



West Virginia's System of Taxes

September 4, 2002

www.marshall.edu/cber

Michael J. Hicks, Ph.D.

Center for Business and Economic Research

Lewis College of Business



Agenda

- A Long Run view of our economy
- Basic Tax Principles and how we rank
- Our States' Revenue Systems
- Our States' Expenditures
- Some Observations



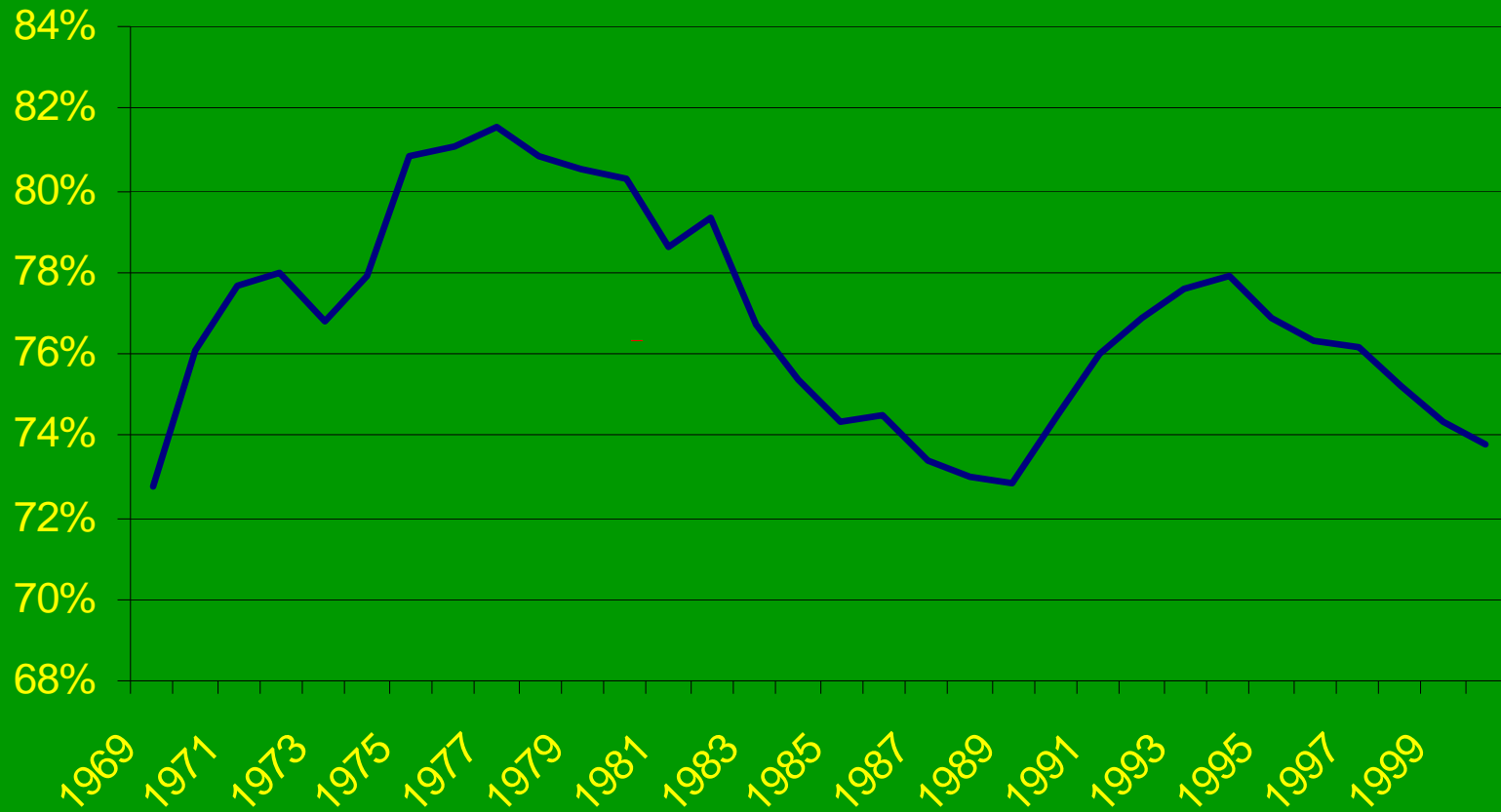
The State We're In

- Nationwide, the mildest recession on record
- WV came to the recession late, but suffered extraordinarily (worst percentage job loss since Great Depression)
- States not suffering worst fiscal crisis since WWII (just hype of national governor's convention)
- Recent budgets flush with revenues led to myopic decisions
- Most states are growing, West Virginia is not.



An Historical View

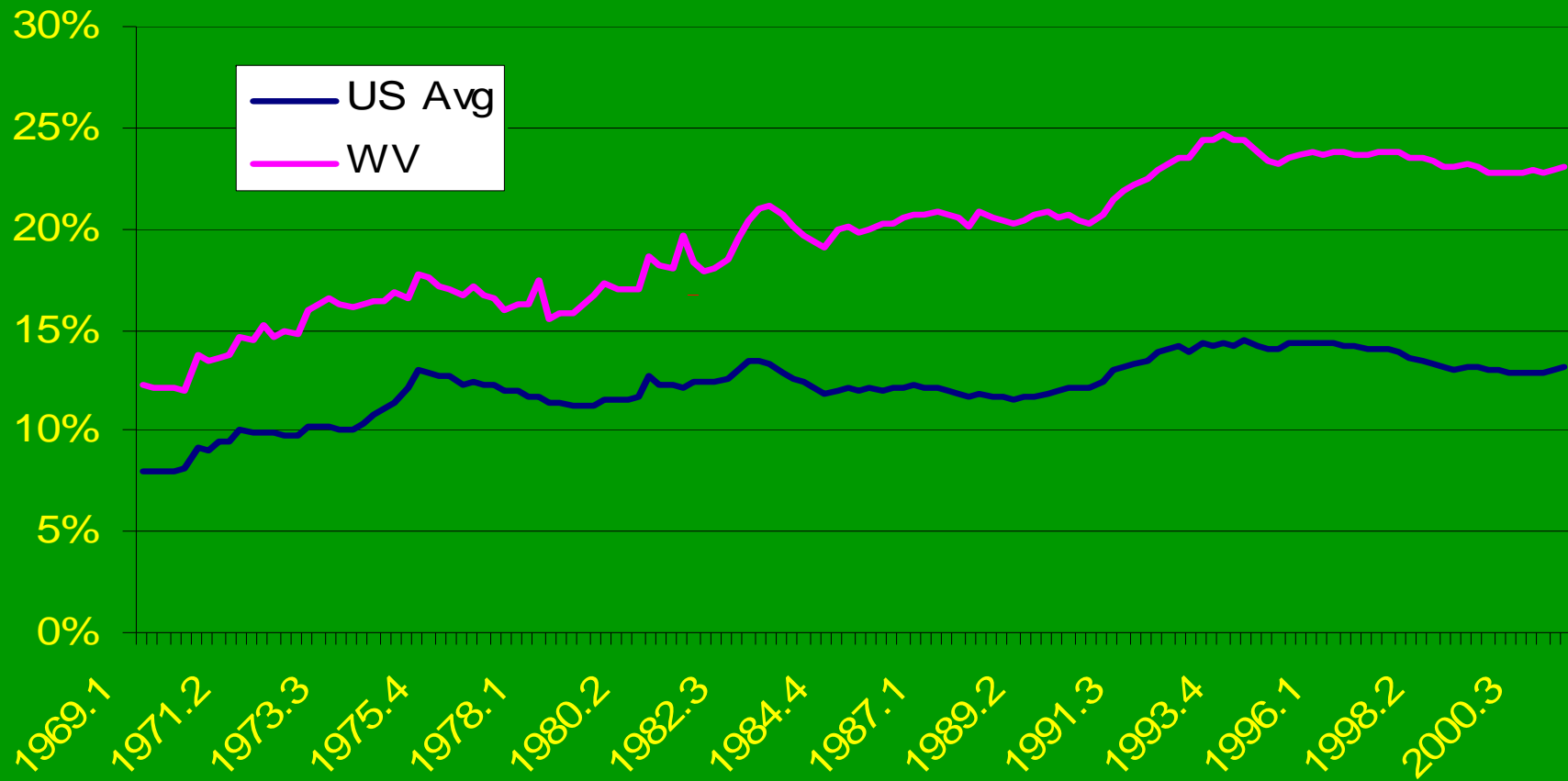
WV Per Capita Income Relative to US





Our Largest Source of Income

Transfer Payments as a Share of Personal Income





West Virginia's Economy in the Next Two Decades

- Population will age and shrink, but not uniformly
- Educational Attainment will remain near lowest in the USA
- Productivity gap between U.S. and West Virginia will climb
- Income gap will remain at roughly 25%, thanks largely to growth in transfer payments
- Uneven growth (big positives and big negatives) will severely strain tax system and service delivery



Attributes of Good Tax Systems

- Stable/Bouyant
- Elastic
- Equitable
- Adequate



The Fiscal Federalism Picture

- WV most centralized of states (except for Delaware)
- Scale economies of local government are high
- Federal matches potentially lead to distorted expenditures
- Absence of local flexibility has crippled urban areas
- Federal share of retirement/health spending provides stability and equity beyond state systems



Equity of Industry Share *the call for reform!*

Tax Intensity Index

Industry	<u>Output</u>		<u>Taxes</u>		Tax Intensity Index
	In millions	Proportion	Actual	Proportion	
Agriculture	\$236	0.7%	\$1,074,490	0.1%	0.16
Mining	\$2,882	9.1%	\$231,159,816	26.2%	2.89
Construction	\$1,722	5.4%	\$12,011,402	1.4%	0.25
Manufacturing	\$6,613	20.8%	\$53,034,875	6.0%	0.29
TCPU	\$4,684	14.7%	\$264,077,064	29.9%	2.03
Wholesale	\$1,976	6.2%	\$25,080,032	2.8%	0.46
Retail	\$3,428	10.8%	\$21,556,492	2.4%	0.23
FIRE	\$4,154	13.1%	\$116,815,364	13.2%	1.01
Services	\$6,140	19.3%	\$157,348,978	17.8%	0.92
Total	\$31,835	100.0%	\$882,158,513	100.0%	



Elasticity

Estimated Tax Output Elasticity's (selected Taxes)

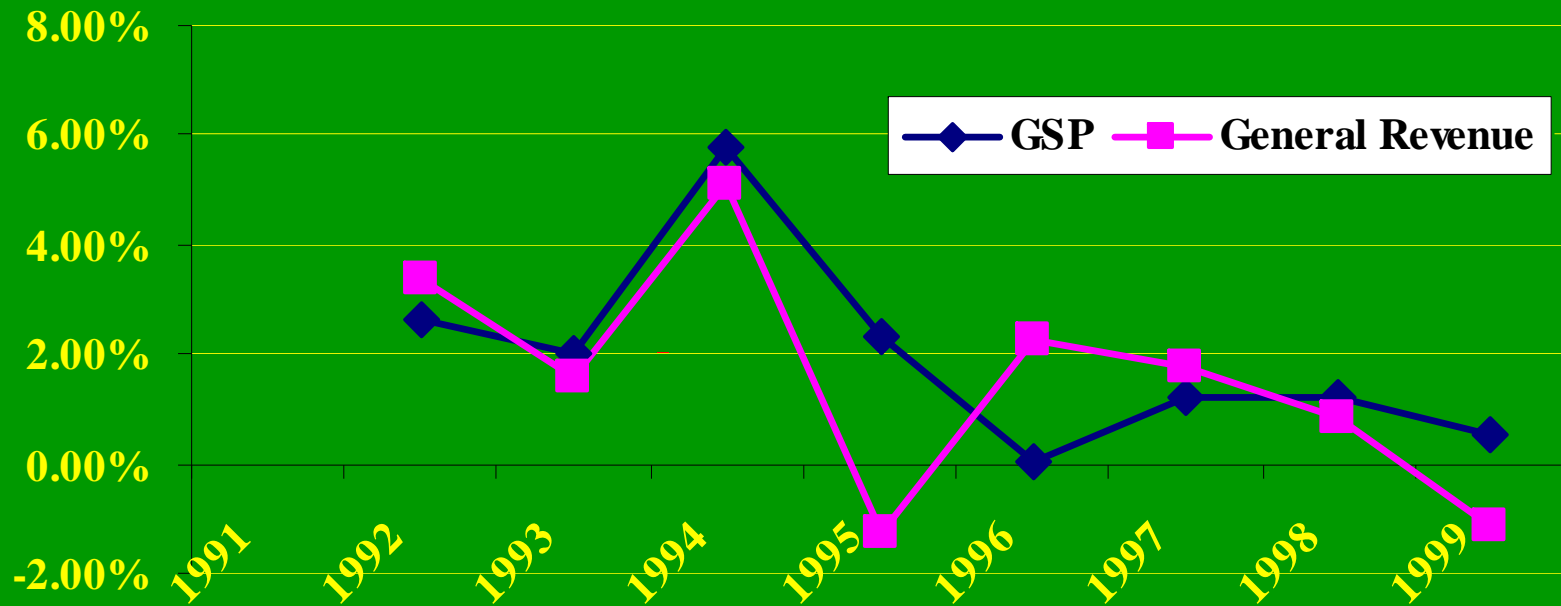
Tax	Elasticity	Tax	Elasticity
B&O**	0	Road Taxes	0.4232
CNIT**	0	License Tax	0.224
PIT	1.9136	Privilege Tax	1.7696
Sales Tax	0.858	Wholesale Fuel & Use Tax	0.09
Use Tax	3.1832	Total State Road Fund	0.7268
Cigarette Tax	1		
Property Tax	2.024		
Property Transfer Tax	1.978		
BFT	1.0672		
Telecomm	0.484		
Total General Revenue Fund	0.8832		

*Estimates not significantly different from zero **These are declining tax instruments due to tax avoidance or other behavior modification. Hence should be treated as declining revenue sources.



Bouyancy

Percent Change from Previous Year





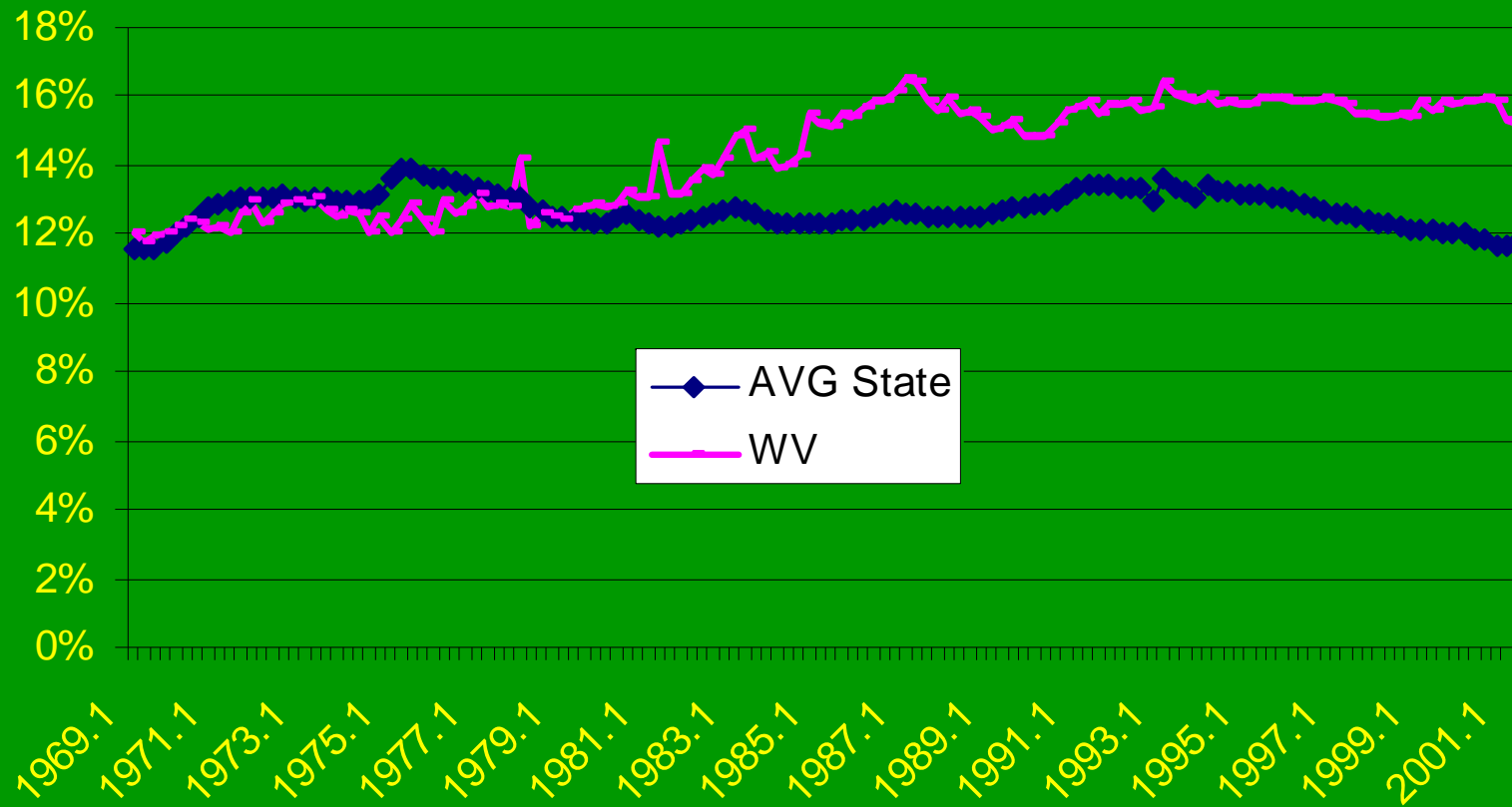
Regressive - Yes, Inadequate - maybe not!

- Third most regressive personal taxes
- Especially on inelastic items (cars, food, health care)
- Deficits, Debts and Infrastructure - Inadequate?

<u>Item</u>	<u>Rank</u>
Business Tax Climate Index	39
Corporate Income Tax Index	31
Individual Tax Index	29
Sales & Gross Receipts Tax	47
Fiscal Balance	38
Tax Base Conformity	34
	<u>Per Capita Rankings</u>
Fed Tax Burden	49
Fed Expenditures	15
Expenditures per Fed Tax Rev	4
State Tax Collections	23
Debt per capita	19
Deficit per capita (2000)	29
State Tax Burden (2003)	42

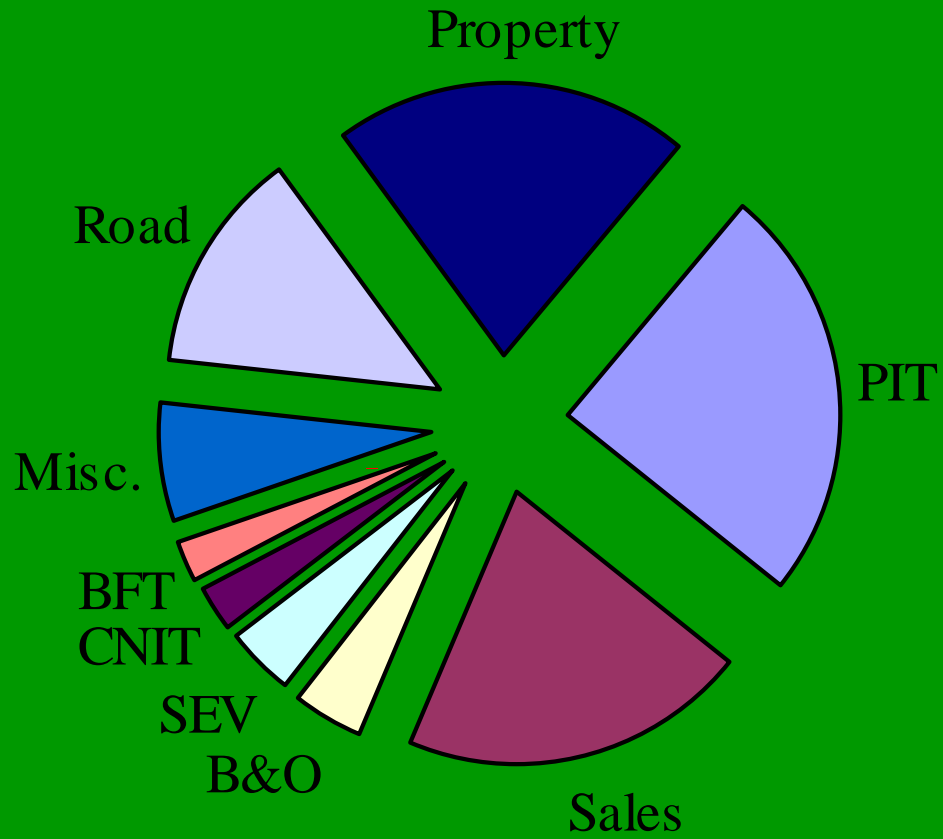


State Government Share of Total Income





The Tax Slice





General Revenue Funds in 2000-2001

General Revenue Fund	Collections
Business and Occupation Tax	\$177,400,000
Corporation Net Income Tax	112,900,000
Personal Income Tax	1,020,700,000
Consumers Sales Tax	852,500,000
Use Tax	75,600,000
Cigarette Tax	31,800,000
Inheritance Tax	17,500,000
Beer Tax and Licenses	8,000,000
Insurance Tax and Fees	62,600,000
Racing Fees	2,000,000
Liquor Profits	10,500,000
Charter Tax	3,800,000
Property Tax	3,600,000
Property Transfer Tax	6,600,000
Miscellaneous	6,600,000
Departmental Collections	11,100,000
Interest Income	31,400,000
Business Franchise Registrations Fee	1,300,000
Lottery Transfers	800,000
Severance Tax	163,200,000
Business Franchise Tax	101,400,000
Telecommunications Tax	15,200,000
Miscellaneous Transfers	300,000
Special Revenue Transfer	1,500,000
Prior Years Refunds	200,000
Total	\$2,718,500,000

Source: West Virginia Department of Tax and Revenue



State Road Fund Collections

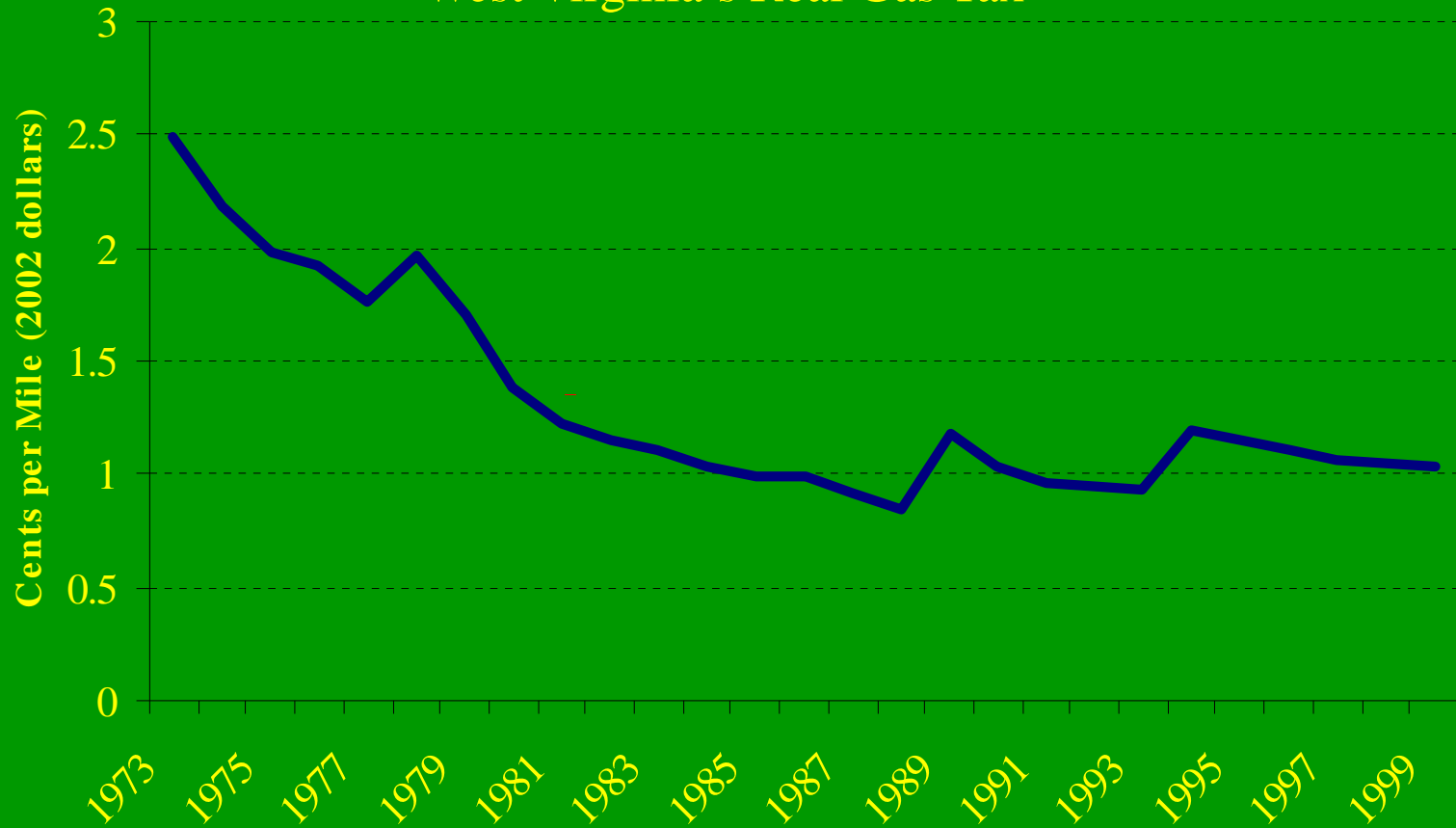
State Road Fund	Collections
Road Taxes	\$224,400,000
License Tax	77,400,000
Privilege Tax	154,400,000
Wholesale Fuel & Use Tax	71,300,000
Other Income	24,000,000
Total	\$551,500,000

Source: West Virginia Department of Tax and Revenue



Money Illusion and Tax Rates (or why lobbyists love tax complexity)

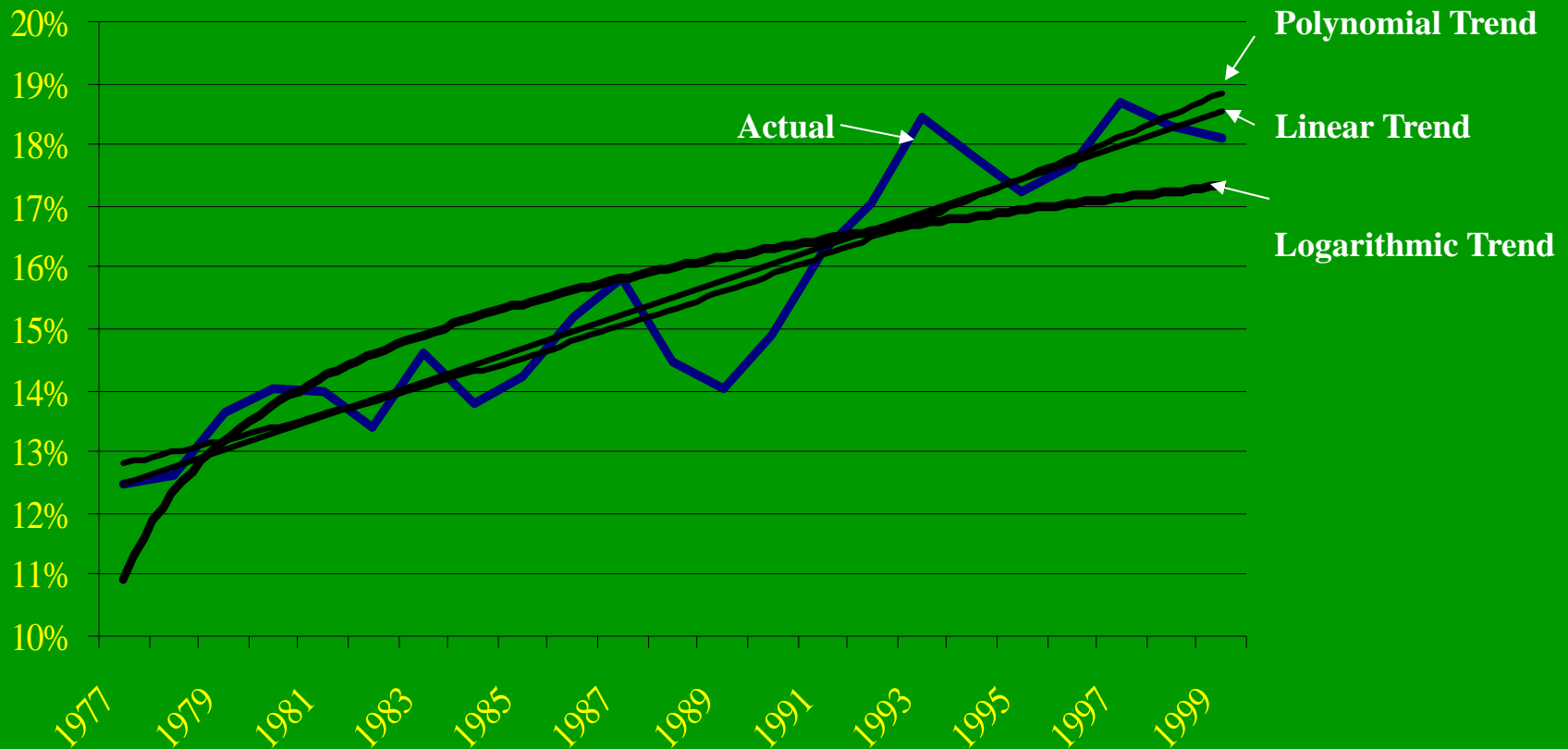
West Virginia's Real Gas Tax





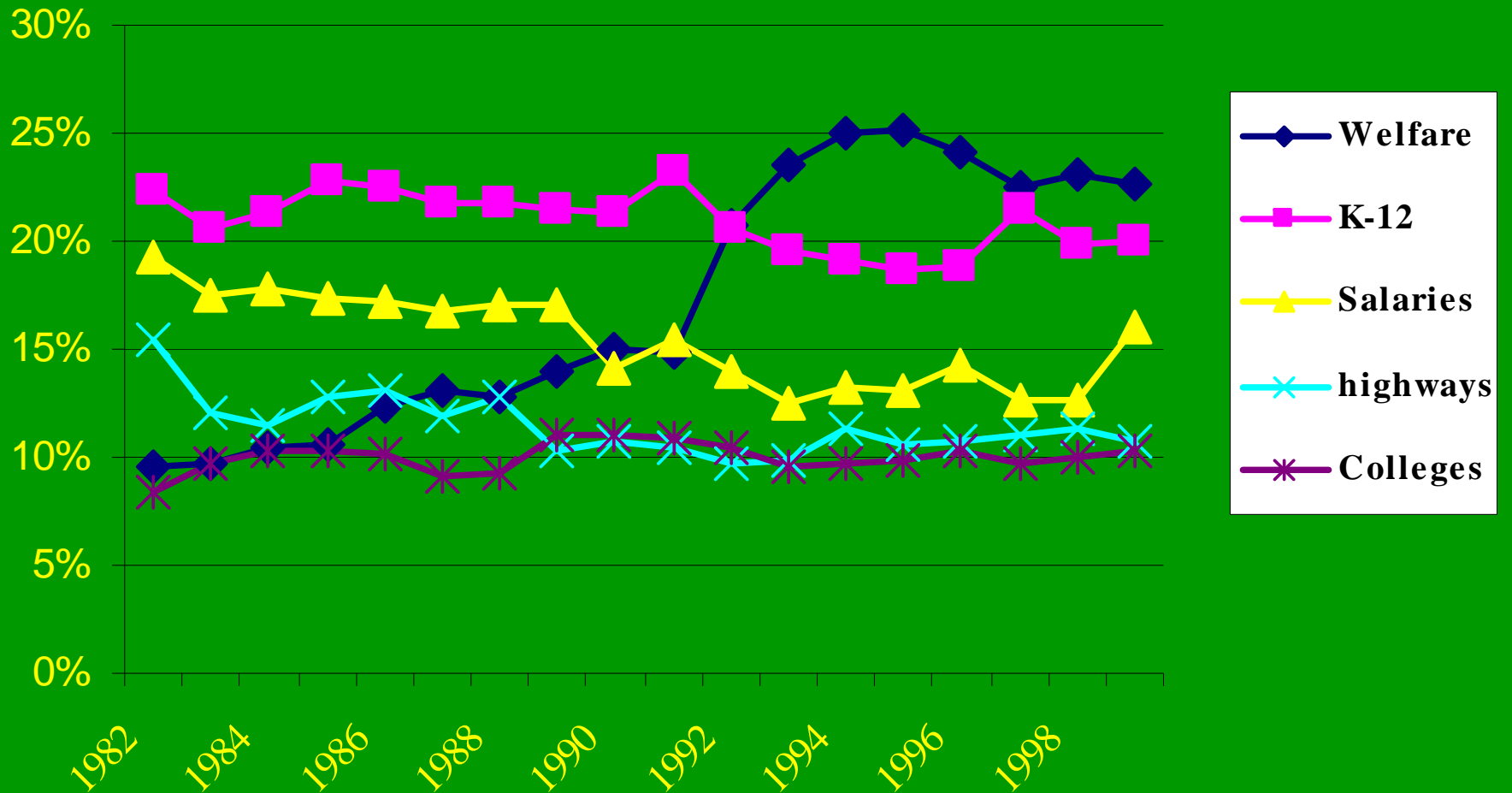
The Growth of Government

Total State Expenditures as a Percent of Gross State Product



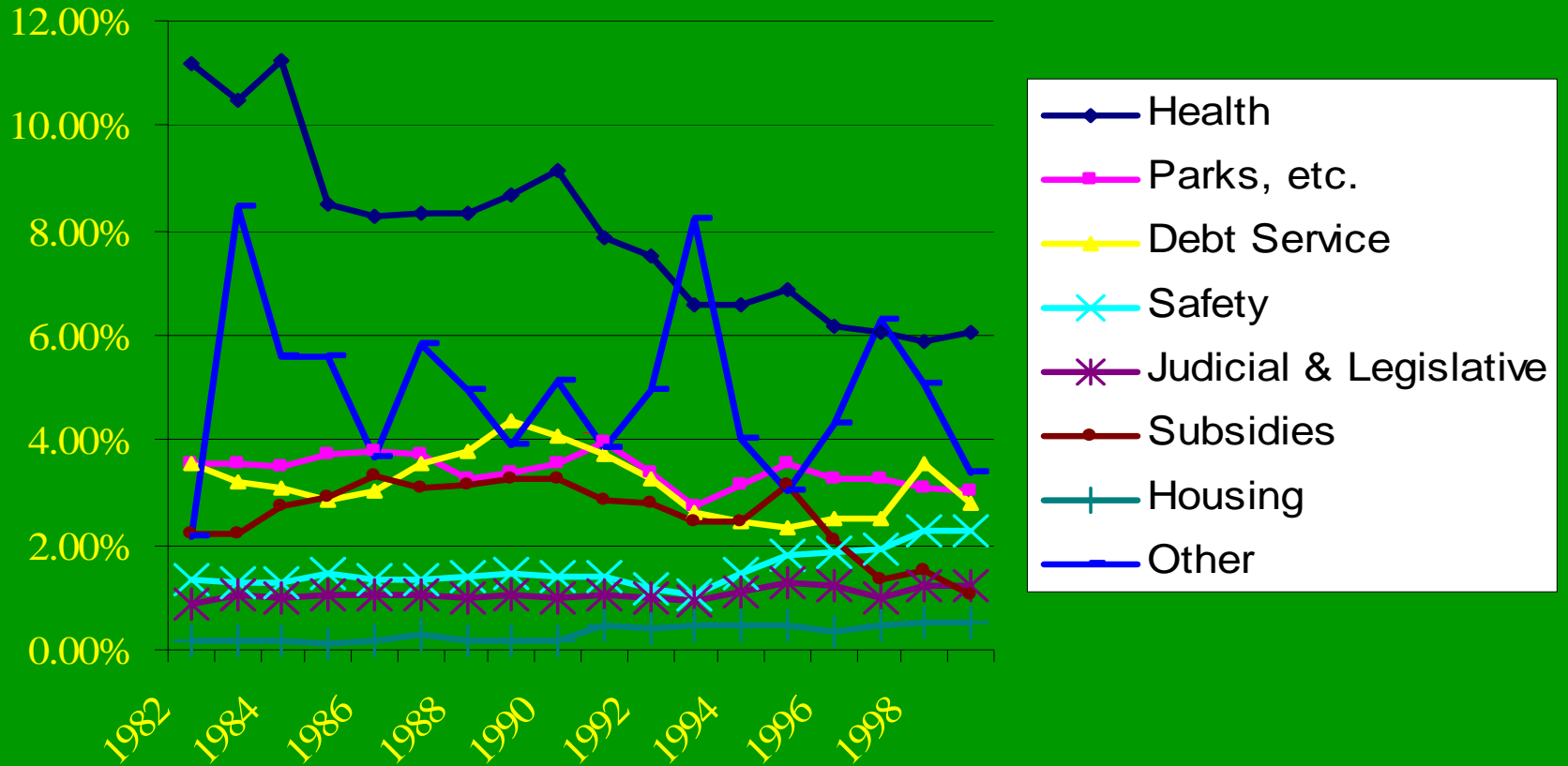


The Big 5 Expenditure Categories





The Small Categories





Some Happy Observations

- West Virginia has implemented pension payoff plans
- West Virginia Investment Board folks are doing a superb job
- West Virginia's Department of Tax and Revenue is superb
- Pockets of excellence exist (TANF, BMS, etc.)
- A series of crises have led to severe burdens from the past, not so much current mistakes.
- Stop worrying, governments don't balance budgets like families (they do a much better job)



Some Unhappy Observations

- Governments buy the wrong things (e.g. analysis of match expenditures and location of government is non-existent)
- Current budgetary adjustment due to expenditure growth outpacing revenue growth (not sharp revenue decline)
- West Virginia is a policy wasteland (and them's the nice words)
- No economic development policy to focus real policy efforts of legislature or executive branch
- Comprehensive tax reform is necessary to avoid distortions of capital and regressivity



West Virginia's System of Taxes

September 4, 2002

www.marshall.edu/cber

Michael J. Hicks, Ph.D.

Center for Business and Economic Research

Lewis College of Business