

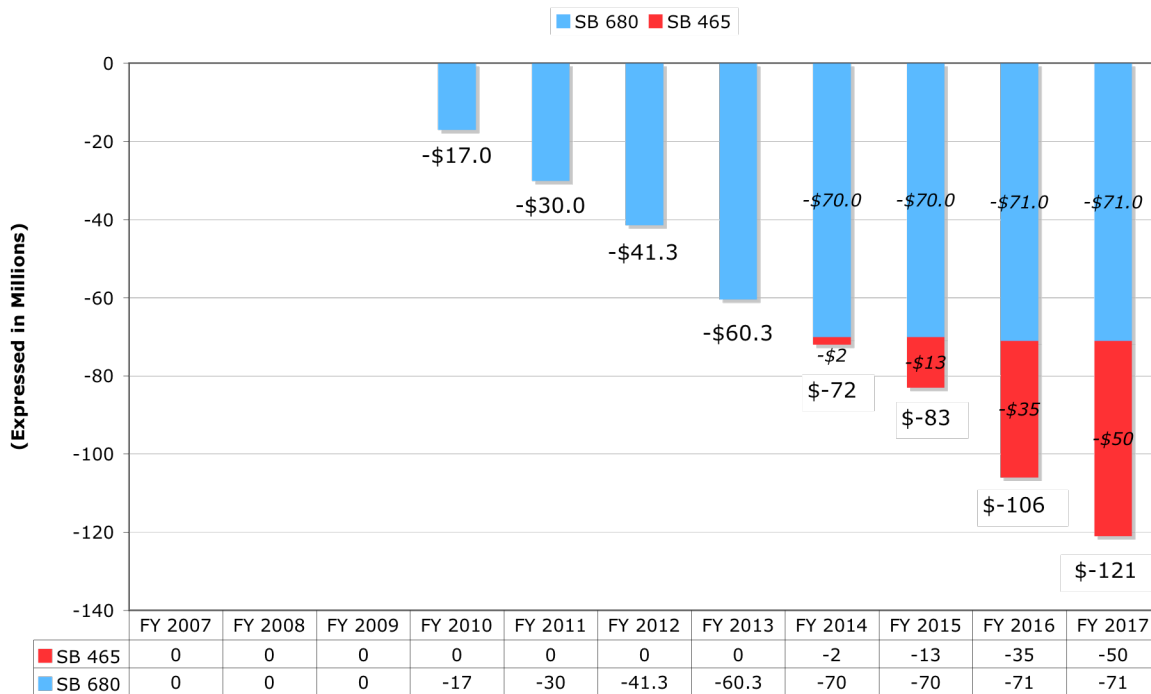
Proposed Corporate Tax Cuts

Analysis of SB 680 and SB 465

By Ted Boettner

SB 680 modifies the combined reporting requirements set to go into effect in 2009 and proposes to reduce the corporate net income tax (CNIT) rate to 8 percent in 2009, 7.5 percent in 2010, 7 percent in 2011 and 6.5 percent in 2012. The reduction in the corporate net income tax rate will result in an estimated \$71 million revenue loss upon full impact in FY 2016. As **Figure 1** illustrates, the cumulative impact of reducing the corporate income tax rate from its current 8.75 percent to 6.5 percent is \$430 million from FY 2010 to FY 2017.

Figure 1: Fiscal Impact of SB 465 & SB 680 (FY 2007- FY 2017)



Source: West Virginia Department of Revenue

SB 465 continues phasing down the business franchise tax (BFT) rate from .20 percent in 2013 to 0.10 percent in 2014 and zero percent in 2015. Eliminating the business franchise tax will result in an estimated \$100 million loss of revenue to the General Revenue Fund from FY 2014 to FY 2017 and \$50 million per year when fully implemented. The total estimated fiscal impact of SB 680 and SB 465 upon full implementation is \$121 million per year and \$530 million over eight years.

Questions to Consider Concerning SB 680 and SB 465

ADEQUACY: What Does \$121 Million Mean to the State Budget?

The Equivalent of:

- 18% of the State Medicaid budget or 15% of DHHR budget;
- 82% of the Department of Corrections budget; or
- 36% of Higher Education budget; or
- 3 times the Children's Health Insurance budget; or
- 100% of the funding for State Police.

STABILITY: How will the State Handle this Loss of Revenue?

- **Tax cuts do not pay for themselves.** According to two recent studies conducted by the states of Oregon and California, when corporate taxes are cut by \$100 those states could expect to recoup on average only \$16-18 as a result of increased economic activity.¹
- The Governor's FY 2009 Executive Budget projects a budget deficit in FY 2013 of **\$140 million**. SB 465 and SB 680 could make the budget deficit even larger and put further strain on the state's ability to provide quality public services.²

FAIRNESS: Who Pays?

- West Virginia's taxes are already regressive – that is, they absorb a greater share of income for low-income taxpayers than for high-income taxpayers – any higher taxes enacted in the future to replace the revenue lost to business tax cuts are likely to be regressive as well.
- The vast majority of the benefit of cuts to the corporate income and franchise tax is likely to flow out-of-state to owners of corporations, partnerships, and LLCs and could make the overall state tax system regressive.

EFFECTIVENESS: Are Taxes Bad for Economic Development?

- State and local taxes are not the primary reason for businesses location. They are a small part of the cost of doing business, piling in comparison with costs such as energy, labor and transportation.
- State and local taxes make business profitability possible by financing quality infrastructure (e.g., roads and bridges) and services (e.g., crime protection, education) that businesses need and that attract them to particular states.
- The cost effectiveness of these tax cuts is significantly undermined by the fact that roughly one-third of business tax cuts goes to the federal government instead of going to businesses. This is because corporations will be able to deduct less from their federal corporate income tax liability.

¹ Jon David Vasché, "Whatever Happened to Dynamic Revenue Analysis in California?" State Tax Notes, November 20, 2006 and "Oregon Tax Incidence Model (OTIM)," Oregon Legislative Revenue Office and Oregon State University, Number 2-01 March 16, 2001 p.70-74

² State of West Virginia Executive Budget FY 2009, *Volume 1* Budget Report pp. 44