces business tax from 9.975% to 9.4%, then to 8.25%**
  - **adopts single sales factor apportionment**
  - **reduces middle-income tax bracket from 8.5% to 7%, then to 6.5%**



# **DISTRICT OF COLUMBIA**

- what happened?**
- raises threshold at which top rate (8.95%) applies
  - increases standard deduction to match federal
  - eliminates unused tax credits

# **DISTRICT OF COLUMBIA**

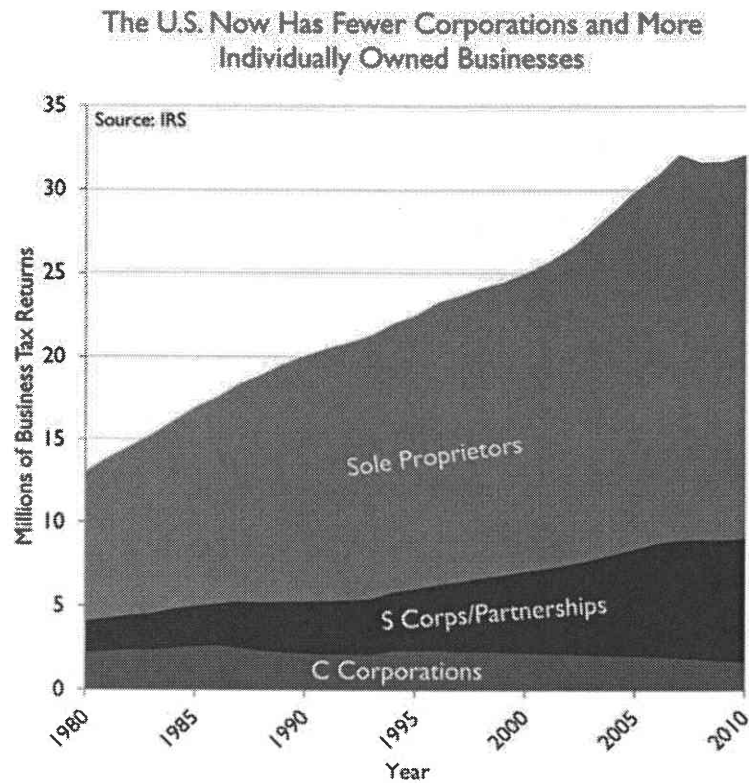
- what happened?**
- raises EITC for childless workers
  - expands sales tax to certain services (gyms!)
  - recouples estate tax threshold to federal level

what's next?

## PREDICTIONS

corporate income tax

- slowly dying at the state level
- done in by sales-heavy apportionment formula, rise of non-C business forms, and incentives

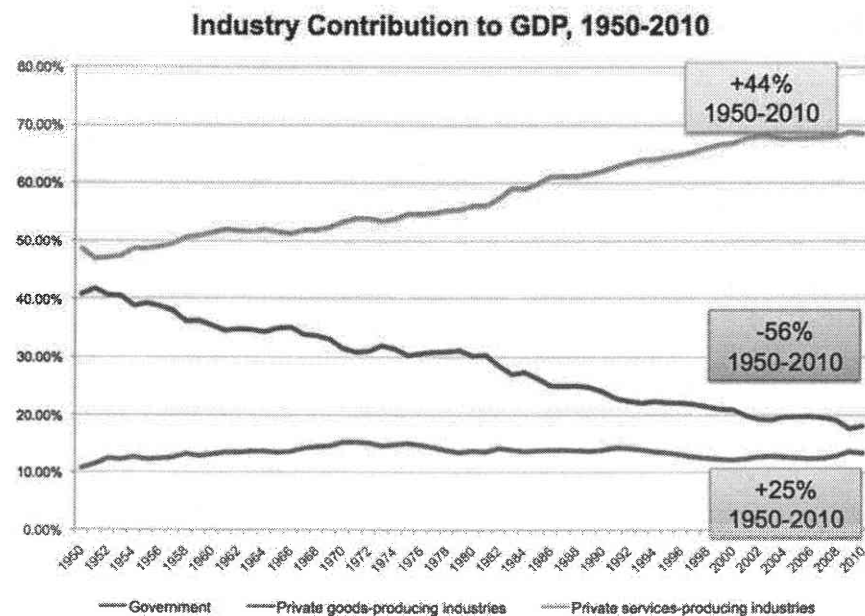


## what's next?

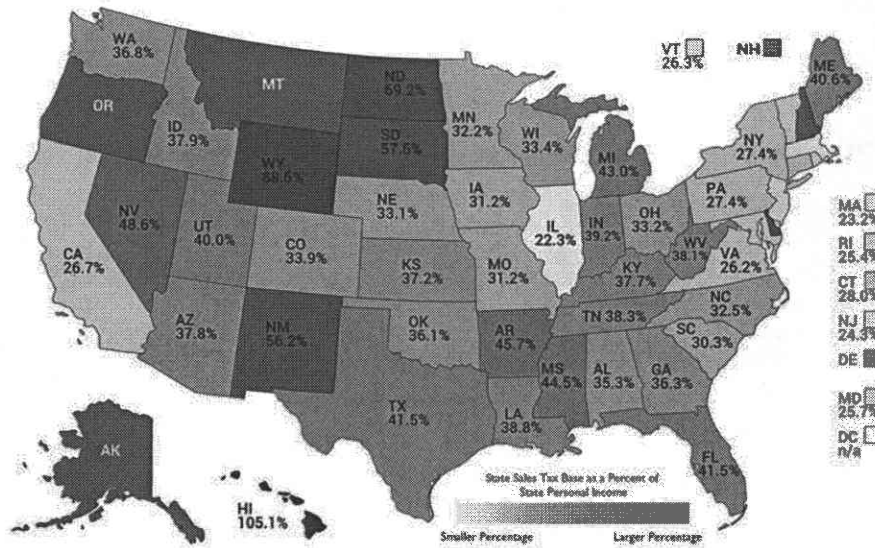
# PREDICTIONS

### sales tax

- expansion to services inevitable to maintain its viability
- base of tax is shrinking as goods shrink as share of the economy



## Sales Tax Breadth: State Sales Tax Base as a Percent of State Personal Income

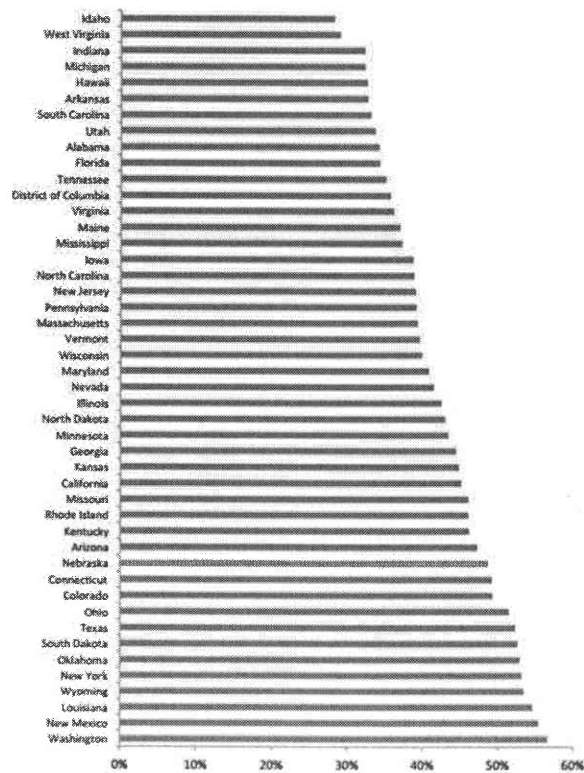


Notes: Data is for fiscal year 2012. AK, DE, MT, NH, and OR have no state sales tax.

Source: Mikese, "State Retail Taxes in 2012," June 2013.

[taxfoundation.org/maps](http://taxfoundation.org/maps)

Estimated percentage of state and local sales taxes imposed on business input purchases, 2011



Source: Ernst & Young calculations

what's next?

## PREDICTIONS

individual income tax

- states should be cautious about using it as a tool for redistribution

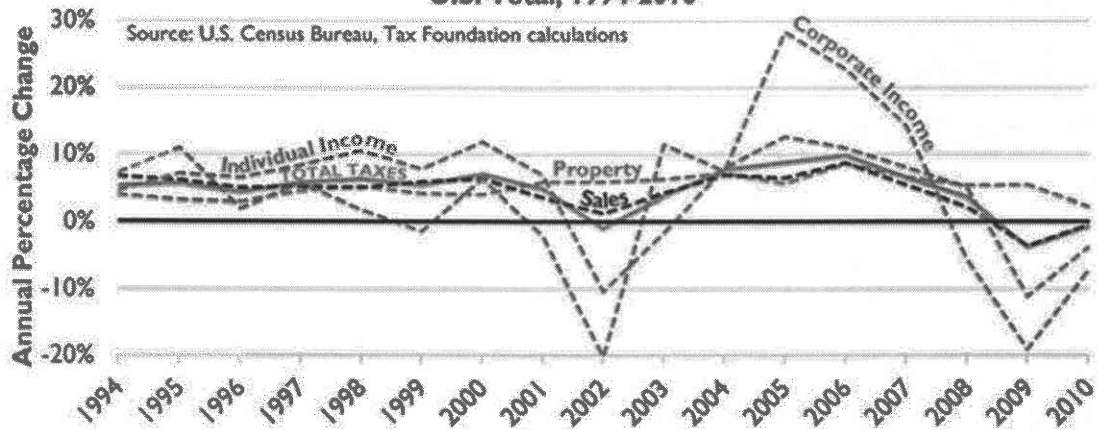
what's next?

## PREDICTIONS

property tax and gas tax

- sturdy
- reliable
- hated

**Figure 1: Annual Percentage Change in State and Local Tax Revenues**  
**U.S. Total, 1994-2010**



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