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Corporate Tax Cuts Could Cost State Over \$1 Billion

CBP Releases New Report Highlighting that Recent and Proposed Corporate Tax Cuts could Significantly Undermine State's ability to Provide Quality Public Services

Charleston, WV – The West Virginia Center on Budget and Policy (WV CBP) today released *High Costs, Dubious Benefits: The Fiscal Impact of SB 465 and SB 680*, an analysis of how recent tax changes and new proposed business tax cuts will lead to either cuts in government services or require tax increases in the near future. The report shows if SB 465 and SB 680 are adopted it will cost the state \$531 million in lost revenue by FY 2017. Moreover, the report highlights the long-term consequences of proposed business tax cuts and recently enacted tax cuts. The lost state revenue due to business tax cuts enacted over the last two years and those being proposed in SB 465 and SB 680 is over \$1.2 billion over eleven years or \$210 million per year once fully implemented.

“While cutting business taxes may be the most politically popular approach for politicians during an election year, the long-term consequences could prove devastating to the state’s ability to provide the quality infrastructure and services that businesses need to thrive and that we all depend on,” said Ted Boettner, executive director of WV CBP. “The state is predicting a revenue shortfall of \$140 million in FY 2013 and that doesn’t include much of the revenue loss contained in SB 465 and SB 680. If all these bills are enacted and taxes are not raised we could be heading toward a fiscal train wreck in the near future,” said Boettner.

The key findings in the report include the following:

Key Findings:

- Within a decade, the additional corporate tax cuts that will result from the enactment of SB 680 and SB 465 are, likely to undermine the state’s ability to provide quality public services, require substantial tax increases, or result in a sharp drawing down of the state’s financial services.
- Already-enacted cuts in the business franchise and corporate net income tax rates, partially offset with revenue from the adoption of combined reporting, are estimated to cost the state \$626 million between FY 2007 and FY 2017.
- If SB 465 and SB 680 are adopted this will add an additional \$531 million in lost revenue over eleven fiscal years, bringing the cumulative cost of the business tax cuts alone to \$1.2 billion

- The state's official long-term forecast (available through FY 2013) foresees combined General Fund/Lottery Funds deficit in each of the four years from FY 2010 through FY 2013 totaling \$317 million. These deficit estimates only take into account part of the revenue loss from SB 680; if a Senate-adopted amendment to SB 680 that accelerates its proposed corporate income tax cut is ultimately enacted into law, this cumulative deficit is likely to grow by an additional \$97 million during these four years.
- As of December 31, 2007, the state's Rainy Day and other reserve funds stood at approximately \$682 million. If the state chose to close FY 2010-2013 budget gaps totaling approximately \$414 million by drawing down these reserves rather than increasing other taxes or cutting services, the funds would be more than 60 percent depleted. Of course, the corporate income tax cuts from SB 680 extend beyond FY 2013, and the cuts in the business franchise tax proposed in SB 465 do not even begin to take effect until FY 2014.
- From FY 2007 to FY 2017, the estimated cumulative cost of *all* tax cuts and changes that have been enacted over the last two years, plus those proposed in SB 680 and SB 465, plus several other tax changes under serious consideration, is almost \$1.9 billion. Again, this is far in excess of the state's reserves. Thus, the enactment of SB 680 and SB 465 will sharply increase the likelihood that the state will need to significantly cut services or increase other taxes to balance its budget within the next decade.
- Nor is there any realistic prospect that the business tax cuts will "pay for themselves" through increased economic growth. Two recent studies conducted by the states of Oregon and California concluded that if corporate taxes were cut by \$100 those states could expect to recoup on average no more than \$16-18 as a result of increased economic activity. Even this modest feedback effect depended on the assumption that no offsetting cuts in spending were required – an unrealistic one in light of state balance-budget requirements.
- 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. Thus, cuts in state services that might occur as the result of unaffordable tax cuts could well harm the state's future economic vitality.
- The vast majority of the tax savings resulting from cuts to the corporate income and franchise tax are likely to flow to out-of-state owners of corporations, partnerships, and limited liability companies and make the overall West Virginia tax system more regressive.

"In a balanced-budget environment, every dollar West Virginia spends on new tax cuts will most likely mean a cut in state spending (or increase in other state taxes.) It means less money for services such as education, health care, transportation, and public safety – less money for teacher and police salaries, road maintenance, and payments to doctors and hospitals, for example. States like Michigan and Maryland that cut taxes in the late 1990s experienced huge budget shortfalls recently and West Virginia could do the same if the State Legislature is poised to cut more business taxes." said Boettner.

The Full Report can be found at: <http://www.wvpolicy.org>

The **West Virginia Center on Budget and Policy** is a policy research organization that is nonpartisan, nonprofit, and statewide. It focuses on how policy decisions affect all West Virginians, especially low- and moderate-income families.

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