

Last WV tax changes reap \$132M in savings

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CHARLESTON, W.Va. (AP) — With Gov. Joe Manchin relaunching his West Virginia Tax Modernization Project, consumers and businesses will save at least \$132 million this budget year from the last round of changes to the state's tax system, according to estimates from state revenue officials.

But Manchin reaped mixed reviews from that previous attempt to make the Mountain State's tax code more simple and fair. The governor is also getting his tax band back together at a time when the recession is battering state budgets across the country, prompting some to hike taxes.

West Virginia is among those states facing projected gaps between expected revenues and spending within the next five years. Officials expect a threatened deficit of \$348 million in 2013. The economy could also derail one of the earlier cuts inspired by 2006's tax project.

Future, gradual reductions to the corporate net income tax rate hinge on the state keeping its emergency reserves equal to at least 10 percent of general revenues. But lawmakers may be forced to draw from the "rainy day" fund in the next several years to keep budgets balanced.

The corporate rate is scheduled to drop to 6.5 percent in 2014 from a 2006 rate of 9 percent, thanks to legislation passed last year. That measure also included a gradual repeal of the business franchise tax by 2015. Department of Revenue officials told lawmakers at the time that the bill's tax-cutting timetable would yield annual savings of around \$41.3 million by the 2009-2010 budget year.

Another \$50 million in estimated savings — or lost state revenue — comes from the halving of the sales tax on groceries. The Legislature reduced its rate from 6 percent to 3 percent over three years, during Manchin's special tax session in late 2006.

That session, largely fueled by the tax project's study report, also doubled the property tax homestead exemption for low income seniors to \$20,000. That saves them around \$22 million this fiscal year, according to a 2009 Tax Department review of property tax expenditures. About 92 percent of the savings comes at the expense of counties and their school boards.

Low income residents should keep \$12.5 million this year from a personal income tax break, also passed during the 2006 tax session. Manchin has also estimated taxpayer savings of \$6.7 million from last year's repeal of the corporate license tax.

The \$132 million in estimated savings does not reflect such other enacted tax project changes as breaks from the alternative minimum tax, changes to withholding requirements and the state's new integrated tax accounting and collection system.

The libertarian Cato Institute welcomed many of West Virginia's recent tax-related changes in a report last year. It awarded Manchin an "A" along with two Republican governors for their tax and spending policies.

"Democrat Joe Manchin has enacted probably the most pro-growth tax reforms of any governor," the report said.

But an economist for the Tax Foundation called the 2006 tax project proposals "a first half-step." The Washington, D.C., group ranks states by how favorably their tax systems treat business. West Virginia placed 35th in fiscal year 2006, then fell to 38th in 2008 before reaching 36th during the budget year that ended June 30.

The latest rankings put the state ahead of neighboring Maryland and Ohio and just two spots back from Kentucky, but well behind both Pennsylvania and Virginia.

The Tax Foundation also notes that West Virginians' state and local tax burden is below the national average. They also hit "tax freedom day," when their earnings equal their total tax bill for the year, on April 1. That's earlier than any of their five neighbors, while national average is April 13.

The left-leaning West Virginia Center on Budget and Policy focuses more on tax proposal impacts on low-income payers, seniors and children. Executive Director Ted Boettner questioned the long-term benefits of some of the business tax cuts enacted so far, but said the 2006 project overall resulted in an incremental approach he called balanced and reasonable.

Boettner suggested the relaunched project work group consider the sort of refundable earned income tax credit benefiting low-income residents of at least 20 other states. He also cited the future deficit projections.

"You don't want to be in the politically unpopular position of having to raise taxes after you cut them," Boettner said.

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