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		12 pm: 50°F
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## W.Va. county jitters could doom business tax break

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CHARLESTON, W.Va. (AP) — Gov. Joe Manchin faces a hard sell with his proposal to free business equipment and inventory from taxes, even as the measure advances in the West Virginia Legislature.

Voters would have to agree to amend the state constitution and loosen its grip on property tax policy. History suggests that's no easy task.

The House approved Manchin's measure last week with just one dissenting vote. It will require at least a two-thirds majority in the Senate to end up on the November general election ballot.

But support among county officials may be eroding. Counties rely heavily on property taxes, and their schools even more so. Nearly 93 percent of the \$1.4 billion distributed from property taxes last year benefited those two sources. Commercial inventory and equipment provided an estimated \$273.7 million of their share.

Some county officials question assurances that lawmakers will help replace the lost revenue that would result from the measure. Provisions added to win them over have instead added to the worries of some.

These provisions would allow counties to choose whether to exempt property, and which kinds of businesses would qualify. Such flexibility has yielded mixed verdicts, with critics arguing they will pit county against county.

"If my county commission says, 'We just really can't afford to do this, we just need the money too badly,' you create an inequity among taxpayers," said Dana Lynch, Webster County's longtime elected assessor.

Lynch also has problems with another tweak to the measure, meant to keep existing inventory and equipment on the rolls to slow the drop in revenues. Lawmakers would decide a start date for exempting new property.

"That's thumbing your nose at the employers who are here now and have the same equipment as

the new employers who show up,” Lynch said.

Such concerns could doom the measure at the polls if they persist. Voters don't readily tinker with their constitution, according to a recent review by West Virginia University law professor Bob Bastress. They have rejected 49 of the 122 amendments proposed since 1872, Bastress found.

“I think constitutional amendments are taken very seriously,” noted Patti Hamilton, executive director of the West Virginia Association of Counties. “If voters see a concern or problem, I think they become very hesitant to approve a change.”

Hamilton's association recently adopted a neutral stance on the proposal, following a vote by the group representing county assessors to oppose it. But the county commissioners' association has endorsed the measure, she said.

Manchin has also gotten some pushback on the main selling point behind the tax break: that it could encourage businesses to move to West Virginia or expand there.

Inventory and equipment accounted for 45 percent of the business property taxes in West Virginia in 2004, according to a review by Ernst & Young. That's the largest share among the 40 states that still taxed such property that year, the auditing firm found.

Neighboring Pennsylvania is among the 10 with exemptions, and Ohio has since joined that fold. West Virginia also ranked first for business inventory and equipment taxes per-capita, at \$206. And while taxes paid on this property amounted to just 14.6 percent of all taxes collected by West Virginia from businesses in 2004, that's higher than any other state.

Manchin administration officials have contrasted the economic growth in states that exempt such property with those that don't. The left-leaning West Virginia Center on Budget and Policy plans to issue a report this week challenging that and other arguments in favor of the proposal.

“Correlation does not mean causation,” said center Executive Director Ted Boettner. “There has been no study of whether these taxes are a detriment to capital investment in West Virginia.”

Boettner noted that state businesses already enjoy breaks in this area, including an exemption on inventory in transit and a credit for new capitol investments. He also echoed several of the concerns raised by Lynch and other county officials.

“I'm not one to say, 'Let's keep it on,’” Boettner said. “Our point is, replace that revenue in an equitable way.”

Boettner's center disagrees with such other groups as the Washington, D.C., based Tax Foundation over whether companies consider these costs while deciding where to locate. The foundation rates states by their business tax burdens, and supports the concept of Manchin's proposal, staff economist Kail Padgitt said.

“When you talk about the correct structure for taxing a good or service, you only want the final sale of the good or service taxed,” Padgitt. “Getting rid of the inventory tax would be a positive step.”

But the provisions meant to give flexibility to counties also complicate tax policy, which businesses don't like, Padgitt said. He noted as well that counties would likely keep property taxes for less-

mobile industries that rely on natural resources, like coal.

Lynch believes that would happen in Webster County. "You're not going to entice any new (coal) businesses to come here," he said.

Lynch said foes hope to convince senators to reject the measure, and plan to appeal to voters if it succeeds.

"That's our last resort, to fight it with the people to see that it doesn't pass," Lynch said. "But we don't know who will put money in the till to put up advertisements statewide in support of it."

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